BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 5, 1943

To Chairman Eccles

From Martin Krost

Subject: Topics to be considered at Economic Stabilization Board Meeting - Friday - February 5, 1943

Possibilities for reducing excess profits in fixing price ceilings. In his last report to Congress, Mr. Henderson made public some tabulations showing large increases in profits in the three years 1939, 1940, and 1941. These figures were accompanied by the comment that the OPA had erred "on the side of laxity" in fixing price ceilings in order to facilitate the expansion of production and that it ought now to pursue a more rigorous policy, fixing prices at levels that would eliminate "excessive profits".

Since the end of 1941, the profit situation has been materially altered by the great extension of price fixing and by the drastic increases in the excess profits tax. Preliminary figures on aggregate profits after taxes in 1942 indicate a reduction of about 5% from the 1941 levels. Reduction of price ceilings in most instances will result in a loss of tax revenue to the Government, rather than a reduction of net profits available to shareholders. Perhaps in fixing prices on important cost-of-living commodities the Government should bear this loss rather than permit costs to consumers to rise. The practical significance of the problem lies in policy with respect to pressure for future increases in price ceilings; it is unlikely that any actual reductions in present ceilings will receive serious consideration.

Proposal to ration shoes. Indications are that hide supplies, including imports, available for civilian production of shoes will not make possible the production of more than 330 million pairs in the calendar year 1943. This compares with about 436 million pairs in 1942. About 475 million pairs were sold to civilians in 1942, and in the absence of controls, demand in 1943 will not be less than this figure. Information relating to retailers' stocks, while inadequate, indicates that retailers had about 200 million pairs in stock at the close of the year. While aggregate stocks are thus high enough to cover the excess of demand over probable production, such a depletion of stocks would create shortages in some lines and in some sizes. Shortages are likely to be most serious in shoes of the inexpensive utility kinds.

Opinion within the industry is divided as to the desirability of establishing a rationing program now. Some would prefer to push the industry's own program of standardizing quality, simplifying styles, and promoting more extensive shoe repair and rehabilitation. Because of the highly competitive situation within the industry, however, this program has made slow progress and it is unlikely to progress faster unless some measure of governmental compulsion is applied.