

DIARY

Book 183

(See also Book 196)

\$80 Billion National Income

Part II

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The attached memorandum is a
brief answer to three questions
on the research agenda of the
Fiscal and Monetary Advisory
Board.

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 22, 1939.

to Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: A brief statement in answer to the following questions:

- (1) What are the prospects for continued recovery in 1939 and 1940?
- (2) What are the threats to continued recovery?
- (3) How soon may we expect the national income to reach a level of \$80 billions a year?

(1) Prospect for continued recovery

This is a brief analysis of the business prospect, or the trend which seems likely to develop if current business influences work out normally. Such an analysis should be of more practical use than an actual forecast in planning Federal recovery actions, since a forecast would be obliged to guess, among other things, what actions the Federal Government might take. It should also be useful for determining whether recovery measures are operating against a favorable or unfavorable background. A businessman similarly appraises the business prospect in making his plans for the year, without necessarily making an actual forecast, then adjusts his operations from time to time to meet unforeseen developments. In this statement, after appraising the business prospect, we have listed the possible threats to its realization.

Industrial production has receded somewhat during the first two months of 1939, following a recovery in the second half of 1938 more rapid than in any recent year except 1933. The question to be decided is whether this marks the beginning of a more or less extended downturn similar to that which occurred after the sharp 1933 recovery, whether business activity for the time being has established itself on a so-called "plateau", or whether the downturn marks but a slight hesitation in a general recovery movement.

No pronounced recession in prospect.

Our analysis of the business outlook indicates that the rapid recovery in 1938 will not be followed by a pronounced downward reaction in any way comparable to the reaction which followed the similarly rapid 1933 recovery. (Chart 1.)

Basic factors now are materially more favorable than they were at the top of the 1933 business rise.

- (1) Owing to the stable trend of prices in 1938, which contrasts with the rapid rise in 1933, the present recovery has not been accompanied by excessive speculation and inventory accumulation as in 1933. On the contrary, corporation inventories have been rapidly reduced (Chart 2) and, in comparison with the prevailing rate of consumption, are back to the low levels of 1935 and early 1936. No evidence has appeared of excessive speculation in the stock or commodity markets.
- (2) The current movement of manufactured goods into consumption, according to our estimates, equals or slightly exceeds the present volume of production (Chart 3). In 1933, on the contrary, production substantially exceeded the level of consumer buying during the peak months of the business rise.
- (3) Monetary and credit conditions are now more stable, and the pressure to liquidate an abnormal volume of private debt, which was a handicap to recovery in 1933, is not now a retarding factor.

Establishment of a "plateau" not probable.

Since industrial production is now in approximate balance with the movement of goods into consumption, it might seem that a level of production might be established here, which could be maintained for an indefinite period. This reckons, however, without the influence of two important recovery factors: (1) The cumulative effect of improving business in raising the levels of industrial and consumer demand, and (2) an increased demand for capital goods which normally tends to carry business forward after the first stage of recovery has been completed.

The well-known tendency of recovery to build upon itself arises in part from cumulative influences derived from the recovery movement, which do not express themselves in demand immediately, but become effective later. The movement of goods into consumption in 1938, for example, was strongly sustained by demand influences which originated in the higher business levels of 1937. As a result of such deferred influences, industrial and consumer demand is not likely to remain at present levels but should continue to rise, carrying production with it.

An increased demand for capital goods may be expected at this stage of the business recovery. The recent marked improvement in railroad earnings has already resulted in an increasing demand for railroad equipment, and railroad buying programs for 1939 have been sharply increased over the previous year. Further expansion in the public utility and steel industries is also being planned. The experience of previous recoveries suggests that this tendency will be cumulative, until capital goods production eventually gets out of balance with the production of consumers goods. At present, durable goods production is at about a normal relationship to the production of non-durable goods.

In this connection it should be noted that previous industrial capacity is no dependable guide to present capacity requirements. New products, new processes, and the spur of competition in improving quality or reducing production costs, may render previous equipment obsolete. The capacity of 1929 may not meet even the smaller production requirements of 1939. Business recovery, furthermore, speeds up obsolescence, and creates a multiplied demand for capital goods.

A rising trend appears probable.

Taking the foregoing factors into consideration, the prospect seems to be for a rising trend of business, which may continue through 1939 and 1940 unless maladjustments or other business threats should materialize. Tending to confirm the outlook for a rising trend of business is the prospect that a buying movement for replenishment of inventories will sooner or later get under way, particularly if a rising trend of commodity prices should set in, which is likely to occur when industrial demand improves and supplies of various commodities such as cotton, copper, rubber, etc., begin to be reduced.

(2) Threats to continued recovery

(a) The outstanding immediate threat to continued recovery is the unpredictable possibility of adverse developments in Europe. Continued political uncertainty tends to restrain business plans. An actual outbreak of war might temporarily be seriously depressing.

(b) The development of a speculative boom, with its accompaniments of excessive price rises and excessive inventory accumulation, might bring the present phase of the recovery to an end sooner than the prospect now suggests. Such a boom, however, would force business sharply forward, and mark an important step toward the attainment of a satisfactory level of national income.

(c) Fiscal and monetary policies of the Government, if poorly synchronized with the business trend, might prove a handicap to recovery through (a) over-stimulation at a time when normal business influences are strongly in the direction of expansion, (b) deflationary action before recovery is sufficiently advanced, (c) actions leading to a decline in business confidence or adding greater uncertainty to the business outlook.

(d) Labor difficulties might again, as in 1937, prove a threat to continued recovery, though the recent outlawing of sit-down strikes removes one element of uncertainty. On any further business rise, however, the possibility of business interruption from labor troubles will need to be considered.

