BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 23, 1948

To Mr. Eccles

Subject:

From Mr. Carpenter

Attached is a copy of the letter, and the accompanying memorandum regarding a capital goods committee, which Chairman McCabe received from Mr. Burgess and to which reference was made at the meeting of the Board this morning.

Attachment

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W. Randolph Burgess

55 Wall Street

New York 15, N. Y.

November 19, 1948

Dear Tom:

In accordance with your suggestion I am enclosing herewith a draft of the idea we discussed at lunch.

This is a little rough, but has been cleared with Bob Fleming and Dave Williams, and I have discussed it with Ned Brown. There hasn't been time to get the reaction of all the others, but I think the memorandum fairly represents the idea we had in mind. I am sending it to you at once at Ned Brown's suggestion, because we know your problem.

With best regards,

Sincerely yours,

(Signed) Randy

Honorable Thomas B. McCabe
Chairman, Board of Governors
of the Federal Reserve System
Washington, D. C.

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November 19, 1948.

Present Causes of Inflation in
Expenditures for Durable Goods

Whereas the increase in bank loans and investments, and in bank deposits appears now to be checked, this is not true of expenditures for durable goods, which show continued expansion. These are financed largely through the capital markets, through life insurance companies, or through business savings.

The figures are shown in the attached table and chart, which indicate that expenditures for new durable goods in 1948 are likely to total about $57 billion. This is more than twice as large as in the late '20's, and shows an increase of $8 billion over 1947.

It is in this area that the active factors in the recent inflation are to be found, rather than in bank credit, which is the short term operating fund necessary for current operations when the volume of the country's business is so large.

With some increase in armament expenditures likely to occur, the greatest danger of inflation lies in this area of durable goods. It is these huge expenditures which tend to run beyond our supply of labor and materials, and far beyond the amount of the nation's savings and lead to sales of securities to the Federal Reserve Banks. Expenditures of this sort have a doubly inflationary effect, because to a considerable extent production in this field involves the payment of wages and the purchase of materials, which creates purchasing power, but does not create the things that individuals may buy with the money.

A large part of these expenditures is good and necessary for the long term progress of the country. We need more houses, more utility

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capacity, more hospitals, new productive machinery, and new locomotives. The problem is one of timing. We have been trying to do too much too fast, and that has been largely responsible for rising prices.

If the present hesitation in business proves temporary, and the inflationary trend is resumed, we ought to turn our attention to these expenditures on durable goods as the active cause of inflation. It is there that something should be done to spread operations over a longer period and so reduce the inflationary pressure.

If the same critical examination and campaign of public education were undertaken in this field as the bankers have voluntarily undertaken in the field of bank credit, the inflationary forces could be dampened down. The problem is, therefore, to find methods of giving leadership and responsibility in this field comparable to what has been done in bank credit.

Expenditures for durable goods cover a wide range, from business plant and equipment, through railroad equipment, housing, automobiles, and public spending by the Federal government and by states and municipalities. To deal with such a diverse group of institutions and people calls for respected leadership.

It is suggested that a capital goods committee be appointed by the President, consisting of such government officials as the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Secretary of Commerce, the Chairman of the S. E. C., and the Chairman of the National Resources Board; and consisting also of public representatives, such as a banker, an insurance president, an industrialist, an agriculturalist, and a labor leader.

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It is suggested that this committee be asked to examine the country's plans and program of expenditures for durable goods, and make recommendations to the government, to business, and the general public as to what types of durable goods expenditures might wisely be postponed in order to avoid congestion of plants and markets, and practicable methods of achieving this goal. The recommendations of such a committee would carry great weight with insurance companies, business concerns, and the Federal and state governments.

This proposal would have the advantage of focusing public attention on the place where the inflationary danger is greatest.

