October 7, 1941.

Hon. Marriner S. Eccles, Chairman,
Federal Reserve Board.

Dear Mr Eccles,

In your statement before the House Banking Committee you emphasized the need of a comprehensive program if inflation is to be prevented, and I am sure you agree that farm prices and wages cannot be kept at current levels without the cooperation of the farm and labor groups. The enclosed letter to the WASHINGTON POST suggests that a conference of leaders of all groups be arranged to work out a comprehensive program which will be acceptible to all. I think you will agree that such a program must include a very stiff excess profits tax such as I suggest on page three of the letter, item 3. I would be interested in your reaction to the suggestion that the remainder of excess profits after tax be deferred by being invested in defense saving bonds.

Yours respectfully,

Gordon S. Fulcher.

Gordon S. Fulcher

3647 Van Ness St.,
Washington, D. C.

UNLESS WE ALL WILLINGLY SACRIFICE NOW,

INFLATION WILL FORCE US TO SACRIFICE LATER

To the Editor of the Washington Post,

As a basis for fixing farm prices and wages the following two principles are generally accepted as fair: (1) When farmers must pay 5% more for the things they buy, they are entitled to %5 more for the things they produce (the parity principle); and (2) When the cost of living of workers goes up 5%, they are entitled to an increase in 5% in hourly wages. Yet if these principles are accepted in fixing farm prices and wages during the coming months when production for defense will necessarily limit productimn for civilian needs, inflation will follow as the night the day.

The theory underlying the two fair-play principles is, of course, that farmers and workers should maintain their standards of living, should be able to buy as much during this emergency as previously. However, since a less amount of civilian goods can be produced, all of us cannot possibly buy as much. As Keynes puts it, when the civilian cake is decreased in size, the average slice is decreased. No group can obtain the same amount as before unless the remaining groups average less than before.

Unfortunately, the need for sacrifice is not generally understood. When farmers insist on parity prices and when the workers insist on wage rate increases, they do not realize that they are insisting that their groups shall receive more than their share of the civilian emergency cake. Moreover they do not realize that the price increases they demand will enevitably cause an inflation which will force less well organized groups such as the unemployed, old-age pensioners, and government workers, to bear more than their share of the necessary civilian sacrifice. Surely, no group of our people wish to shift their share of the national sacrifice on to a less fortunate group, nor to help to cause an inflation which, as our experience after the last War proves, leads inevitably to a disastrous deflation.

We have an abundance of most of the basic foods and also of some basic raw materials including cotton, coal, oil and iron ore. With the cooperation of the farm and labor groups, the prices of these abundant goods and also of materials rationed by means of priorities and allotments can be kept close to current values, However, these groups naturally will not cooperate in such a price control program unless the other groups also cooperate; in particular business men would have to agree to share the sacrifice by giving up most of their excess profits and also more of their personal incomes. Yet inflation can be prevented only if all groups are willing to subordinate their private interests to the common good.

In order to determine whether a price-control program acceptible to all groups cannot be worked out, it is suggested that Vice-President Wallace call a conference of leaders of all groups to meet with government leaders including congressional leaders; for an effective program would require the enactment of several laws, probably including the following:

1. A Price-Control Act to give authority to an Administrator, in cooperation with other government agencies, (1) to fix the prices of all abundant goods and of all rationed goods as near the average prices for some recent period as practicable; and (2) to police all other prices, so as to prevent any unwarranted rise due to speculation,

hoarding, or monopoly control.

2. An Act freezing all rents as of a certain date, with provisions for revision by local boards to prevent profiteering;

3. An Act increasing excess profit tax rates, graduating them up to a maximum of at least 60% for profits in excess both of average profits during recent years and of 6% return on invested capital (including invested profits); also requiring that the remainder of the excess profits be deferred by being invested in defense bonds, half to be held in trust for the stockholders and half in trust for the employees;

4. An Act to increase individual income tax rates, especially in the middle brackets, to approach those of Britain.

If the leaders come to an agreement as to the general terms of such legislation, Congress would doubtless cooperate by promptly enacting it.

The Conference might also consider means for selling the program to the people, particularly to the groups they represent, for the cooperation of all local groups can be obtained only if they realize the need for the sacrifice involved.