(e) Bottle-necks in the building industry may again, as in 1923, bring a temporary halt to business expansion. The critical situation in that year resulted from a shortage of skilled labor and of certain building materials, which forced wage and material costs to excessive heights. Bottle-necks in other industries are also a possibility.

(f) Foreign deflationary influences might again turn commodity prices downward. While a decline in prices would be harmful to business at a time of heavy inventories and excessive speculative positions, its effect now would be greatly minimized by the low level of inventories and negligible volume of speculation. Nevertheless, a declining price level would dampen business enthusiasm and tend to restrain a rapid business expansion.

(g) Maladjustments in prices, particularly those resulting in price increases on finished goods so great as to result in a curtailment of consumer buying, may again threaten recovery as they did in 1937. (Chart 4.)

(h) There is some evidence that the current rise in business activity has not been accompanied by the normal increases in employment and payrolls, an unusual situation which needs investigation as a possible handicap to recovery.

(3) How soon may we expect
an \$80 billion national income?

In Chart 5 is shown the trend since 1929 in monthly national income payments as estimated by the Department of Commerce, expressed in terms of an annual rate. This includes adjustments for Social Security collections and payments, veterans' bonus, and other Government benefit and relief payments, in which it differs somewhat from the annual figures of the Department of Commerce on "national income paid out".

The upward trend in national income prior to 1937 would, if continued, have carried it to an \$80 billion level in 1939. The recession of 1937-38 has deferred this expectation. If the present business prospect is realized, it seems reasonable to expect that the national income will reach the \$80 billion level about in 1941.

This conclusion is suggested by the following facts:
(1) The renewed upward trend in national income payments begun in the summer of 1938 has shown approximately the same steepness as the upward trend from 1932 to 1937. (Refer to Chart 5) and, if continued at that rate, would reach the \$80 billion level in 1941; (2) such a rise would involve an average increase from the 1938 level of about \$5 billions a year, not an unreasonable expectation; (3) as explained below, we estimate that an \$80 billion level could be achieved by a level of business activity represented by an FRB index of about 124, combined with a price level represented by a BLS index of 90, not far above the 1937 peaks for these indexes. Given three years to reach these levels, their attainment would seem within the bounds of reasonable expectation. It would not be impossible, in fact, for a business boom in 1939 and 1940 to carry the national income to the \$80 billion level before 1941.

Factors determining national income.

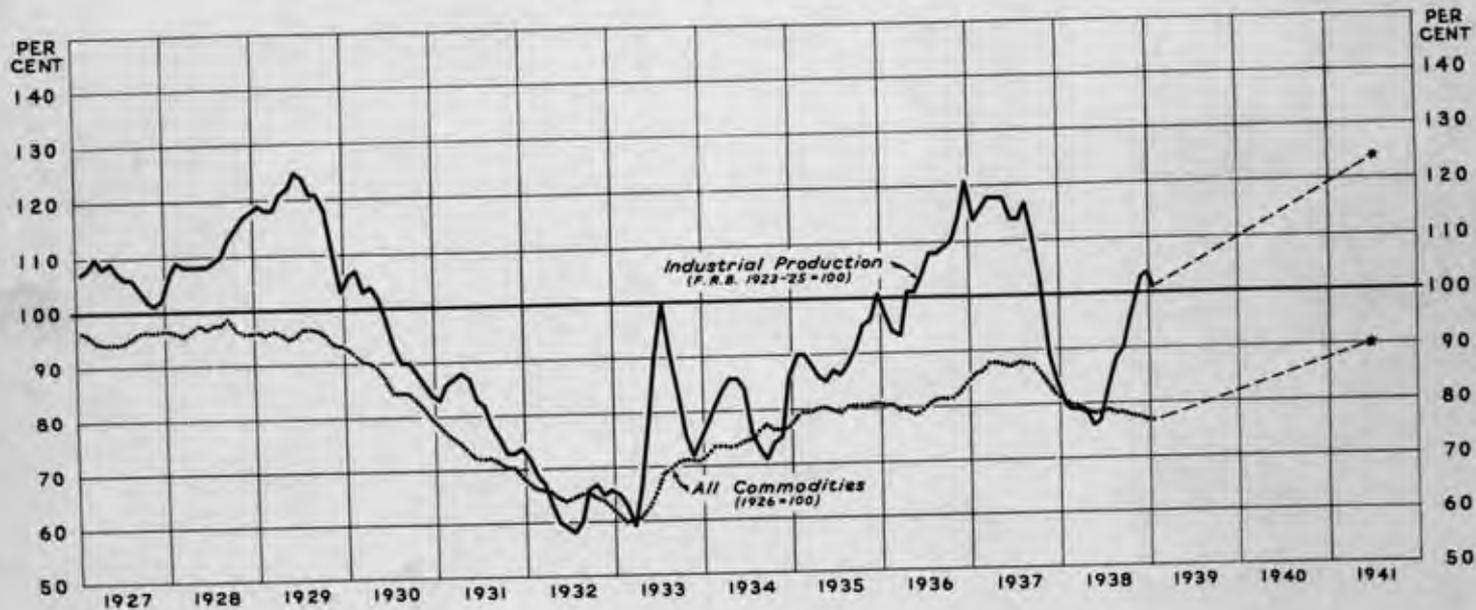
National income has been found to depend basically on two factors, (a) the general level of production, and (b) the level of commodity prices. Changes in these two factors affect certain components of national income almost immediately, and other components only after a considerable time lag. The average lag appears to be about 6 months.

Based on the close relationship between these factors and the national income in previous years, some conclusion can be drawn as to the levels of business and prices which would be necessary to bring about an \$80 billion national income.

