Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 16, 1936.

To Chairman Eccles

From Lauchlin Currie
L.C.

Subject: Recent tendency toward a marking up of commodity prices

G P O 16—852

I have been getting a bit concerned in recent weeks over the growing tendency to mark up commodity prices. I haven't had a chance to do any work on the matter but I thought you might like at least to have your attention called to it. Offhand I think of the following possibilities:

1. Just as reduction of prices in a downswing tends initially to lead to reduced buying, so marking up prices in an upswing tends initially to lead to increased buying. There is danger, therefore, that the recent movement may lead to inventory buying and stocking. I understand there are some evidences of this in steel products, textiles, copper, rubber, and doubtless other commodities. This, needless to say, is a dangerous development. It may lead to a three-four months' recession while the inventories are being worked off, or it may generate more buying, and more price rises, and eventually a six-twelve months' recession to work off inventories.

2. A higher level of consumer prices, after the initial stimulating effects, may act as a barrier to full employment. Unless wages go up sufficiently the volume of consumer goods that can be demanded is not as great as under a lower level of prices. This outcome could be offset for a considerable period by increased payment of wages in the making of producers' goods not destined for sale to consumers.

3. For an orderly recovery movement and the avoidance of a future major recession it is desirable that price rises be restrained as far as possible. If, for example, average prices rose to the 1929 level a volume of production equal to or exceeding that of 1929 would likely result in excessive profits, since even if wages rose to the 1929 level producers would benefit from the technological improvements that have occurred in the meantime, lower power rates and lower capital charges. There will be enough incentive for capital investment as it is without obtaining a rate of profits higher than in 1929.

4. There is not much we can do in the near future about this movement except possibly by warnings and the psychological effect of raising reserve requirements. I am wondering if it would be at all practicable to use the regulatory power of the Federal Trade Commission and the Department of Justice from the monetary point of view. I have in mind initiating investigations and exerting a deterrent influence in the case of simultaneous price advances in various important key industries.

I am also wondering whether you might not discuss the price problems of the recovery movement in a speech, emphasizing the desirability of an orderly movement and the dangers of rapid price advances.