

THE MARQUETTE NATIONAL BANK  
OF MINNEAPOLIS

MINNEAPOLIS 2, MINNESOTA

February 9, 1945

Chairman Marriner S. Eccles  
Board of Governors  
Washington, D. C.

My dear Mr. Chairman:

Only yesterday I had the opportunity, for the first time, to read your speech before the National Industrial Conference Board. Again I was impressed by the fact that I can follow your thinking completely up to the point of the remedy where I become hopelessly lost. I am taking the liberty of enclosing copies of a couple of my recent letters which I think join the issue rather squarely.

I know I am not presenting anything that is new to you. I am sure that you have thought this all through long ago, and have discarded it for good reason. I have long been intrigued to know what that reason is. You are probably too busy to tell me but perhaps one of your assistants can find time to do it.

Yours very truly,

  
Ralph W. Manuel

RWM-Eh

encl.

THE MARQUETTE NATIONAL BANK OF MINNEAPOLIS

January 20, 1945

Senator James E. Murray  
United States Senate  
Washington, D. C.

My dear Senator:

I have just finished reading the Year-End report of your Subcommittee to the Committee on Military Affairs. I was particularly interested, of course, in your ambitious proposal for insuring full post-war employment.

I saw no suggestion as to how this post-war program is proposed to be financed, and I imagine that problem is causing you folks considerable anxiety. May I make a suggestion.

Suppose you levy a confiscatory tax on all current money income which is not currently spent or invested in the current product of our economic process. Such a tax will produce the precise sum that your program requires and the penalty, if any, will fall on precisely the persons who create the unemployment problem which you seek to solve. Moreover, it need, and probably will, cost them nothing because when we know that we must use all of our current money income currently or lose it, we will choose to use it as a matter of course.

The whole current money income (always roughly just enough to buy the whole current product of our economic process at the existing price level) will then flow back through the markets in due course and we shall have a market for all we can produce and work for everybody who is able and willing to work, all this without the government collecting any tax or borrowing any money.

Wouldn't it be better thus to needle a comparatively few interrupters of the economic process into investing their own money income currently than to collect a vast tax from the guilty and innocent alike, and have it invested by the Government? We don't permit men to interrupt essential traffic by parking their cars in the middle of the street. Perhaps we shouldn't let them interrupt the essential economic process by parking their current money income in mattresses or in commercial bank accounts.

I am enclosing a copy of the Congressional Record containing a letter in which I discussed this subject at greater length.

Yours very truly,

Ralph W. Manuel

RWM-Eh

encl.

THE MARQUETTE NATIONAL BANK OF MINNEAPOLIS

January 22, 1945

Dr. Mordecai Ezekiel  
Economic Advisor, U. S. Dept. of Agriculture  
Bureau of Agricultural Economics  
Washington 25, D. C.

My dear Doctor:

Thanks for your gracious letter of the 17th. It is good of you to remember me in this connection, and to offer me this opportunity to comment on the Murray Subcommittee Full Employment bill. The bill came into my hands last Friday and Saturday morning I wrote Senator Murray some comments on it, a copy of which I shall enclose.

It may appear that my suggestion to the Senator is a bit disingenuous because I would confidently expect that the adoption of my suggestion would result, not in implementing his plan but in eliminating the need for it. It is true that I have used this rather tricky approach in the hope of catching the Senator's interest, but the proposal is made in good faith nevertheless for I would be willing to support the whole plan if its sponsors would rely for its monetary implementation upon what appears to me to be the only fair, honest and effective method available. The plan for financing which I have proposed seems to me fair because it imposes the penalty, if any, only upon the guilty; honest because it involves the creation of no counterfeit money purchasing power either by the printing press or the banking process, and effective because every dollar that the Government marshaled in this way would be a dollar of authentic money income which would not have come into the markets otherwise.

Why not go ahead and let events determine who is right? If, as you men appear to believe, it will be necessary for the Government to provide a market for an enormous quantity of goods and services each year to maintain full employment, this is incomparably the best way for the Government to possess itself of the necessary money purchasing power. If, on the other hand, as I would expect, the threat of escheat of unused money income should result in the current return flow of all the current money income, our common objective would have been fully attained without intrusion of the Government into the economic process.

I suppose there is little probability that you and I can ever reach a meeting of minds on this sort of thing because we are looking in

opposite directions for the solution. You are continually trying to construct clever and often elaborate compensating mechanisms designed to offset the economic distortions which result from un-toward human conduct. On the other hand, I am continually groping for a practical means of preventing those distortions. I am sure that you, too, would prefer to remove the cause, and that you now resort to the creation of compensating devices only because you feel that you have exhausted all the possibilities of prevention. This, of course, is the core of our difference.

I know that economists generally deny the existence of a single cause of mass unemployment and assert that there are many causes. There are, of course, many more or less remote causes but they all exert their baneful influence through a single type of phenomenon. Namely, the failure of some part of the money income generated by the economic process of creating useful goods and services and distributed among the participants therein, to flow back through the markets currently to buy the current product. This, it seems to me, may fairly be called the immediate cause. It is my contention that the more remote causes - the particular circumstances which cause men to choose to divert their current money income from the current markets - are too numerous and too involved to be susceptible of removal or control, but that the immediate cause, the bottle neck in the chain of causation may be open to attack.

This immediate cause is a mere matter of human behavior; a failure on the part of some participants of the economic process to take all their current money income into the markets currently. In our modern money economy the primary (almost sole) function of money income is that of implementing the distribution of the common product of our largely collective economic process among the participants therein - the practical means by which each participant obtains possession of his share. Each participant owns a share of the current product which he helps to create - not a share of the product which other men may create ten years from now.