Chart 6 shows graphically certain estimated combinations of price level and industrial production which, among others, could be expected to achieve an \$80 billion level of national income paid out. It will be noted that this would call for a substantial rise in the commodity price index from the present level of about 77, as well as a substantial increase in industrial production from the present index of about 99. (Refer to Chart 1.) A rise in the price index to 2 points above the 1937 peak of 88, not an unreasonable expectation during a period of active business, would make necessary an FRB index averaging about 124, or 3 points above the December 1936 peak.

It should be kept in mind that an increase in national income derived largely from a rise in prices would have a minimum effect in improving the national well-being, while greatest improvement would result from an increase in national income derived largely from an increase in production, which is closely associated with employment.

INDUSTRIAL PRODUCTION AND ALL COMMODITY PRICES

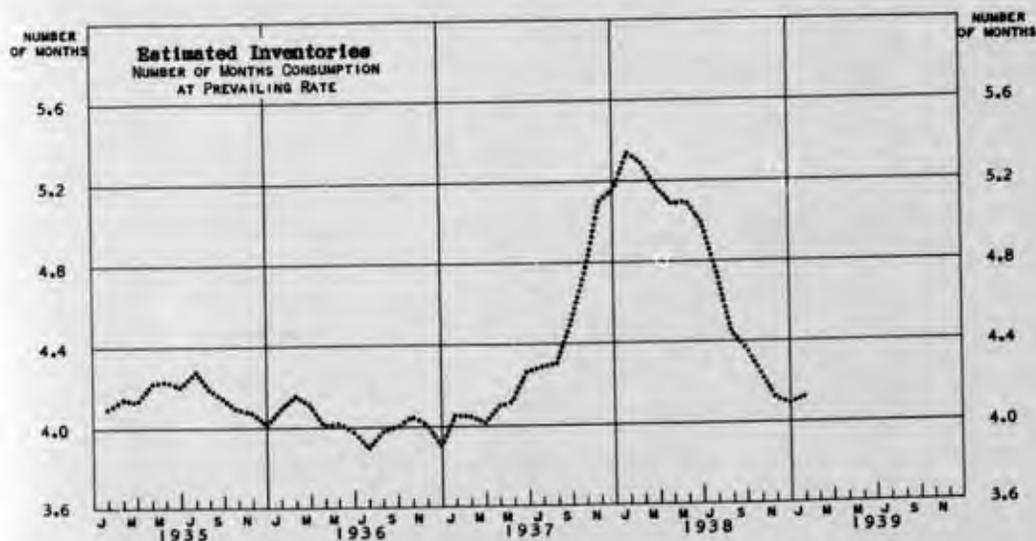
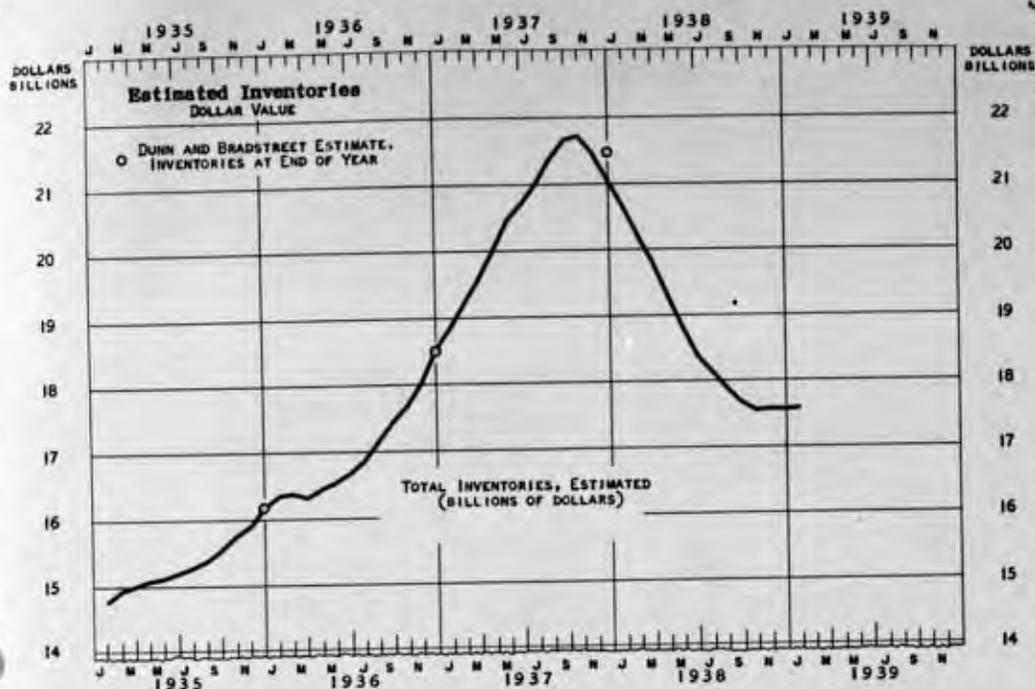


