

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

C O P Y

Office Correspondence

Date September 18, 1942

To Governor Ransom

Subject: Future Trend of savings

From Woodlief Thomas

We have received a confidential memorandum from a member of the staff of the Securities and Exchange Commission giving further comments on estimates of individuals' liquid savings, which were published by us in the last Review of the Month, and giving also some rough estimates as to probable savings in the latter half of this year and in 1943. These figures are summarized in the following table:

Individuals' Liquid Savings

Estimates of S. E. C.
(In billions of dollars)

| | 1st half 1942 | Probable 2nd half 1942 | Year 1943 |
|---------------------------------|---------------------|------------------------------|--------------|
| Total..... | 10.5 | 15.0+ | 48 |
| Currency and bank deposits.... | 2.1 | 11.5+ | 40 |
| Securities (mostly U.S.Govt)... | 5.1 | | |
| Insurance and pension reserves | 2.1 | 2.3 | 6 |
| Liquidation of debt--net*.... | 1.2 | 1.2 | 2 |

*Decrease in consumer debt less increase or plus decrease in debt on home mortgages.

The most striking point of these figures is the large amount of funds that will be available either to purchase securities or to put into bank deposits. Whereas total savings through these channels in the first half of 1942 amounted to 7.2 billion dollars (compared with a total for the whole year 1940 of 6.6 billion), it would appear that at least 11.5 billion dollars will be available for these uses in the latter half of 1942 and about 40 billion in the year 1943.

The memorandum states--

"...It is impossible to estimate with any precision the proportion which will take the form of cash and deposits, but in any case there will be a vast increase

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in the amount of such funds -- much too large for safety. At present, the most ambitious new tax plans under consideration by Congress would sop up considerably less than ten billion dollars of the above amount (in 1943), leaving substantially over thirty billion dollars in the form of voluntary purchases of war bonds and additions to cash and deposits. At best, therefore, much still remains to be done before the excess of inflationary funds can be considered as effectively controlled.

"Conclusions

"In the near future, the growing disparity between the rising national income and the declining supply of consumer goods will, in view of price fixing and rationing, result in a very large increase in total liquid saving, including undoubtedly some rise in purchases of Government securities. However, in the absence of a comprehensive forced saving plan or some similar device, there is reason to expect that a very considerable portion of this saving will take the form of currency and demand deposits. For reasons suggested above, the existence of a substantial amount of such excess funds will create inflationary pressures in the various sectors of the economy and will seriously aggravate the problem of overall control."

(Signed) W. T.