



DEPARTMENT OF AGRICULTURE  
WASHINGTON

March 12, 1937

Hon. Marriner Eccles  
Governor, Federal Reserve Board  
Washington, D. C.

Dear Mr. Eccles:

On February 4 I received from George Reith of New York City the enclosed thought-provoking letter. I sent a copy of it to Secretary Perkins asking her what objections there might be to the Reith formula from the standpoint of labor. I have now received the following letter from her:

"Thank you for letting me see your letter from Mr. George Reith and giving me a chance to comment upon it.

"With respect to the 4 items listed as 'Labor's Obligations,' these in general have been accepted by the labor movement in this country. It has recognized the necessity and function of capital and with relatively few exceptions it has recognized the need of maintaining and increasing production. Of course labor has held that it should get its just share of increasing production. One of the difficulties in the past has been that labor has not participated in the benefits resulting from the introduction of new technology. Too little of the savings arising from it has been distributed to the 'workers directly concerned.'

"As to the third obligation of labor, 'willingness to accept part of the risk in return for part of the profit of the enterprise,' this raises question. Unless labor is given an opportunity to play its part in management, it should not permit any part of its standard of living to be subject to such fluctuations as might result from errors on the part of management. To ask the workers to accept part of the risk in return for part of the profit is to ask that they permit their standard of living to be subject to the whims or the ability of a particular entrepreneur.

"As to the fourth obligation, labor, it is true, has been hesitant to accept reductions in basis wage rates during periods of falling prices or depression. Experience, however, shows that it has eventually conceded

such reductions when convinced that industry could not operate under the prevailing labor costs.

"I cannot go all the way with Mr. Reith in his suggestion that there should be a provision for the downward revision of wage scales to ensure continued employment for as many as possible. What this means in effect is a sharing of the disadvantages of depression by all workers. Is it not far better to enable as many workers as possible to maintain their standard of living during a depression while providing for the remainder by activities such as have been undertaken by the Federal Government? We must not forget that once basic wage scales have been lowered it takes years of struggle to bring them back to their former levels."

After reading the memorandum which you left with me yesterday afternoon, which I am now returning, and after reading over the letter from the Secretary of Labor, I couldn't help reaching the conclusion that it might be a good plan if you and I had a talk with Secretary Perkins. What do you think?

Sincerely,

*HAW Allen*

Secretary

Enc.

*Also I am sending you a copy of a letter I have written Mr. Freed.*

COPY

HOIT, ROSE & TROSTER  
Investment Securities

74 Trinity Place, New York City

February 4, 1937.

Hon. Henry A. Wallace,  
Secretary of Agriculture,  
Washington, D. C.

Dear Sir:-

I attended the dinner of the Economic Club last night and was much impressed not only with your presentation of the problems you discussed but particularly with your evident desire to approach their solutions in a fair and equitable manner.

There seem to me to be many psychological reasons why the present is a most propitious time for the adoption of a modus vivendi between capital and labor. Some of them are these.

Our new found prosperity is so recent that both capital and labor have not had time to forget the terrors of the recent depression and both should therefore still be in the mood to consider steps and to make mutual sacrifices to prevent or at least to reduce the severity of future depressions.

The theory that the success of big business is largely dependent upon the wide diffusion of the purchasing power is now well understood by most people, with the result that nearly everybody favors the payment of high wages, at least by other employers.

With the possible exception of a few labor organizers, all classes of people abhor the recurrence of strikes, with the destruction of production, income and property and accompanied by force, violence and hatreds.

Assuming therefore that capital and labor are in the mood to consider the possibility of a modus vivendi, the terms of the problem might be stated and presented by a neutral agency - government, as follows:

It is vital to labor and eminently desirable to capital, if adequate income is to continue and increase, that the standard of living shall be high and that employment shall be continuous.

It is vital to capital and eminently desirable to labor if the incentive to accumulate capital and the initiative of management is to be encouraged, that the reward of capital be adequate for these purposes.

Thus the well being of both interests is so closely united that it should be practicable to devise a formula which will offer a solution, by trial and error perhaps, but at any rate by negotiation rather than by force.

Obviously, the problem is so complex that any formula will not fit all cases nor is it likely that it will be possible to include all classes of employers and employees in any formulae.

Because, however, of the condition in the industrial and transportation fields that a comparatively large percentage of our business is transacted by comparatively few corporations and including a great many employees, it may be feasible to arrive at important agreements by negotiation, to be followed probably by legislation based intelligently upon experience.

Important considerations in any agreement are the following:

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Labor's Needs:

Continuous employment  
Wages which will practicably permit the best possible standard of living  
Opportunity for individual advancement

Labor's Obligations:

Recognition of the necessity and functions of capital  
Recognition of the need of maintaining and increasing production if the standard of living is to be maintained and increased  
Willingness to accept part of the risk in return for part of the profit of the enterprise  
Willingness, when necessary, to accept reductions in a basic wage in order to provide for continuous employment of all.

Capital's Needs:

Adequate interest and dividends, and accretions to justify investment and initiative.

Capital's Obligations:

Recognition of the prior need of social security of all employees.  
Recognition of the desirability of constant improvement in the standard of living of all employees.  
The willingness, in exchange for freedom from strikes and strife, to provide adequate profit-sharing to all employees.

A few years ago agreement upon any basis predicated upon such premises as the above, might have been considered Utopian. At present it is conceivable that those premises could reasonably form the basis of successful negotiation. The main difficulties to be encountered would conceivably be the percentage details, and while these might be formidable, it is probable that they might be surmounted by authoritative arbitration.

A few of the details which would have to be included in a contract, are:

Tenor of the contracting period  
Tenor of settlement period  
Determination of basic wage scales by classes of employees  
Provision for downward revision of basic wage scales to ensure continued employment for as many as possible  
Determination of the percentage of net earnings to be paid to employees after providing for capital: Interest  
Dividends  
Depreciation  
Reserves  
Determination of the method of supervision and audit of the terms of the contract.

I know that similar contracts have been proposed and in at least one case consummated. I am writing to ask you why such solutions are not now being popularly discussed, and why you did not refer to the subject in your discussion of "balance" last evening? It seems to me to be a much more practicable means of dealing with the problem than by either depending upon the foresight of a few industrial leaders or than by exerting the forces of legislation and taxation, plus the constant threat of rebellion by employees.

Sincerely yours,

(s)

George Reith

GR-GC