

730 FIFTH AVENUE

New York

February 6, 1951

Mr. Marriner Eccles
Board of Governors
Federal Reserve System
Washington, D. C.

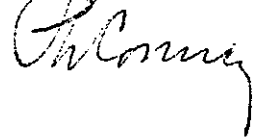
Dear Mr. Eccles:

It is difficult for me to find words to praise enough your statement before the Joint Congressional Committee on the Economic report which I have just read in full in "The Commercial and Financial Chronicle". It takes courage to make such a statement but you have rendered an extraordinary service to our country. Unless and until we have solved the question you raised in your statement, namely, the compulsion of the Federal Reserve Bank to coin money at the will of the government, we shall not prevent the deterioration of the dollar.

I also read with approval your suggestion that as long as we have the excess profits tax we should control wages but not prices.

I surmise that there is some difference of opinion regarding our foreign policy. I just returned from a trip to Europe and you may perhaps be interested in reading the article I have written for the "Commercial and Financial Chronicle". You may also wish to read my speech "Inflation or Freedom" before the Union League Club of Chicago.

Yours most sincerely,



Philip Cortney : if
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February 27, 1951

Mr. Philip Cortney,
730 Fifth Avenue,
New York, New York.

Dear Mr. Cortney:

I have read with a good deal of interest your article written for the Commercial and Financial Chronicle and your speech before the Union League Club of Chicago.

Although there is a difference of opinion between us as to the best way to accomplish our objectives, I think we are both agreed that a real attempt must be made to keep Government expenditures within reasonable limits, as well as to prevent further erosion of the purchasing power of the dollar.

I should like to restate my views on wage control, which have been somewhat misinterpreted in the press. The point I was making in my testimony was that, assuming adequate monetary, credit and fiscal measures, the price rise could be stopped and labor would not need increased wages to compensate for a higher cost of living.

Thank you for your kind letter and for sending me copies of your recent article and speech.

Very truly yours,

M. S. Eccles.

730 FIFTH AVENUE

New York

March 5, 1951

Mr. M. S. Eccles
Board of Governors of the
Federal Reserve System
Washington, D. C.

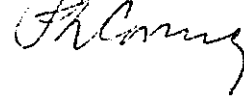
Dear Mr. Eccles:

Many thanks for your letter of February 27th.

Referring to the third paragraph of your letter I wish to make the following comment. My indictment of the escalator contracts is based on the ground that such contracts assume inflation. If big business and big labor unions get together and make contracts to protect them from the effects of inflation they thereby weaken the resistance to inflation. I am certain that you will agree with me that inflation is as dangerous an enemy as communism.

With warmest regards I am,

Yours very sincerely,



Philip Cortney : if

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September 28, 1950

Inflation or Freedom?

By PHILIP CORTNEY

**It's Up to Businessmen to Save Free Enterprise, declares
finance authority in important address to Economic Forum.**

Our times are dominated by two great dangers. One is the danger of war; the second is the danger of inflation. If we do not live up to the difficult problems with which we are faced, you and I shall have to learn to live under a dictatorship, most probably a dictatorship of labor. We may see it in our lifetime; we may see it within five years.

A new worldwide shooting war would certainly mean an end of our free society. Therefore, this possibility is left out of my discussion except to state that I do not consider a third world war either imminent or unavoidable. One of the blessings of the atomic bomb may well be that it will help eradicate war as a means of implementing economic or political goals.

The mere danger of war, the obvious necessity to rearm, will make our task of preventing inflation more complex and much more difficult. It becomes imperative that we should stop squandering our money, domestically and internationally. We should give up the illusion and the false pretension that our physical and financial resources are unlimited. It is mere nonsense to think that we have the means to raise the standard of living of two billion Asiatics advocated on the unproven premise that in so doing we shall keep them away from communism. It is absurd, gentlemen, to believe that we are winning friends and making allies by supporting socialism in Europe. In point of fact, now that the relief stage of our economic and financial help to Europe is over, our motives for giving away our money are suspected.

The Marshall Plan may, in my judgment, well now play in the hands of the communists who seek to undermine psychologically and materially the rearmament and will to fight of our European allies. Of course, the communists keep saying that the only reason we had this plan was to have the Europeans fight on our side, which means, translated into European language, that they are asked to fight our war. It is supposed to be *our* war. I don't know why. But, that is that.

We should also discard the idea that we can use money as a substitute for foresight, intelligence, experience and wisdom. The Marshall Plan funds recently appropriated by our Congress should be allocated to the rearmament of our European allies. It doesn't make any sense to continue the Marshall Plan under its present form, and in my opinion we should also scrap the EPU which cannot accomplish very much.

We should insist that our allies give us unmistakable evidence of their willingness to defend themselves and to contribute substantially towards rearmament. If we cannot get that assurance, then, I

submit, we should revise and re-design our plans for our defense.

