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Harold B. Dorsey
President

July 5, 1950

Mr. Marriner S. Eccles, Governor
Federal Reserve Bank
Washington, D. C.

Dear Mr. Eccles:

Judging from your record and from a conversation that I had with you a couple of years ago when we were having lunch at the Metropolitan Club with Page Hufty and Wilfred Goodwin, I am sure that you are one of the few people in a position of authority to realize that the way to alleviate a depression is to try to prevent some of the maladjustments that build up during the preceding period of prosperity.

Furthermore, I'm sure that you are just as conscious as I am of the heavy dependence of the economy at this time on the sharp expansion of personal debt. I know that you thoroughly realize that this personal debt expansion and the consequent business activity generated represents spending in excess of personal earning power and also represents a borrowing of activity from the future. In other words, here is a maladjustment that is being built up and will tend to accentuate the peak and valley of the current business cycle.

I realize that you tried to get Congress to give the Federal Reserve Board power to exercise some control over personal credit and that you were turned down. Nevertheless, I would like to suggest to you --- even though you probably have thought of it yourself --- that the current international situation would enable you to approach Congress from a different angle. In your earlier effort, it was argued that you were merely trying to interfere with "free enterprise". Now you can very sincerely present the case from the viewpoint of national security.

It seems to me that there is no good reason why the government and consumers should scramble for hard goods at this juncture. The economy is operating at close to capacity and the fear of war shortages is going to accelerate the demand of consumers whom naturally desire to see their durable equipment in good shape in anticipation of war shortages.

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Meanwhile, the government's demands probably will increase. Unless some curbs are instituted, the inevitable result is going to be another inflation of commodity prices.

This line of reasoning could be supported by the figures prepared by your own economists which show: (1) the extent to which durable goods activity is being accelerated by new consumer debt expansion; and (2) the extent to which consumer debt repayments are becoming a proportionately increasing "fixed charge" against disposable income.

Furthermore, it could be shown that a disproportionate share of consumer income is going into durable goods. All of the evidence would seem to support the conclusion that the consumer is building up his inventory of durable goods. This type of "inventory building" can be just as much of a cyclical maladjustment as we have experienced in earlier cycles when business inventories became excessive.

It so happens that I am a great believer in "free enterprise". As part and parcel of that belief, however, it is my desire that "free enterprise" should not commit suicide by aggravating the peaks and valleys of the business cycle. I am sure that you are personally aware of the criticism that comes to those who take the very unpopular side and criticize the excesses when they are being created. I frequently admire your courage in this respect.

By this time I should think you would be a little tired of fighting, but it seems to me that you are the one man who can direct the attention of the Congress and the people to the fact that a sharp expansion in personal debt is creating a maladjustment that will cause a lot of trouble later on. In my own mind, I feel sure that you know this as well as I do, but it has occurred to me that the acute international situation might provide an approach that was not available to you at the time of your earlier effort.

And, if the Board is not to be given power to control, then would it not be possible to tackle the problem by the educational route? Why not set the complete facts before the people? Business executives have been made to see the trouble that could be created by building up excessive inventories and they have done an excellent job in avoiding that maladjustment. I think they saved the economy from a serious setback in 1949. Perhaps then an appeal to the intelligence of the people, especially to the people who are extending the credit, might have some beneficial effects.

All the people have been getting from administration leaders recently is assurance that the economy is on a sound basis. This is creating an over-abundance of confidence and is partially responsible for the debt expansion.

Mr. Marriner S. Eccles

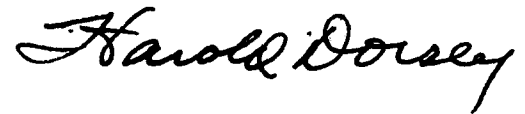
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I am sure that you are exceedingly busy at this time and I wish you would not feel that it is necessary to acknowledge this letter, unless there is a possibility that a further exchange of ideas might be helpful. I merely wanted to present a couple of thoughts for your consideration because of our mutual desire to do anything possible to iron out those extreme peaks and valleys of the business cycle that have caused so much stress and social unrest.

With kindest personal regards.

Sincerely yours,



Harold B. Dorsey,
President

HBD:bh

August 8, 1950.

Dear Mr. Dorsey:

Your very interesting letter of July 5 arrived at my office shortly before I went out West on an extended trip.

I agree fully with what you have to say in your letter about the excessive growth of consumer credit. The same situation applies to the growth of housing mortgage credit, stimulated by the excessively liberal terms provided by the Veterans Administration and the F. H. A. . Until the Korean Situation developed the political forces favoring the easy consumer and housing credit were dominate. At the present time there is a willingness to have some credit curbs applied in the mortgage and consumer credit field. I doubt, however, if the Government will go far enough or move fast enough in the credit and fiscal field to prevent a continuation of the inflationary trend over the years ahead.

You may be interested in a brief statement I made to the Press in Salt Lake City on July 18th, after I had talked to Messrs. Symington, Keyserling, Douglas and Taft along the same lines a few days before then. I made the statement for the purpose of supporting my verbal recommendations.

I appreciate your writing to me.

With kind regards,

Sincerely yours,

M. S. Eccles.

Mr. Harold B. Dorsey, President,
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