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November 9, 1942

Hon. James F. Byrnes,
Director, O. E. S.,
White House,
Washington, D. C.

Dear Mr. Byrnes:

The prevention of inflation is desirable from the standpoint of controlling the cost to the nation and its citizens of an all-out war; but it is a prime necessity for safeguarding the future of the wage earners of the country.

The problem is so clear in principle that it scarcely seems necessary to put into words; yet it must be stated again and again until comprehension becomes so general that it is translated into action.

Briefly, the situation is this: As more and more manpower is withdrawn from production of civilian goods and the rendering of civilian services, there will be less and less to buy with the greatly expanded civilian payrolls, the pressure of this purchasing power on the diminished supply of goods and services will break through the dam of O.P.A. price control, or widespread boot-legging and black markets will arise, or both. The wage earner will thus be required to spend his expanded income on current expenses, with little or nothing laid by for the uncertain future. The economic gains of labor will be wiped out.

While the nature of the problem is clear, its extent is not - at least from any figures publicly available. A clue is given, however, by the announced Army program of 7,500,000 soldiers under arms by the end of 1943. If we add 2,000,000 men in the Navy, we will have 9,500,000 men of all services in the field.

The consumption of munitions of all kinds in modern warfare is enormous. To the mass which will re required by these 9,500,000 men we must add a comparable mass for the supply of the fighting forces of the United Nations already in the field. If we can procure the raw materials for this all-out production of war material, it is clear that we must employ on war work every man, woman and child able to work and not under arms, leaving in civilian occupations only the minimum required for food, clothing and shelter, and the basic requirements of health and education.

This deepening situation of high payrolls and decreasing goods must be met by sharply limiting purchasing power <u>in the interests of the purchasers</u>. It is now becoming necessary to reduce that purchasing power by forced saving and by taxation. Voluntary bond sales fall far short of the requirements. All the juice has been squeezed from personal net incomes above $25,000, as evidenced by the Treasury's revelation that confiscation of all incomes above that figure would yield a sum which is less than $1.50 for every man, woman and child in the country.

The situation clearly demands a new fiscal program, worked out by the Congress, the Treasury and the Director. That program must be in part one of taxation, in part one of obligatory purchase of war bonds.

The war bonds must for the present be non-negotiable except in provided-for emergencies, otherwise the bonds will find their way into the banks and the saving will be fallacious, or they will be sold at a discount and the market broken.

The program must be flexible. The balance between purchasing power and purchasable goods and services is a fluctuating one, and the division of purchasing power must be currently adjustable to the current situation. That adjustment must be at the discretion and in the power of the Director. This requirement for flexibility makes necessary the immediate adoption of the so-called Ruml plan. Without it there is no possibility of adapting the fiscal program to the current requirements.

In view of the above considerations it would seem advisable for the Treasury and the Director to apply to the Congress for fiscal legislation of the proper type, giving the required powers.

Sincerely yours,

(Sgd.) Ralph E. Flanders

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