Office of the Secretary of the Treasury
Division of Research and Statistics

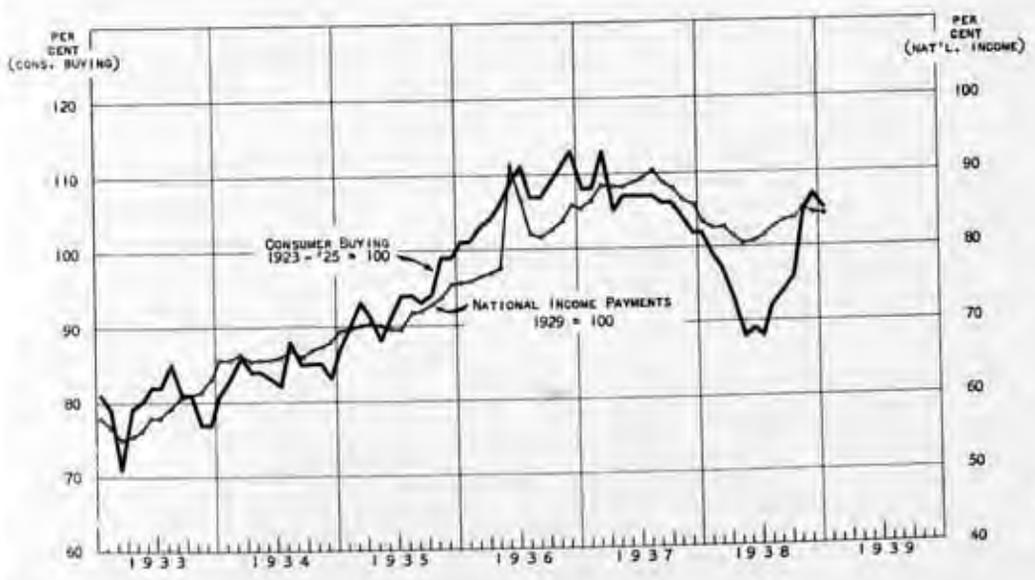
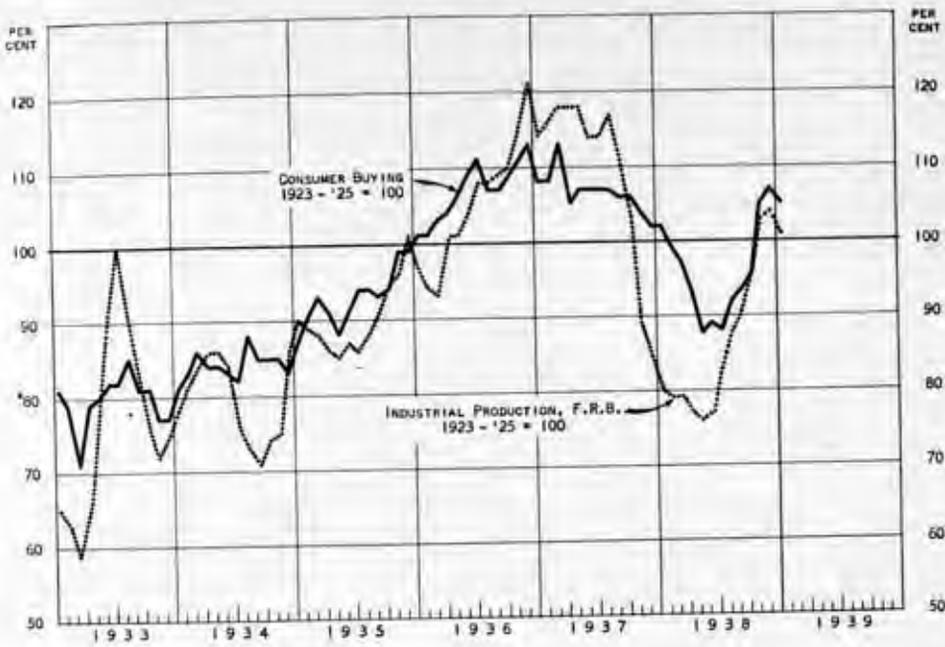
* These price and production levels in 1941 would approximate an \$80 billion national income.

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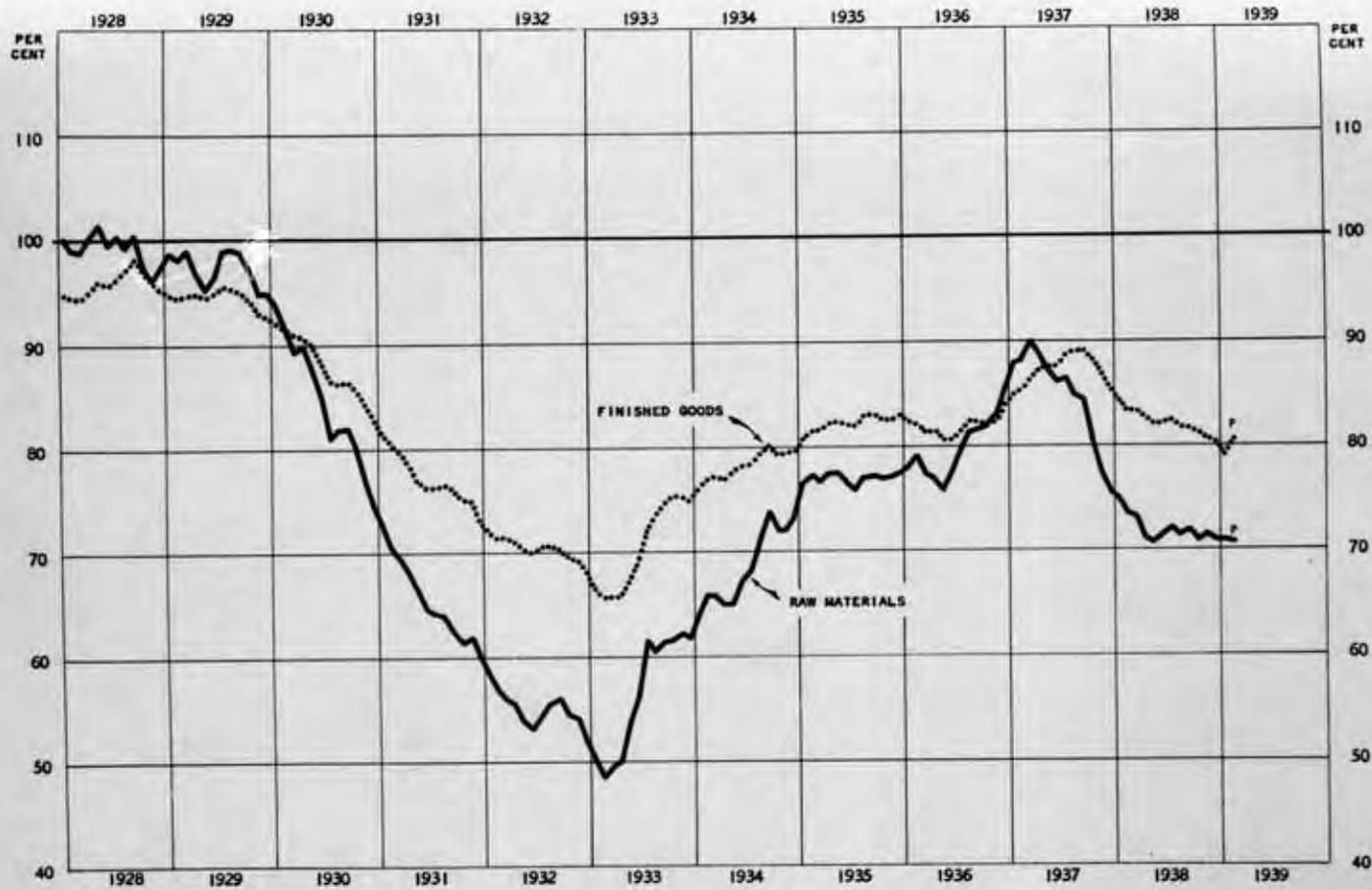
CORPORATION INVENTORIES
At End of Month



