BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date _____

To _____

From _____

MESSAGE:

Mr. Thurston

This gentleman is not on Mr. Eccles' personal mailing list nor is he on the Board's mailing list to receive "statements, addresses," etc.

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DAVID M. FIGART
BRIARCLIFF MANOR, NEW YORK

April 9, 1949

Dear Mr. Eccles:

I have followed your views on economics with great interest and constant agreement for many years; and I could have wept when you ceased to be Chairman of the Federal Reserve Board.

But on this baffling question of Russia, can we force the issue? Suppose the Soviet Armies seized the cities of our Allies and held them as hostages to be destroyed with the destruction of Russian cities - what effective answer could we make?

I think our countrymen will still prefer the original version of the 46th Psalm to Mr. Acheson's.

Sincerely yours,

David M. Figart

Mr. Marriner S. Eccles
Federal Reserve Board
Washington, D C

May 13, 1949.

Mr. David M. Figart,
Briarcliff Manor, New York.

Dear Mr. Figart:

Thank you for your kind note of April 9 that deserved and would have had an earlier answer but I have only recently returned from the West.

The Russian question is, of course, baffling, as you say, and the risks are great. But I am firmly convinced that in the choice of alternatives the lesser risk and the greater chance for peace in our time lies in forcing the issue with them while we have superior strength. At all odds you may not have seen the full text of my talk on this subject and I am accordingly enclosing a copy.

Again let me thank you for your generous personal references.

Sincerely yours,

M. S. Eccles.

Enclosure

ET:mnm

DAVID M. FIGART
BRIARCLIFF MANOR, NEW YORK

May 25, 1949

Mr. M. S. Eccles
Federal Reserve Board
Washington

Dear Mr. Eccles:

Thank you for your letter of the 13th. I was particularly glad to have the full text of your talk before the Commonwealth Club of California.

One's point of view on the Russian question will depend much on the authorities relied upon. Winston Churchill was, in my judgment, one of the great war leaders of all time. I do not fully trust his counsel as a peace leader. He is an imperialist and inherits the century-long struggle of Britain to prevent Russian access to the Mediterranean and Indian Oceans. I wonder also if General Deane's judgment may have been influenced by the refusal of Russian leaders to exchange vital military information with him. My own feeling has been that the views of such observers as the late Sir Bernard Pares, Walter Duranty, Walter Lippmann and John Foster Dulles, among others, are more objective; and if I interpret them correctly, I do not think any of these men would hold the premise that Russia has contemplated world conquest in a military sense.

Several statements in your economic discussion were most interesting: that recurrent depression has been a chronic tendency of Western capitalism; that personal security is attainable by too few people through individual effort and savings alone; that Government intervention is the only answer to the business cycle that we have yet devised; that individuals having great economic power must show a high level of statesmanship.

The National Association of Manufacturers issued a bulletin last year entitled "Employment Stabilization." It listed eleven solutions for stabilizing employment - (which, if successful, would I think mean the virtual abolition of depressions.) It said that

> Industry is convinced that the only immediate and sound approach to the problem of greater job security and regular pay is through better stabilization of production and employment within the individual company. This is a practical objective, reasonably within the power of most employers.
>
> On the encouraging side is the revelation of the actual extent and magnitude of solid achievement by industry in stabilizing employment and pay as a result of purposeful management initiative and effort.

The NAM bulletin also said that business cycles "for the most part, lie in the field of government policy and international relations, and, consequently, are beyond the ability of the individual employer to modify or eliminate." I have long believed that business underestimates its ability to deal with this problem, and I hope I will not trespass too greatly upon your patience by outlining briefly a possible approach which I have had in mind for many years.

We may concede that every business - regardless of how well it is managed - will have unforeseen interruptions, and that therefore employment stability cannot be guaranteed. Organized labor's approach is through a guaranteed annual wage. But wages are paid from production. If production is uninterrupted there is no need for a guarantee, since labor automatically receives its wage; but if production is interrupted, there is no way to pay a guaranteed wage except from reserves. The essential thing, from labor's standpoint, is the reserve, not the guarantee. Corporate employ-

ment security reserves could cushion the shock of temporary interruptions in production just as effectively as the individual's savings - where they exist - cushion the shock of unemployment; and by doing so the employee's purchasing power would be sustained in a substantial degree, and - what is more important - community morale would not suffer. Social security is only a partial answer to this problem: it is totally inadequate in amount, and it may actually tend to bring about the very condition it is designed to alleviate; for it says in effect to employers: "It is all right for you to lay off your labor, since we have funds to take care of it." It thus transfers to government a responsibility which should be industry's - and this in an economy which industry insists must remain free.

Now, most employers fear the commitments of a guaranteed annual wage; but I suspect that if they were given an adequate incentive, they would be willing to accumulate employment security reserves designed to carry labor over temporary shutdowns; some are doing it now. I believe that if Congress would grant tax exemption to reserves earmarked to maintain labor (the human assets of a business) during enforced idleness, just as it now grants tax exemption to reserves to take care of machinery and plant (the physical assets of a business), this would prove a sufficient incentive to most large corporations to inaugurate such a practice. It is possibly true that under present Treasury regulations some form of reserve could be set up for this purpose which would be tax exempt; but it is doubtful to what extent this is realized, and it has seemed to me that the situation needs to be dramatized in some way - through some specific act by Congress with a corresponding announcement to labor and industry of the intent.

For if Congress were to grant tax exemption to corporate employment security reserves, it would be tatamount to saying to industry: "You say you want to provide security of employment. We are going to make it easy for you by exempting from taxes the reserves without which employment security is a meaningless phrase." And Congress would be saying to labor: "You say you want employment security. Now cooperate with business so that there will be sustained profits out of which reserves can be set up to insure a measure of income stability during the unavoidable fluctuations of business."

There are a great many details which I will not attempt to cover. But I wish to suggest that the chief result of such a general accumulation of employment security reserves by the large corporations would not necessarily be in the amount of funds involved, but rather in the effect on management policies that such reserves would have. For it would inevitably lead to greater c aution in production, merchandizing and expansion policies in order to insure employment stability; and it would lead to greater co-operation on the part of labor, even to the extent of acceptance of wage and hour adjustments to insure continued profitable operations of the business. It would hasten the trend - already evident in industry - to regard its function as primarily one of service to the community, and profit as simply a device to measure the success achieved in rendering such service. It is of course obvious that profit and employment stabilization are complementary: one cannot exist without the other.

The question will naturally arise whether tax exemption alone would prove a sufficient incentive to induce corporations to accumulate employment security reserves and pay them out when the necessity arose. It would of course be a simple matter to make such reserves virtually mandatory through a modified undistributed profits tax, with severe penalties on all earnings not specifically exempted from tax. But it might be better to try out the voluntary method first. It could do no harm, so far as I can see; it might astound us by its success.

We used to think that the law of supply and demand kept the economy in reasonable balance. The growth of the corporation and concentration of economic power upset

that mechanism. My own belief is that we need not rely on government intervention to maintain a balance, but that our economic system still possesses the power of self-regulation - that is, boiled down to its simplest terms, the power to guarantee reasonable employment security. Even the NAM comments on the "magnitude of solid achievement" in that respect. But men need incentives to do their best work. Perhaps the tax incentive outlined above would help our business leaders "having great economic power" to "show a high level of statesmanship" by suggesting that the stabilization of employment is, again in the words of the NAM, "a practical objective, reasonably within the power of most employers."

With expressions of high regard, I remain

Faithfully yours,

David M. Figart

David M. Figart