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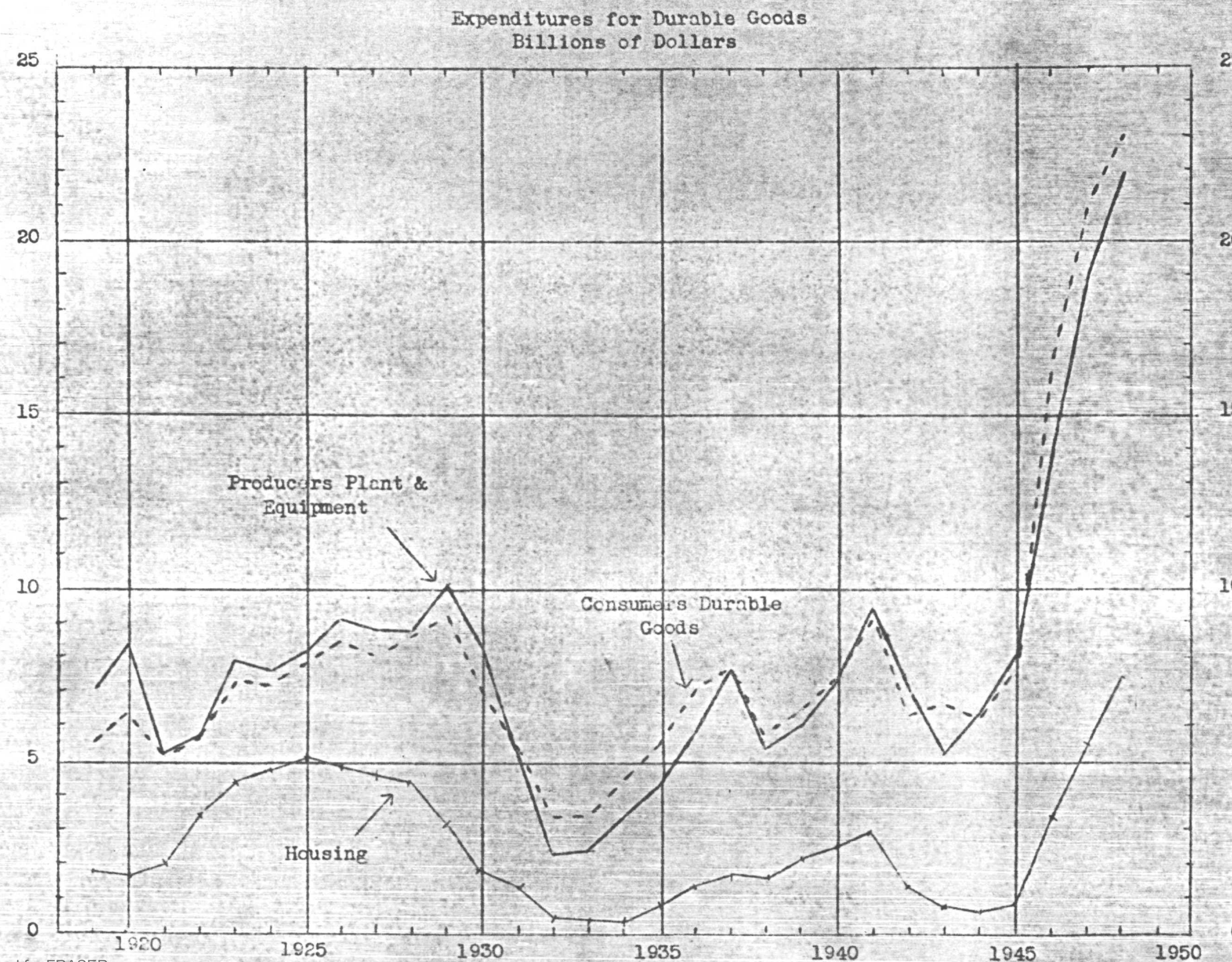

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Expenditures for New Durable Goods
Billions of Dollars

	Producers Plant & Equipment	Consumers: Housing	Consumers: Durable Goods	Consumers: Total	Institutional (Private)	Total Private	Total Public	Grand Total
1919	7.1	1.8	5.5	7.3	.2	14.5	.9	15.5
1920	8.3	1.7	6.4	8.2	.2	16.7	1.2	17.9
1921	5.2	2.0	5.1	7.1	.3	12.6	1.5	14.1
1922	5.8	3.4	5.7	9.1	.4	15.3	1.7	16.9
1923	7.9	4.4	7.3	11.7	.4	20.0	1.6	21.6
1924	7.7	4.8	7.2	11.9	.5	20.0	1.9	21.9
1925	8.2	5.1	7.8	12.9	.6	21.7	2.1	23.8
1926	9.1	4.8	8.5	13.4	.7	23.2	2.1	25.3
1927	8.8	4.6	8.1	12.7	.7	22.2	2.4	24.6
1928	8.8	4.4	8.6	16.9	.7	22.5	2.5	24.9
1929	10.1	3.2	9.2	12.4	.6	23.1	2.4	25.5
1930	8.3	1.8	7.0	8.9	.5	17.7	2.8	20.4
1931	5.1	1.4	5.3	6.7	.4	12.2	2.6	14.8
1932	2.8	.5	3.3	3.9	.2	6.9	1.8	8.7
1933	2.4	.4	3.4	3.8	.1	6.3	1.3	7.6
1934	3.4	.4	4.4	4.8	.1	8.3	2.0	10.4
1935	4.3	.8	5.5	6.4	.1	10.8	1.8	12.6
1936	5.8	1.4	7.1	8.4	.2	14.4	3.3	17.7
1937	7.6	1.7	7.7	9.5	.2	17.2	2.8	20.0
1938	5.4	1.6	5.8	7.4	.2	13.1	3.4	16.4
1939	6.0	2.2	6.4	8.6	.2	14.8	3.4	18.3
1940	7.4	2.5	7.4	9.9	.2	17.5	3.6	21.1
1941	9.4	2.9	9.1	12.0	.2	21.6	6.7	28.3
1942	7.0	1.4	6.3	7.7	.1	14.8	13.8	28.6
1943	5.3	.8	6.6	7.3	-	12.6	9.2	21.8
1944	6.4	.6	6.2	6.8	.1	13.2	3.6	16.8
1945	8.0	.8	7.7	8.5	.1	16.6	3.1	19.7
1946	14.0	3.4	16.2	19.6	.4	34.0	2.2	36.2
1947	19.1	5.5	21.0	26.5	.5	46.0	3.1	49.1
1948	22.0	7.4	23.0	30.4	.8	53.1	4.2	57.3

Sources: 1919 - 1938 - Federal Reserve Bulletin, Sept. 1939, "Estimated Expenditures for New Durable Goods 1919-1938", George Terborgh.

1939 - 1945 - Federal Reserve Bulletin, Sept. 1946, "Estimated Durable Goods Expenditures, 1939-45", Doris P. Warner and Albert R. Koch.

1946 - 1948 - Confidential Federal Reserve Report, October 6, 1948, "Estimated Durable Goods Expenditures 1946-48", Albert R. Koch.

November 12, 1948

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