CONSUMER BUYING COMPARED WITH INDUSTRIAL PRODUCTION
AND WITH NATIONAL INCOME
SEASONALLY ADJUSTED



PRICES OF RAW MATERIALS AND FINISHED GOODS
1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

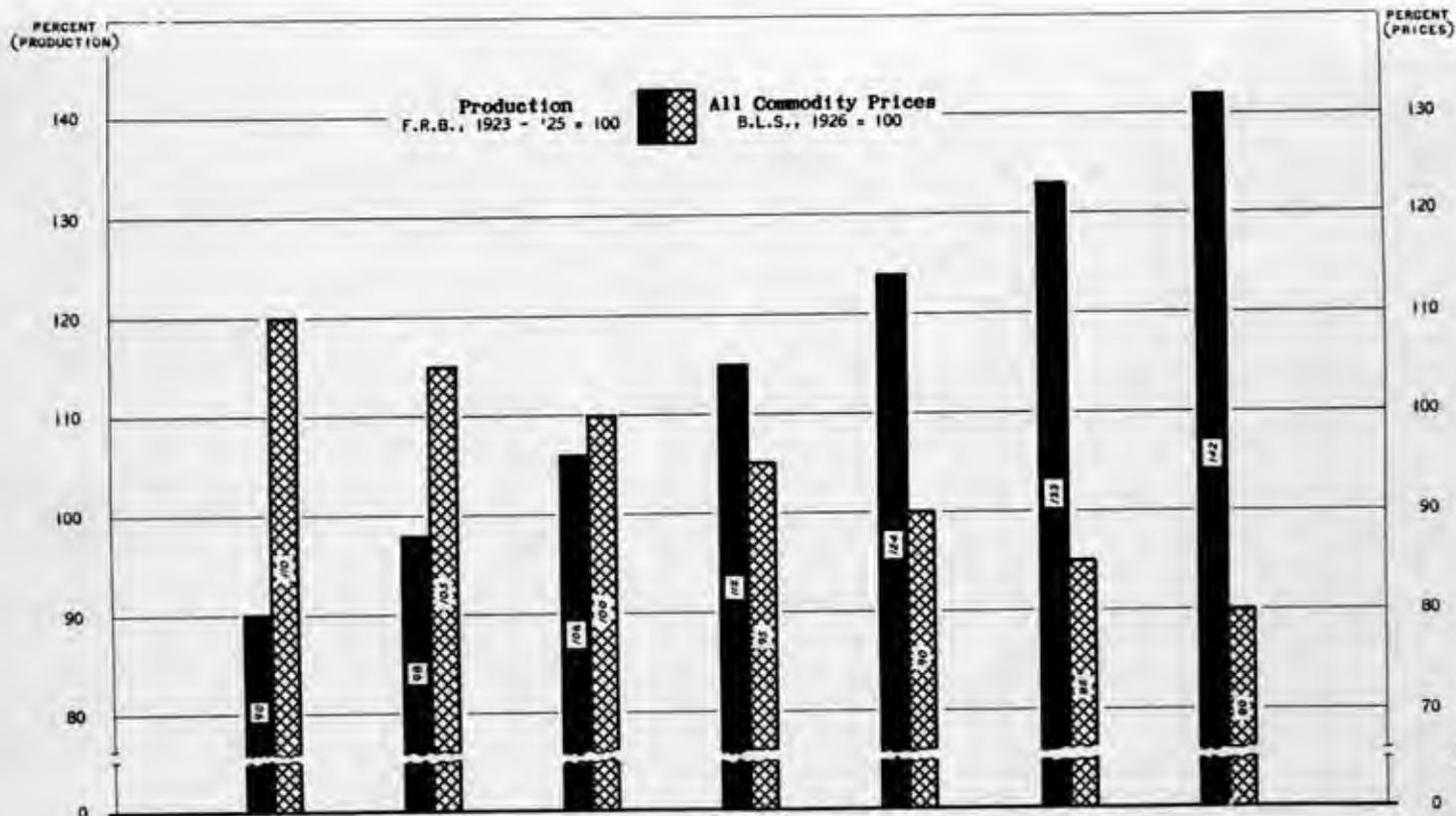
NATIONAL INCOME PAYMENTS

Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve

SELECTED COMBINATIONS OF ESTIMATED PRODUCTION AND PRICE LEVEL
REQUIRED FOR \$80 BILLIONS NATIONAL INCOME



NOTE: AS BUSINESS INCREASES, A LOWER PRICE LEVEL IS NEEDED TO MAINTAIN NATIONAL INCOME. FOR EXAMPLE IF THE F.R.B. INDEX ROSE TO ABOUT 124 AN \$80 BILLION NATIONAL INCOME COULD BE ATTAINED WITH AN ESTIMATED B.L.S. PRICE LEVEL OF ABOUT 90, WHICH WOULD BE 2 POINTS ABOVE THE HIGH REACHED IN THE SUMMER OF 1937.

RE NATIONAL INCOME AND
BUSINESS RECOVERY

April 20, 1939.
8:30 P. M.

(Meeting held at 2211-30th Street)

Present: Mr. Hanes
Mr. Gaston
Mr. White
Mr. Duffield
Mr. Daggit
Mr. Donald C. Smith
Mr. Eccles
Mr. Currie
Mr. Bean (Agri.)
Mr. Tom Blaisdell
Mr. Willard L. Thorp
Mr. Noble
Mr. Henderson

H.M.Jr: I don't quite get this, Harry - what you want me to do as to discussion of business. Do you want me to start off with a discussion of business? Has somebody got a paper on that?

White: Well, this is a summary paper which synthesizes the various memoranda that were presented, and this was boiled down.

H.M.Jr: I mean is somebody going to read a paper on that or is it just a general discussion?

White: Well, this is the summary. No, nobody is going to read a paper besides this. We thought you might want the specific points there touched upon.

H.M.Jr: Well, you'll have to help me, because we haven't had a dress rehearsal.

Well, what's your pleasure, gentlemen? Should we start?

White: I think we could begin, and then.....

H.M.Jr: All right. Where do we start, Harry?

White: Well, I thought we might begin by reading the memorandum which Gene prepared, which represents a synthesis of the views of the various memoranda

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that were submitted on this point. This is boiling it down to its bare essentials. If we have already read it, we can begin discussing it.

H.M.Jr: Go ahead, Harry, get the thing rolling.

White: Supposing we start with 1: "The outlook for 1939 is for moderately improving business."

On that point there apparently was no disagreement. There were a few who felt that the prospect for 1939 was a little bit dimmed by the events of the past month or two, and they weren't as hopeful or as nearly certain about the continued upward movement as they would have been a month ago, due chiefly.....

Currie: You neglected here to say when business would improve in '39.

White: Well, that's.....

(Hearty laughter)

Blaisdell: Have to have agreement, Lauch.

Thorp: Improvement over '38, you see.

White: The thought was.....

H.M.Jr: Good boy, Currie - "when?"

White: The thought was that everyone had been anticipating a leveling off of business activity in January and February. I think that was almost general. I didn't know that any of the men here or any of those who they had talked with felt that there wouldn't be a plateau in the first couple of months; that is, they felt that way last year, last fall, and even late last summer. But they anticipated a recovery sometime in March or in April. So far, that has failed to materialize.

The frequent explanation is that the international situation has retarded and delayed that recovery, but they are not sure of that, they are not