When I observe the complacency of the great majority of people in the face of the dangers which are confronting us, I am wondering whether they do not understand where we are going or whether they are too lazy and too indifferent to bother with our fateful destiny.

Who Can Save Our Freedom?

Who can save our freedom, if freedom can still be saved? We are collectively committing suicide, as free men, as if we were blind or castrated. We businessmen are too prone to blame the government and the politicians for all of our troubles. If we wish to save our freedom, we businessmen shall have to recognize our own responsibilities in the present economic fallacies and delusions.

The ones mainly responsible for the mess towards which we are drifting are: (1) the intellectuals—professors of all kinds, law school, political science, etc.; (2) the politicians, and (3) the labor unions.

The intellectuals have espoused theories which, in the final analysis, after you do away with all of the sophistication, boil down to providing employment by monetary inflation. The intellectuals rationalize the theory for the politicians who are happy to grab these kinds of ideas because it is more advantageous for them to spend than to raise taxes.

As to the labor unions, they push relentlessly toward higher and higher wages without considering whether in so doing they are making impossible the functioning of our free enterprise system except with monetary and credit inflation.

Our system, which apparently is still in working order, is maintained only because of monetary and credit inflation. Even in circumstances of national emergency, like the present ones, the unions try to avoid for the workers the inevitable sacrifices if we are to survive as a free nation.

However I hate to say it, but I can't help being intellectually honest, large companies and in particular General Motors are as much to blame as the labor unions for having accepted the plan to tie up wage rates to the cost of living and to have granted the annual automatic increase without any certainty that the productivity will increase. The danger of a wage-price inflation spiral is the greater because of the planned expenditures for future rearmament as the farm prices are tied to industrial prices by law.

It is a fact that the idea of deficit spending has pervaded the thinking of a great many people in our country and, while the people at large do not like the consequences, particularly the rise of prices, they seem to enjoy the deficit spending.

Dangerous Delusions

At this point I should like to destroy three dangerous delusions. First, that unbalanced budgets and deficit spending are not pernicious.

Second, that our standard of living has improved despite the war and even despite the colossal increase of our national debt.

Third, that our capacity to produce goods has increased by 50 per cent as compared to 1940 notwithstanding the war, notwithstanding the inflation and notwithstanding the increase in debt. In other words, that we can eat the cake and have it, too. Until we counteract this kind of delusion we are in for serious trouble.

It is true that many people, particularly the working class and farmers, are better off, enjoy a better standard of living today than before 1940. But, I should like to make clear at what cost.

First of all, regarding the point that our plant is about 50 per cent larger than in 1940. As you know, part of the money spent during the war served to build new plants. Second, the bare truth is that we are eating up our capital. This may sound strange, and difficult to believe. However, much of the machinery and equipment used in the manufacturing of goods are getting old and becoming obsolete. The government has not only borrowed and printed money, but it has taxed money as profits while corporations have not been allowed to depreciate their fixed assets at their replacement value.

The illusion that the standard of living has increased despite the destruction of the war continues to persist because people don't pay the rents they ought to pay. What we are doing in fact, again, is to eat up our capital.

Let's not forget also that large segments of our population have not seen their incomes increase in any relationship to the increase in cost of living.

What is really happening is that we are eating up our capital on one side and, on the other side, we are constantly increasing our debt, collectively and individually. Some people are living better at the expense of other people! We are simply victims of delusions. If we let things go on as they are, we shall sooner or later discover this fact to our great dismay and sorrow.

Destructive Forces

If our present domestic and international policies are pursued, with the present levity and persistence, they will certainly bring about either severe

inflation or a thoroughly controlled society, both of which will be destructive to our freedom.

We were facing the dangers of inflation or dictatorship even before we started our rearmament program. These dangers were with us before the Korean war started. The new military expenditures only compound our difficulties and problems.

The simple truth is that we cannot have freedom without sound money and it is my conviction that we cannot have sound money in a democracy with universal franchise without the discipline of the international gold standard. Management of money without gold is a possibility. I wouldn't deny that. But, not in a democracy where people have to be elected to Congress or to parliament by a system of universal franchise.

The Paramount Question

The paramount question of our time is: Are we going to have inflation conducive to dictatorship, or shall we continue to be free men? We shall have either inflation or freedom, but we shall not have both for a long time.

Theoretically, the possibility exists to have moderate inflation, a high level of employment and liberty, at least for a good stretch of time. Also, theoretically, the possibility exists to have a sound currency, large-scale unemployment and liberty.

I do not believe that our society will tolerate large-scale unemployment. The myth of full employment dominates the thinking and even the feelings of the great masses and therefore of the politicians.

If inflation is dangerous, if the masses and the politicians will not tolerate large-scale, prolonged unemployment, what is the answer? It is my conviction that our competitive free enterprise system will not survive unless we recognize its defects and shortcomings, and unless we endeavor to improve its functioning from within.

