Chart ?

RALPH E. FLANDERS
BOX 477
SPRINGFIELD, VERMONT

December 27, 1937

Hon. Marriner S. Eccles, Chairman
Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

As a result of some discussion in the Committee on "Big Business" of the Twentieth Century Fund, Laurence H. Sloan, Vice President of the Standard Statistics Company, has prepared for me some charts, photostatic copies of which I am enclosing. These charts seem to me to be of significance in connection with the question of our sluggish velocity of circulation. They show that distribution of earnings (whether because of or without reference to the undistributed profits tax) has been high throughout the recovery period. In spite of that fact, our velocity of circulation has been low throughout the same period. This would seem to be prima facie evidence that we must look elsewhere than in the corporate earnings of large companies to find the obstructions which are choking the circulation of money. This in turn, it seems to me, lends force to the suggestion that I made when talking with you -- namely, that it is important for the Board of Governors to discover factual means for determining what kind of deposits it is that are stagnant.

As an offset to the two line-charts, the bar-chart indicates that the large industrial corporations have carried more cash or equivalent steadily throughout the depression than in the period prior to 1929. However, the year 1937 with its fairly rapid turnover is well below 1929 and about on a par with 1928, and there does not seem to be here any evidence of such a decrease in velocity as would account for present conditions.

Also, in the discussions of the Committee on "Big Business" Dr. Dewhurst raised the question as to whether large cash surpluses, such as are shown on the bar-chart, indicated dangerous restriction of the necessity for borrowing. It has been in my mind for some time past, as I think it has been in yours, that a certain volume of outstanding bank indebtedness is necessary to give the required volume of money for transacting a desirable volume of business. Dr. Dewhurst raises doubts as to this point of view. He takes the stand that large cash reserves decrease the necessity for borrowing to carry on a given volume of business so that as they are built up, then, pari passu, the necessity for additional credit money decreases.

Of course, large surpluses are not necessarily in the form of "cash and equivalent." They may be in inventories and unpaid-for shipments to customers that are owned outright which formerly were carried on bank indebtedness. In this case also, it would seem that perhaps the decreased borrowing results in a decreased necessity for borrowing. Does not the whole thing point toward a condition in which we might do a larger volume of business with less money?

I raise these questions without feeling as yet able to give the answers. I, at least, cannot yet see to the bottom of the problem, but I am sure that it is an exceedingly important one. Forgive me for writing at such length.