In the last World War, wages and prices chased each other upward in a vain attempt to avoid a sacrifice of living standard. Must we go through this again? Must it always be true, as the Nazis claim, that in a democracy the various groups lack the wisdom and self-discipline to cooperate in a program which requires that group interests be subordinated to the national interest? Now is the time to prove that the Nazis are wrong. But we must act quickly for inflation has already started.

3647 Van Ness St., D.C. Gordon S. Fulcher.

October 15, 1941.

Mr. Gordon S. Fulcher,
3647 Van Ness Street,
Washington, D. C.

Dear Mr. Fulcher:

Just before leaving on an official trip to the West, which will take him out of town for a week or so, Chairman Eccles discussed with me your letter of October 7 and the enclosed copy of your letter to the Editor of the Washington Post. He asked me to acknowledge its receipt and to thank you for sending it to him.

Mr. Eccles was particularly impressed by and entirely in agreement with your general statement of the impossibility of stopping inflation if farm and labor income is to be constantly adjusted upward to a standard of living index at a time when, as you emphasize, the "civilian cake" must be progressively reduced in size.

With particular reference to item 3 on the excess profits tax, I think perhaps the best way to answer is to give you a copy of the Chairman's testimony on this matter when it was raised in hearings before the Banking and Currency Committee of the House, in connection with the price control bill. I enclose a marked copy.

Yours very truly,

Elliott Thurston,
Special Assistant
to the Chairman.

Enclosure.

ET cm

October 18, 1941.

Mr Elliott Thurston,
Federal Reserve Board.

Dear Mr Thurston,

Thank you for your letter of October 15. regarding my letter to the Post on Farm Prices and Wages. (Oct. 9)

With reference to item 3 on the proposed excess profits tax, the idea is to apply the maximum rate of say 60% only to profits in excess <u>both</u> of average profits during recent years, say 1936-1940, and of 6% return on invested capital (including invested profits); that is, if the average return during recent years had been 15% and the return in 1942 should be 25%, the tax would be 60% of the excess on both counts, that is 60% of 10%; the tax on the remainder of the profits, that is the 15%, would be as at present. Similarly, if the average return during recent years had been only 2%, and the return in 1942 should be 11%, the tax would be 60% of 5%. Evidently, this is not the same as the tax suggested by Mr morgenthau and discussed by Mr Eccles at the Hearings of the Banking Committee.

Another feature of my suggestion wherein it differs from Mr Morgenthau's is the deferred profits feature. It is proposed that in the above two cases,
the remainder of excess profits,
4% and 2% of the capital, respectively, be invested in defense bonds and held in trust, half for the stockholders (so much per share), and half for the employees (same for each). This would have the advantage of sharing the profits with employees without increasing their present purchasing power.

I have pointed out to the members of the Banking Committee that if Henderson is allowed to adjust prices to wage increases, as he proposes, wages will chase prices up a spiral of inflation in spite of H. R. 5479. It was suggested that the Bill be amended to provide that wage increases shall not be considered a valid cause for authorized price increases. Labor would then be free to bargain with management over the division of the profits but labor and management could not combine to increase the cost of the defense program nor the cost of living. I would appreciate your reaction to this suggestion.

Yours very truly,

Gordon S. Fulcher

3647 Van Ness St., D. C.

October 21, 1941.

Mr. Gordon S. Fulcher,
3647 Van Ness Street,
Washington, D. C.

Dear Mr. Fulcher:

Thank you for your letter of October 18 with further reference to your suggestions on the excess profits tax and on the deferred profits feature. I passed this along to Mr. Eccles and to our tax people. It is too late to do anything about it so far as the current bill is concerned, of course, but no doubt there will be a revision before long and your suggestion is valuable and will be given consideration so far as we are concerned.

You are entirely right that wages will chase prices up a spiral inflation if prices are to be continually fixed based on wage increases. It is possible that you might get somewhere with this suggestion when the bill reaches the Senate committee. I have also made this point to Mr. Eccles because, as I say, I think you are entirely right about it.

Again thanking you for your interest, I am

Sincerely yours,

(Signed) Elliott Thurston

Elliott Thurston,
Special Assistant
to the Chairman.

ET:b