I maintain that with proper monetary credit, fiscal and wage policies, we can avoid severe, prolonged depressions like that one we had in 1929-33. It is my deep-rooted conviction that it can be done. It is also my conviction that we can mitigate recessions and shorten their duration. These things can be done, provided we go about it in a proper way. Our society is in great danger. It can be saved only by a courageous, bold, intelligent and imaginative fight. It will require hard thinking and strong-willed determination to save our system.

Dangers Ahead

First we must destroy the delusion that deficit spending and the increase in debt redounded to the benefit of our country and of our standard of living. If we can't demolish that idea, then we are cooked. Nothing you can do or say will save our system if the masses don't understand the reasons of their increased standard of living and the dangers ahead.

We should submit to critical examination many economic problems which have either not been considered at all or which have been commented upon only superficially. A case in point is the impact of the automobile on our economy.

Another necessary study is, should productivity be translated into higher wages or lower wages? This was the precise point on which Dr. Nourse resigned. It was his opinion, and I share it, that we can have a free society without inflation only if productivity is translated into lower and lower prices, not if we translate it into higher wages according to the new contracts made by General Motors and others. Those contracts are destructive of our society.

Another problem is the wage structure. It is my contention that there is too great a disparity between what the workers get in industries like the automobile industry, building, steel, and what they get in many other industries and services. It is due only to the fact that they are very powerfully organized and cater mainly to large companies.

What is the effect on our mass production, mass consumption economy of the very high wages in the durable goods industry as compared with the soft goods industry and services? I am convinced that an excise tax at the manufacturer's level is very bad for the consumer. An excise tax at the manufacturer's level is pyramiding prices at the retail level. So, if the manufacturer pays a 10 per cent tax, it is going to become 25 or 30 per cent at the retail end. That is not a good way to protect the consumer and have a sound economy.

Another important problem is can we have a prosperous economy and sound money or must we inflate our monetary means artificially as suggested by Hansen and Slichter, who advocate a systematic monetary inflation to keep our economy going?

A book recently published, strangely enough by a leftist professor and entitled *Unions and Capitalism*, argues that unions and capitalism are incompatible because unionism is destroying the competitive price system.

I am happy indeed that it should be a professor reputed to be a leftist who should have published it because it is absolutely my conviction that we shall have to do away with the unions as they operate in this country or we shall not have any free enterprise system.

I will go even further and say that you can't have an international gold standard system with the kind of unions that we have in this country. That might sound a bit far-fetched and complicated. We can't have both, so it is a question of what we want. Do

we want a free enterprise system, international trade, or do we want a regimented society?

There are many other problems which we should examine and give an answer to, because people have questions in their minds and unless we answer the questions they have in their minds we shall not get anywhere in destroying the prevalent economic fallacies and delusions.

The Mischief Makers

Let's look at the mischief makers. Do you realize that we are living under a system of complete irresponsibility, except for the businessmen? The politician is completely irresponsible. He may wreck the country. He may bring it to military defeat. He may destroy the currency. He may do anything. There is no sanction for him. In point of fact, under the kind of universal suffrage under which we are living, I shouldn't be surprised that the more havoc these politicians make, particularly with our money, the surer they are to be elected.

As to the intellectuals, I consider that the most dangerous neo-Keynesian today is Professor Sumner Slichter. Don't think that this opinion is a secret to him. I have written it to him. I have also written it to the board of directors of the NAM and to a large group of businessmen. His intellectual honesty is, in my opinion, beyond any kind of suspicion. But he is dangerous because businessmen have confidence in him. Don't forget, gentlemen, he is coddled and pampered by lots of businessmen, particularly by the CED.

If you ask me how do I explain that a man of Slichter's intelligence or Slichter's intellectual integrity should push toward the destruction of our society, my opinion is that he doesn't understand money. He says that we are in a laborite economy and there is nothing to be done about that. We shouldn't try to fight it. Let's inflate money.

There are many cockeyed ideas coming out of the colleges. I don't know how students can think straight after reading those books published for use in colleges today. One book which is very popular begins a chapter by saying: "Contrary to a general idea, we can lift ourselves by our bootstraps."

When the politicians find professors like Slichter to rationalize fallacies for them, to show that not only is it not dangerous to have monetary inflation but that is the only salvation, then how can you blame the politicians? Should we not blame the businessmen for maintaining Professor Slichter in his present capacity as main adviser to the CED?

As to the labor unions, I don't think they care whether they destroy our present economic system, and this is particularly true of the CIO. I believe that all of their important bosses feel that they will become commissars, so they don't worry very much.

Therefore, as I see it, the only group who can do the job are we businessmen. We are the only group which is not subsidized by the government, whose income is not guaranteed by the government and, whether we like it or not, we shall have to do it or we shall have to face our doom.