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certain of the extent to which that international situation ought to have such immediate repercussions on the business situation. And hence some are getting a little bit afraid that possibly 1939 is not going to be what they expect, and they feel that the next month or two may be crucial.

On the other hand, the feeling of the majority - almost all of the sub-committee, was that the basic factors which led them in the first place to believe that 1939 would show a higher level than the latter half of '38, or '38, still exist and may still be expected to produce results. So there was no change in the conclusion that the remainder of this year would show a moderately upward trend.

I think that characterizes the situation unless there are other thoughts you want - would care to comment on.

Currie: It's an obvious point, but I think we all felt that it was rather important, for this thing to be borne out, that foreign uncertainty be cleared one way or the other, that one thing that would militate against the underlying factors you talk about would be this continuance of the present suspense. That's a pretty obvious point.

White: There was some expression of the thought, again rather widespread, rather obvious, that if you don't get an upturn this month or the first couple of weeks of May, the attitude of the business man and consequently his attitude - his reactions with regard to inventory, et cetera, would undergo an adverse change which might delay recovery until early fall; that if it doesn't come in May, there is a strong possibility it might not come until early fall and when it does come it might come from a still lower level, so that the national income for 1939, which now looks to be at the rate of - or which now is at the rate of 66 billion - was that it, Will Thorp? -

Thorp: Yes.

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- White: - about 66 billion - might not show that. That's 66 billion allowing for seasonal adjustments. It might be something less than that. Well, it doesn't look now as though it will be any better.
- H.M.Jr: I'd like to ask a question. Has anybody got the figures or the trend, or can make an estimate for the first quarter as to our exports?
- White: Yes, I have the exact figures.
- H.M.Jr: I mean what the trend is.
- White: Yes, I have that. We also have a memorandum prognosticating what we think the foreign trade situation will be next year, but we want to check up more closely.
- H.M.Jr: Is this as good a time as any for that?
- White: Yes, it fits in. The first two months of 1939 showed a substantial drop from the two months of 1938, and including those two months the trend of our trade was steadily downward, that is, each month being lower, allowing for seasonal movements. Thorp just got us the figures today for March and they are rather startling in showing a very considerable increase in both exports and imports.
- Thorp: Particularly.....
- White: Got the figures there?
- Thorp: Yes, I've got the figures here. Compared with February, exports are up 23 percent, when the normal increase would be 11.
- (Eccles comes in)
- Eccles: Sorry to be late. Don't let me disturb you.
- H.M.Jr: They've just been telling me about business conditions for this year, and I was asking for reports on imports and exports, and Mr. Thorp was just going to start to give us that.