It doesn't seem to me that it is an undue invasion of the participant's rights to say to him that he must take possession of his share in due course or give or trade or lend his right to others who will do so in his stead, and that failing to do either his right to claim shall escheat to the Government. After all, the participant's right to his share of the current product is inherently a temporary right to be exercised in due course or lost, much as a man's right to vote must be exercised on election day or lost,

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Dr. Eszkiel

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Moreover, such legislation as I advocate - merely providing for automatic escheat for unused current money income - does not constitute a dangerous grant of power to the Federal Government. It involves the making of no policy decisions and the exercise of no discretion on the part of Congress or the Executive or Government Bureaus and thus creates little or no opportunity for the misuse or abuse of power.

What I propose is not a panacea but rather a sine quo non. - it will not cure all our economic ills but without it there perhaps is no cure.

Along with the provision for escheat of unused money income should go prohibition of the making of capital and consumer loans by commercial banks, except with the saved money income of their depositors (a simple reform long overdue for the protection of the integrity of our commercial banking system as well as for the prevention of the diversion of current money income away from the markets and into the payment of these loans).

Moreover, and without regard to what is done to prevent mass unemployment, something must be done about the vast quantity of forced money income savings which now hangs over our markets and threatens someday to inundate them. I have given some thought to that too but it is quite another matter and this letter is already much too long.

Yours very truly,

RWM - Eh  
enc 1.

Ralph W. Manuel

February 26, 1945.

Mr. Ralph W. Manuel,  
The Marquette National Bank,  
Minneapolis 2, Minnesota.

Dear Mr. Manuel:

It is always good to hear from you and I find your letters invariably most penetrating and interesting. The one of February 9 enclosing a copy of your letter of January 20 to Senator Murray would have had a prompt answer, but I referred it to our economic staff to get a composite of their opinion as to what, if anything, is wrong with your proposal for a "confiscatory tax on all current money income which is not currently spent or invested in the current product of our economic process".

Up to the point where you propose this tax and I propose the various measures outlined in my speech before the National Industrial Conference Board, we seem to be in agreement. That is another way of saying that I think your analysis of the economic process is correct. I would say, as I have so often in the past, that the difficulty is that left to itself the economic system inevitably generates an unbalance between funds which become available for investment -- I think this was the major cause of the trouble in the late 20's -- and funds that go into consumption.

Thus we hear the diagnosis sometimes that there is over-saving. I do not like that statement because I think what is really the trouble is that there is under-consumption. Anyway, I think you will agree that to the extent that funds are withdrawn from the income stream, production and employment decline. However, the worst offenders, in my judgment, are large corporations which over-accumulate funds in so-called "rainy day" reserves. They not only do not pass these funds back into the income stream through dividends, increased wages, lower prices, or a combination of all three, but they object when the Government proposes to borrow or tax these funds in order to put them back into the income stream.

Recognizing the basic cause of difficulty, you would put on a confiscatory tax that would apply indiscriminately to corporations and individuals alike. The great bulk of individuals, that is, those in the lower income brackets, already spend most of their current in-

February 26, 1945

comes and, of course, those in the lowest brackets dissave, that is, they spend more than their incomes. I, too, would use the tax system primarily to remedy the unbalanced situation, but I would use the instrument to reduce the upper-bracket individual and corporate savings and to add to consumption in periods of nonconsumption. Conversely, should the economic picture be the opposite and a deficiency of investment funds were to appear, I would want to reverse tax policy in order to increase savings and restrain consumption until investment, and hence production, again catch up with demand.

But this tax mechanism would be only one approach to what, in my opinion, is a very complicated problem. I think you greatly oversimplify it and that no simple mechanical approach such as you suggest is practicable, even if you could get the Congress to accept it, which I do not believe, and even if it were administratively workable, which I doubt. I think your scheme would lead rapidly to inflation and if it did, then you would have to repeal your tax.

It does not strike me as a realistic or flexible instrument to use. Finally, to say in effect that all current income must be quickly spent, irrespective of what goods and services are available, would produce extremely bad results and, incidentally, it would be contrary to the ingrained instincts of the American people. To sum it up, I think your basic error is trying to apply your remedy indiscriminately to individuals rather than attempting to deal with the overall aggregates of funds available for consumption and investment.

Since you ask my opinion, I am expressing it frankly and rather bluntly. As you know, I have long respected your public-spirited attitude and your comprehension of economic problems and mechanisms.

With kindest personal regards,

Sincerely yours,

M. S. Eccles,  
Chairman.

ET:b  


THE MARQUETTE NATIONAL BANK  
OF MINNEAPOLIS

MINNEAPOLIS 2, MINNESOTA

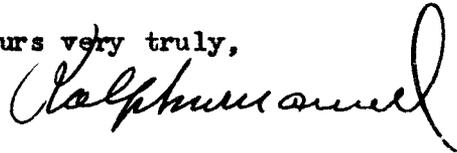
March 15, 1945

Honorable M. S. Eccles  
Chairman, Board of Governors  
Federal Reserve System  
Washington, D. C.

My dear Mr. Eccles:

Thank you very much for your gracious, frank, and useful letter of February 26. It gave me something to chew on, and will be very helpful. It was splendid of you to take the time to write me so fully about the matter.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Ralph Samuel". The signature is written in dark ink and is positioned to the right of the typed name "Ralph Samuel".

RWM-Eh