

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 19, 1943

To Chairman Eccles

Subject: Report on meeting of the

From Mr. Ransom

Economic Stabilization Board this morning.

CONFIDENTIAL

Present: Justice Byrnes, Secretary Perkins, Secretary Wickard, Messrs. McNutt, Donald Nelson, Hamm (OPA), O'Neal, Patton, Murray, Green, Eric A. Johnston, and Ralph Flanders.

The subject under discussion was a war model program for the consumer goods industries, as stated in Mr. Byrnes' letter to you of March 16.

Mr. Nelson was asked to discuss this matter from the WPB point of view. He said that they had been working for some time towards the limitation of models of choices in hard and soft goods, that they had encountered innumerable difficulties involving areas having overemployment and unemployment, as well as in industries and trades where the same situation existed. He was in favor of pushing so-called war models, saying that, while this might prove helpful in maintaining price ceilings, they were principally interested in saving manpower, dealing with unemployment (particularly in New York City in connection with the garment trades), and, in reply to a question from Mr. Ham, admitted that WPB counsel thought there were legal limitations on an effort to concentrate different models and that they could consider the matter only from the point of view of saving manpower, materials, and transportation. Apparently ODT did not want limitations on transportation where unnecessary. Mr. Nelson did not want to disrupt ordinary routine of industry where it could be avoided. He discussed the necessary consolidation of war industries, saying that something along this line, in his opinion, would continue to exist for the duration and that he approached the whole problem from the point of view of not tearing down by too much limitation on models, hoping to have as many as could be permitted and not considering at all anything like a single model for any item with which they were dealing. He admitted that, in the case of their effort to concentrate on as few models as possible in the farm machinery field, they had gone too far. He said that in some fields, such as the manufacture of stoves, WPB had met with better success due to fundamental differences in the industries. He asked, "What do you do about the fellow you force out of business" by limiting models, saying that the larger the industry, the easier it was for it to concentrate on fewer types? He asked how to compensate the industry forced out of business by policies in this connection, admitting that he did not know the answer.

(Remind me to discuss an aspect of the reconversion problem that came up in the morning discussion.)

Mr. Nelson said that in the shoe industry that had put limitations on the number of models, they had been met with the result that, particularly as to women's shoes, a concentration of buying had developed in the more expensive models.

It finally developed that they had a definite plan, which he outlined and which seemed to be in general in agreement with OPA policy, so far as the goods to be limited in models was concerned. This contemplated a committee, consisting of WPB, OPA, WMC, and WLB, which would want help from the labor and industrial groups before reaching a final conclusion.

In the absence of Mr. Prentiss Brown, Mr. Ham was asked to read a letter to Justice Byrnes dated February 11, a photostat of which is attached. Mr. Hamm got no further than the middle of page 3 before a general discussion developed around the table, and he was never asked to resume his reading of this letter but copies were furnished all those in attendance. As this letter was developing the OPA attitude -- in effect, that there were other aspects of the problem that should be considered because of developing pressures on price ceilings -- Mr. Nelson stated that he thought there was some merit in maintaining high priced models to absorb spending power as a means of combatting inflation. When he stated this view, he was supported by Secretary Perkins, who said that to eliminate the "fashion" element and the trademark factor might do great harm to American industry. His position was generally supported by Mr. O'Neal. I suggested that from the credit point of view I differed with Mr. Nelson that this was a way to combat inflation, that I thought there was definite merit in limiting needless demand for consumer goods by limiting choices and the "fashion" element, that you could get better distribution, less expenditure, more savings, limit credit, and reduce debt, by having people buy only what they needed and only such articles as used the minimum of essential materials of any kind, as well as those articles that used the minimum amount of manpower. I expressed the further view that too large percentage of our people still lacked essentials in the way of clothing, household furniture and furnishings, and other durable goods, and that, at a time when the national income was increasing and, as shown by Mr. Nelson's shoe illustration, there was a tendency to buy more expensive goods than were needed, there were advantages in stressing less expensive and more functional goods.

I received some support from Mr. Flanders, who used the silk shirt illustration of the first World War; from Mr. Patton, who had all along been somewhat at issue with Mr. Nelson's theory; and to a lesser extent from Mr. Murray, who suggested that in the depressed garment trades these people might be put to work manufacturing more standardized and less expensive clothing. Justice Byrnes expressed the opinion that he hoped that some agreement on the question would be reached from early consideration of the problem by the committee which was to meet with

WPB. It appeared that Mr. O'Neal had been concerned for some reason with the question of standardizing farm machinery and that Miss Perkins was concerned with maintaining the country's position in the garment trades.

As the meeting broke up Miss Perkins stated that she understood Dr. Hansen had written a memorandum on "The Crisis in the Control of Prices" (copy of which was sent to you with Mr. Byrnes' letter of March 16 and is hereto attached) and that economists for the Department of Labor and other economists were also concerned, feeling that the crisis was developing too rapidly for comfort. She asked if this was to be discussed. Justice Byrnes said, "Not at today's meeting," that it deserved more time than was available today and that it probably would be taken up at the next meeting of the Board.

Before going over to the meeting, I discussed the manpower situation with Mr. Kenneth Williams. It did not come up for discussion except as it related to the general question of unemployment in some areas and sections and overdemand for labor in others -- not in terms at anytime of what the armed services contemplated.

Since the meeting Mr. Nelson has suggested that he would like some of our staff people to sit in on the discussions of the war model program. Messrs. Parry and Brown have been advised and are in touch with WPB staff men on the subject.



Attachments