STRICTLY CONFIDENTIAL

Gov. Szymczak

Gov. Draper

Gov. Evans

(Please return to Chairman's Office)

Sent to Mr. Ransom 8/23

Form F. R. 580
Revised March 1946

CHAIRMAN ECCLES' OFFICE TO:

GOV. DRAPER
GOV. EVANS
GOV. RANSOM
GOV. SZYMCZAK
GOV. VARDAMAN

MR. BETHEA
MR. CARPENTER
MR. GARDNER
MR. HAMMOND
MR. KENNEDY
MR. LEONARD
MR. MORRILL
MR. MUSGRAVE
MR. NELSON
DR. PARRY
MR. PAULGER
MR. PISER
MR. SMEAD
MR. THOMAS
MR. TOWNSEND
MR. VEST
MR. WILLIAMS
MR. WOOD

Please return to Mr. Thurston
ESD

This is a fine statement — & right to the point
ESD

REMARKS:

I notice you are checked off here — but I think you were away at the time.
Ecs

August 12, 1946.

The President,
The White House.

My dear Mr. President:

Your budget statement and the action you have already taken to deal with the inflation problem are so forthright and constructive that I am taking the liberty of writing you this note to suggest two additional steps which you might wish to consider in following up your program, which has been commended by the press and public generally.

It is of great importance at this time, I think, to focus public attention on the paramount necessity for increasing productivity in industry. You have done all that you can do so far as the Government is concerned to keep effective price controls, to reduce Government expenditures and to maintain Federal revenue by opposing further tax reductions while inflationary pressures exist. At best, however, price controls are only a stopgap. Fiscal policy deals only with the money supply side of the inflation problem. The overwhelmingly vital need of the hour is for more work and more goods. It should be forcibly impressed upon the public that it is now up to labor and management to overcome the major cause of the inflationary danger. For that reason, I would like to suggest that you consider making a statement, possibly at a press conference, along the following general lines:

> "I have noted with great interest and satisfaction the discussions among some of the leaders of labor and industry who are considering ways and means of increasing the output of industry in the critical period while inflationary danger still confronts the country. This is by far the most effective means of overcoming the danger. There

is no further step that the President has authority to take in dealing with the problem that compares in importance with what can be done on the industrial front by labor and management through increasing output by increasing efficiency, by eliminating bottlenecks and restrictive rules and practices, including those in the building industry, and by avoiding strikes and shutdowns. More work and more goods are the fundamental cures for inflation. That is the only way for labor to keep the gains from pay increases it has received. It is the only way to safeguard the purchasing power of all wages and savings. It would be of the greatest benefit to the entire country if during the months ahead labor and management agreed to work longer hours particularly in those lines where shortages are the greatest. This would serve to increase production and help to stabilize prices. The resulting increase in take-home pay would thus be accompanied by increased output. That would benefit all concerned whereas further wage increases for the same amount of time and output would serve only to intensify the upward pressure on prices. Increased wages that result in increased prices are self-defeating. It is as much in the public interest now as during the war to increase production and hence to avoid strikes. We all know that in our interdependent economy a strike in one key industry can paralyze others. Likewise, strikes by comparatively few workers in plants that supply others can throw many thousands out of work. The way to keep prices down and to maintain the buying power of wages and savings is to achieve an uninterrupted high rate of output. This is the only way to bring about an increase in the standard of living. This is the only way in which national income can be increased, thereby increasing tax revenues without increasing tax rates. Increased tax revenues resulting from increased national income and decreased Federal expenditures will result in a balanced budget and then in a budgetary surplus which will make possible tax reductions later on. Budgetary surpluses and tax reductions can be brought about in no other way."

In view of the excellent example to the Nation which you have already set in your budgetary statement, I would suggest that you consider sending to the Governors of the States an open letter enlisting their full cooperation wherever possible by reducing State expenditures, by deferring public works and by maintaining taxation while inflationary dangers exist.

Both a statement from the President of the United States highlighting and encouraging the movement for increasing productivity and such a letter to the Governors would, in my opinion, also have a favorable reception generally and further increase public confidence in your leadership.

Respectfully,

M. S. Eccles,
Chairman.

ET:mmm

Memorandum on H.R. 4428,
Reducing Federal Savings and Loan Insurance Corporation Premium
Charged for Insurance from 1/8 of 1 per cent to 1/12 of 1 per cent

The major provision of this Bill is the reduction of the insurance premium. On a logical basis if any change were to be made in the premium it should be increased, not reduced. The Bill should not be permitted to become law for these reasons:

The Federal Savings and Loan Insurance Corporation's reserve against its insured risk is still grossly deficient. Congress originally contemplated that the reserve should someday reach 5 per cent of the insured risk, but after 10 years of operation the reserve had reached only 0.57 per cent of the insured risk, as of June 30, 1944.

The risk exposure of the FSLIC is far greater than that of FDIC. It has been contended that the risks are about the same and that therefore the FSLIC premium should be the same as that of FDIC -- 1/12 of 1 per cent. However, based on the latest available figures, insured banks (taking into account their capital, surplus and undivided profits and the amount of their deposits not covered by their holdings of Government securities and cash) have a cushion of approximately $1 for every $2.7 of risk. FSLIC insured institutions, on the same basis, have a cushion of only $1 to $8 of risk. In a word, the FDIC cushion is three times as big. In fact, on any basis of comparison, the FSLIC exposure is far greater than FDIC, so that the logic of any argument based on comparability would lead to increasing not reducing the FSLIC rate.

It would be inconsistent for the Administration to approve this Bill which is diametrically the opposite of S. 2494, recently introduced by Senator Wagner and endorsed by the Treasury, contemplating that the FDIC premium shall be maintained with a view to repaying the Government funds which are, in effect, a subsidy to the FDIC. As a matter of principle, neither FDIC nor FSLIC should reduce their premiums until this Government money has been paid off. It is particularly important, from the budgetary standpoint, that the money be returned to the Government as rapidly as possible. The FSLIC has $100,000,000 of Government-furnished money. It amounts to a subsidy for the benefit of private institutions just as the Government-furnished money in the FDIC is a subsidy to private banks. These private institutions constantly complain against subsidies for agricultural or other Government institutions and logically they should apply the same rule to themselves. At present, when the national debt is so great and such vigorous efforts are being made by the Administration to increase Government receipts and reduce expenditures, prudent policy requires that the premium of the FSLIC be maintained or even increased with the ultimate view of repaying the $100,000,000 of subsidy to the Treasury.

August 13, 1946.