Sincerely yours,

Ralph E. Flanders

Ralph E. Flanders

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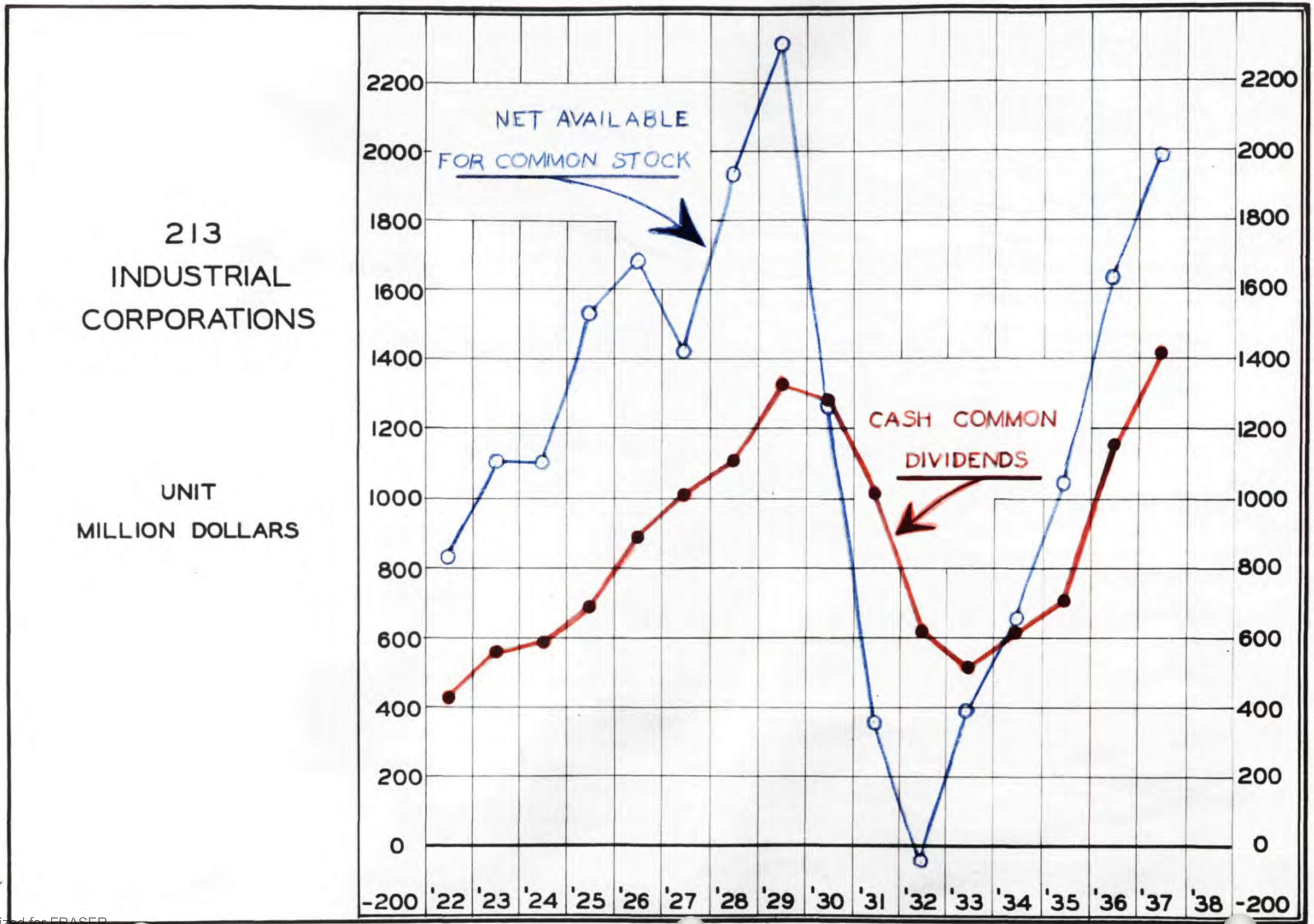
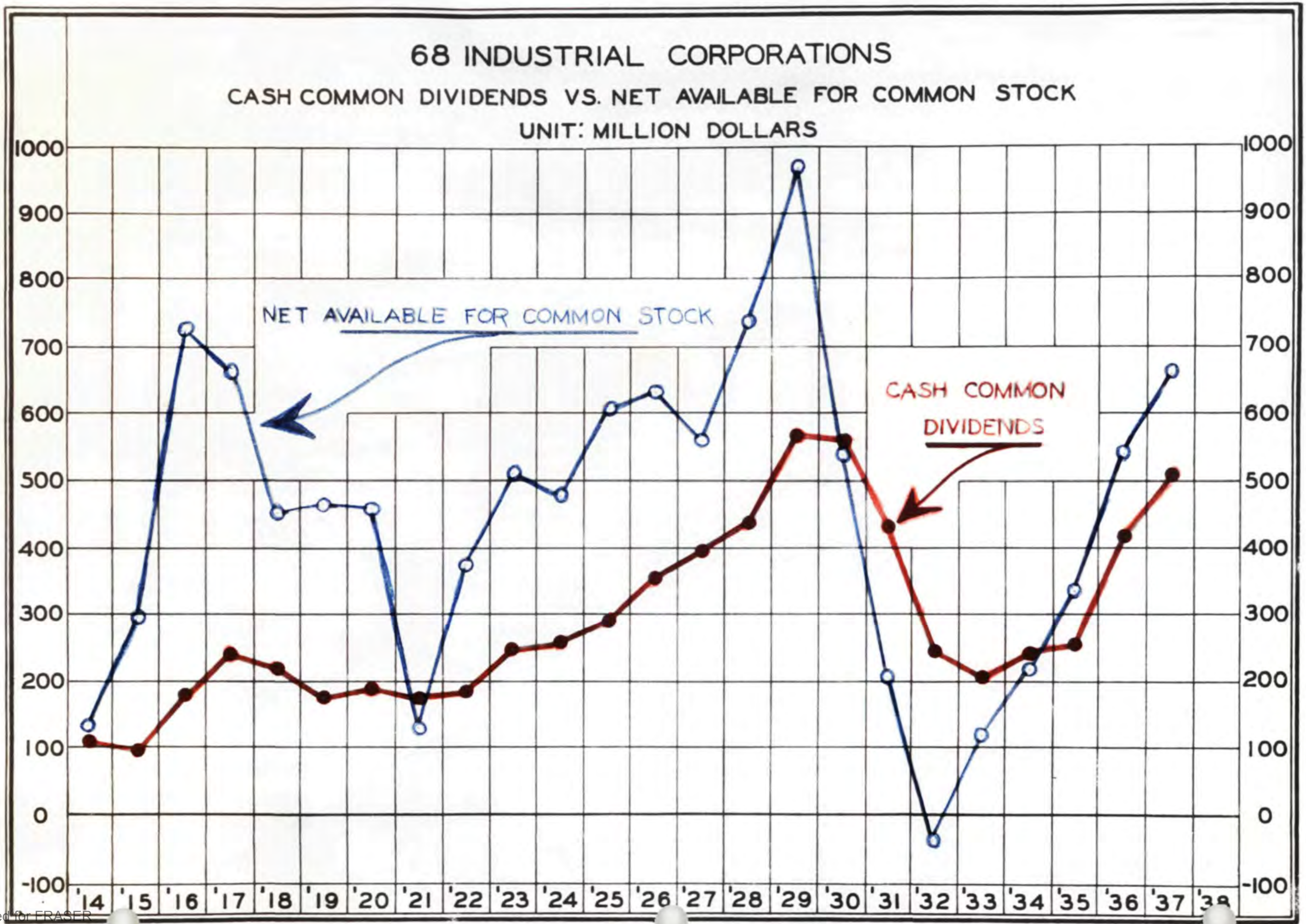
Encls.


213
INDUSTRIAL
CORPORATIONS
UNIT
MILLION DOLLARS
NET AVAILABLE
FOR COMMON STOCK
CASH COMMON
DIVIDENDS
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
0
-200
'22 '23 '24 '25 '26 '27 '28 '29 '30 '31 '32 '33 '34 '35 '36 '37 '38


68 INDUSTRIAL CORPORATIONS
CASH COMMON DIVIDENDS VS. NET AVAILABLE FOR COMMON STOCK
UNIT: MILLION DOLLARS
NET AVAILABLE FOR COMMON STOCK
CASH COMMON DIVIDENDS
1000
900
800
700
600
500
400
300
200
100
0
-100
'14 '15 '16 '17 '18 '19 '20 '21 '22 '23 '24 '25 '26 '27 '28 '29 '30 '31 '32 '33 '34 '35 '36 '37 '38