ELEVENTH DISTRICT COMMERCIAL BANKING
VOLUNTARY CREDIT RESTRAINT COMMITTEE

Created pursuant to the Program for Voluntary Credit Restraint
authorized by the Defense Production Act of 1950

106 South Ervay Street
Dallas 1, Texas

April 23, 1951

RESTRICTION OF BUSINESS CAPITAL EXPENDITURE FINANCING

Bulletin No. 2 of Voluntary Credit Restraint Committee

To The Financing Institution Addressed:

Following is the text of Bulletin No. 2 of the national Voluntary Credit Restraint Committee, which was released for publication April 23, 1951:

The Voluntary Credit Restraint Committee, at its meeting on April 18, 1951, in considering the functioning of the program to date, discussed the matter of financing for capital expenditures and unanimously adopted the following statement:

American business concerns are currently planning to spend, and are spending, record sums for the enlargement and modernization of their facilities. According to a recent survey of business plans[1], outlays for new plant and equipment during 1951 may total $24 billion, an increase of 29 per cent from the 1950 level, nearly one-fourth greater than the previous peak expenditure of $19.2 billion in 1948, and three times the dollar expenditures in 1941.

This huge expenditure for capital investment bids fair to exceed the total amount of savings, both corporate and individual, for the next twelve months. Perhaps some substitution of bank credit for savings will be necessary. But at a time like the present when materials and labor are scarce, it becomes imperative, if we desire to curtail inflationary forces, that great care be exercised by financing institutions participating in the voluntary credit restraint program in extending credit for investment purposes where such an extension does not tend to increase output essential for the defense program.

In non-defense industry, business savings, if not spent on plant and equipment, could be used as working capital to meet payrolls, carry inventories and finance accounts of buyers of their products. This would reduce the need for bank loans and other credit.

Roughly half of the anticipated capital expenditures of business concerns during 1951 may be classed as defense or defense supporting, with emphasis on the latter. Included in these categories are expansion of basic productive capacity in such manufacturing industries as steel, aluminum, and petroleum; additions to electric power generating and transmission facilities; and the purchase of additional rolling stock by the railroads. Every effort should be made to assure availability of materials, equipment and financing essential to the completion of these projects.

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[1]The survey referred to is that of the U. S. Department of Commerce and the Securities and Exchange Commission.

On the other hand, approximately half of the capital expenditures planned by business for 1951 falls in a more or less indeterminate class so far as their relationship to the defense effort is concerned. Some are clearly non-essential and deferrable, while others border closely on the defense-supporting area. There is, for example, the $5.4 billion capital expenditure anticipated by the commercial and miscellaneous group, a large part of which could undoubtedly be postponed without detriment to the defense effort and in the interest of reducing inflationary pressures and conserving labor and materials. Limitations on construction of specific types and governmental restrictions and allocations of materials should play a large part in curtailing some business plans for capital expenditures and in eliminating others. Thus the responsibility of financing institutions will be limited to those cases whose essentiality has not been predetermined by government agencies.

Since it may be difficult in individual cases to differentiate essential from non-essential capital expenditures, as well as those which it would be desirable to postpone in the interest of longer-run economic stability, certain tests are suggested to financing institutions cooperating in the voluntary credit restraint program in making financing decisions. Among the non-essential uses of long-term financing that in the judgment of the committee might be postponed to a more propitious time are those for such purposes as:

(1) construction of facilities to improve the competitive position of an individual producer of non-essential goods.

(2) expansion and modernization expenditures of concerns in distribution or service lines where the distribution or service is not defense supporting.

(3) expansion and modernization programs for the manufacture of consumer goods not related to the defense effort.

Financing institutions are urged to give equal consideration to the needs of small as well as large business in screening applications for long-term financing.

Additional copies of this letter will be furnished upon request.

Yours very truly,

MILTON F. BROWN

Chairman