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Thorp: In the March figures as compared with February, the exports are up 23 percent, whereas normally the seasonal increase would be 11. The imports are up 20 percent, whereas the normal seasonal would be up 12. Those figures are appreciably above the seasonal.

As compared with a year ago, the exports are slightly below - 268 million as against 275. The imports are way above - 190 million as against 173.

H.M.Jr: Imports.

Thorp: Imports - up to 190 million as against 173. I'm not able to say as to where the increase is. We just have the totals so far. Exports are 268 million; a year ago they were 275, for March.

Bean: Do you have any breakdown by commodities?

Thorp: Nothing by commodities or countries.

Bean: It's conceivable that the low exports of cotton - if that situation was more nearly normal, that the showing of total exports would be better.

Thorp: Yes, but it's a decided upturn against February. The whole foreign trade picture is up. Rather amazing.

White: Notwithstanding that change, we made a careful analysis both on a commodity basis, taking each one of the commodities, and on a country basis, and it was our conclusion that we will not have in '39 and in '40 any substantially higher level of foreign trade than the previous year. And we were going to check that with the Department of Commerce men, taking it item by item of the imported items, and country by country, and see if we come out the same way.

H.M.Jr: Excuse me, I want to tell Mr. Eccles that this crowd thinks this year's national income will be 66 billion.

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Eccles: Dropped it a couple billion.

H.M.Jr: Yes. They said it, and nobody argued, so.....

Bean: I was wondering, Mr. Secretary, was that figure 66 the present level or was it the estimate for the entire year?

White: I meant to say we were running at the present level of 66 billion.

(Mr. Smith comes in)

Bean: So that if the improvement which is spoken of here for the.....

H.M.Jr: This is the new Director of the Budget, Mr. Smith. Will you sit down?

Smith: Sorry to be late.

H.M.Jr: You're all right. You're surrounded by economists. I guess you know how to take care of yourself, don't you?

Smith: We'll see.

H.M.Jr: What? That's Mr. Blaisdell sitting next to you.

Bean: My point, Mr. Secretary, was that if the moderate improvement in business takes place that is referred to at the beginning of this report, then the national income would average more than 66; the present level is 66.

White: That.....

Thorp: You've got your first third of your year going at that rate. The chances of jumping it.....

White: See, that included seasonal movements, Louis.

H.M.Jr: Well, do you want to make a stab at what you think it is going to be or do you want to just skip that?

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- White: Well, we haven't talked about that, but we can very easily go around the room and see if there is any feeling now. We can easily work down - I think it is probably fair to say that the consensus is it will be below 70 certainly, and I think we could even say it will be below 68. Now, beyond that, I shouldn't want to speak for the group; but doubtless there are some who feel that it will be below that.
- Eccles: Well, Harry, last fall when this same thing was up, there was a variation there between 65 and 70. You got the consensus of opinion at that time that it would be around 68 for the year.
- White: That's right.
- Eccles: Now, there's no reason, of course, to expect it to be more than that.
- White: That's right.
- Eccles: I'm just wondering if you think it will be less than that, because certainly the developments for January, February, March and April have been disappointing.
- White: That's right.
- Eccles: I'm just wondering to what extent.....
- White: I should say developments for March have been disappointing, not February and January. I merely want to put a top on it. I don't speak for the others. I don't think anybody would put it higher than 68 and I am pretty sure, judging from the color of the discussion this morning, that 66 would be about what reflected the tenor of the discussion. But if anyone differs with that, they had better speak up now.
- Had you dipped into that, Currie? Had you thought in those terms?
- Currie: I had thought 68; I think I might shade it now to 67.

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Eccles: Last fall it was 68.

Currie: I mean January and February were as we expected, but April is down, it's disappointing.

(Henderson comes in)

H.M.Jr: Hello, Leon. Do you know Mr. Smith, new Director of the Budget?

Henderson: How do you do.

Duffield: That's what came out (handing Henderson copy of summary memorandum).

White: Leon, merely to give you your usual chance to disagree, we were speculating on whether our estimates for 1939 national income, which had been set at approximately 68 billion last fall - or I think late last fall - whether that estimate would be altered in the opinion of any of the men here, in view of the developments of the past three months. Do you have any thoughts on that?

Henderson: Oh, I never believed it would be 68 in the first place.

White: I thought we'd get some disagreement. That means that you.....

Henderson: I think what you meant when you spoke was not my usual chance for disagreement, but my chance for usual disagreement.

White: I stand corrected.

Henderson: I think it would be materially below.

H.M.Jr: Below?

Henderson: Yes.

White: Mr. Eccles, you might be interested in the comment I made to the effect that almost all the men felt that the failure of business to show an improvement during March and the early part

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of April did not indicate, in their opinion, a prospect of failure of recovery for the rest of the year; they felt it was merely a question of postponing it. And likewise the view was expressed that by having it postponed now it would extend it further into 1940 - the peak period, which it had been expected would come later, in 1940.

- Eccles: On account of a reduction - further reduction of inventories and a further delay of necessary expenditures for plant, et cetera? Would that be the reason? I mean what reason have you to expect that this expenditure will come later due to the fact that you haven't gotten it now?
- White: There was some feeling that inventories were running off and that the basic characteristics which lead in the first place to the expectation of moderate recovery in '39 still existed.
- Eccles: Well, I agree with that.
- White: And also there was some question of the postponement of the peak of Government contribution. Did you work that out, Currie? What month is that? The month has changed?
- Currie: A little bit earlier when we were talking about this, we were using the PWA and FHA figures, and we were not sufficiently critical, I think. They have been slower, I think, than we anticipated. The sharp peak we anticipated in the second quarter is no longer there.
- Eccles: Pushes it to the third and fourth. That's all right.
- Currie: Yes.
- Henderson: I also had some ideas of why there was a delay: there had been a delay in consumer spending for consumer durable goods and, given any clearing up of the tremendous uncertainty, that would likely go forward; plus the fact that you had more than a seasonal unbalance in prices, and

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it's been the repair of that unbalance that has been delayed a longer time - longer than I expected would happen. They're just personal reasons for agreeing, adding and confirming the pushing forward of the Government contribution estimate.

White: There was another point that I think is of some interest that Lubin raised with respect to the continued expansion of the building industry. A little earlier he had evidence that prices were beginning to increase and later, several weeks later, he reported that that had ceased and that there was now hope that building costs would not show any rise for some time to come, which would be another reason to hope for continued recovery into '40.

Ed, has anything been said up to now that you want to comment on?

Daggit: In regard to national income, I think one has to remember that there is a considerable lag between actual business and national income, perhaps anywhere between three and six months. For that reason, the slowing up of business that we are having now isn't likely to affect national income until about next summer. The 66 billion rate now is probably being held up by the high rates of business activity of the last quarter of last year. For that reason, I am inclined to take the lower guess for national income on this year.

H.M.Jr: Isn't there going to be one optimist in the whole crowd?

White: I think the basic cheerfulness exists there, that the showing of the basic indices hasn't dissipated the hope for moderate recovery. That's bullish.

Currie: There's another bullish scrap, that our pretty comprehensive index of consumer expenditures was down in January from December and has been up a fraction of a point ever since. - January, February, March, just a fraction of a point - nevertheless, up.

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Henderson: And the people that deal in consumer credit, that I know fairly intimately, tell me that there is a tremendous pressure, which they have been reluctant to extend, for consumer goods and that, given any clearing up in their mind, there would be that additional consumer buying.

Daggit: We have a somewhat similar consumer index that isn't quite as broad as yours, but is worked out in terms of physical volume rather than dollar value. That also shows a very strong upward trend which, as we estimate, is at a - has remained at a high level in production throughout the last quarter of '38 and the first quarter of this year. That's one reason why I'm inclined to be very optimistic on business for '39. That seems to be confirmed by the strong underlying trend that you get from reading trade journals in the steel industry, for example.

Currie: I've found it in the past awfully dangerous reading.

Daggit: Yes, that's true. But the reports are that orders have been holding up very well throughout this recent crisis. They haven't equalled the seasonal gains, but there has been a fine undertone.

Bean: I wonder if the situation is being described, Mr. Secretary, very much like it was about a year ago.

White: Year ago when?

Bean: Now.

White: You mean a year ago in March.

Bean: Couple months before the rise began. If you want optimism.....

H.M.Jr: Well, I'm just - I don't want.....

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- Thorp: I think the difficulty is that from that situation you probably can go either way and we are sort of on dead center. If we get some stimulating thing, some bit of cheerful news for the business man or something to start it up, the factors are certainly there. But, on the other hand, I think just a prolonged period of pessimistic factors might actually get us into a sagging situation where you get many of these favorable things pulled down; your adjustment would be of consumer spending down rather than consumer spending pulling your production up.
- Bean: Don't you think passing the fiftieth anniversary is another turning point?
- Currie: April 28, not now.
- White: Mr. Bean, do I understand that you feel now we are approximately where we were last March and we are headed down?
- H.M.Jr: He said something quite different, said something very interesting.
- Bean: Last March we discussed the situation - it was in terms of consumption holding up above the rate of production, and within two or three months after that point you'd expect stocks to be pretty well taken care of, and that you'd be set for a rise. And I wonder if that isn't
- White: April may.....
- Currie: There was a rise in the index of about 25 points. That brings it up to 125.
- Bean: Well, cut the rise in two; at least you're in a higher level. You wouldn't expect as much of a rise.
- Thorp: Have to rise fifty points to get the same proportionate rise.
- Daggit: I can't see any very good basis for expecting that if business doesn't improve by May, it won't improve until fall. We've had a number of good examples

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when business took a strong upward trend through the summer months after being poor during the spring and early summer. I think a good many people were misled by that idea last year.

- H.M.Jr: Well, the only contribution I have to make towards this - I was being facetious before about being pessimistic - but I was amazed how long it has taken the people in this country to recover from the shock of Munich. I mean it wasn't that once it was over then immediately they went to work and started to buy; it took them months to get over it.
- Bean: By then we got another wallop.
- H.M.Jr: I mean if this thing continues the way it is, and let's say nothing happens on the 28th, I don't expect everybody is going to start buying on the first of May. I don't think it works that way. I think it takes longer to soothe the nerves. Seems to, anyway.
- White: Of course, the international trade that took place in March was doubtless a reflection of February. I mean it doesn't reflect the current situation, because.....
- Hanes: They have to get in the stuff, get the order and get it out. Would that have something to do with it?
- White: If that's true, I don't think that would show up until April. There is a very substantial lag between the actual ordering and the receipt of the goods.
- Eccles: Isn't the automobile production apt to fall off due to the.....
- Currie: Probably in May.
- Eccles:large stock of cars in the hands of your dealers, wholesalers. That isn't yet - they haven't yet gone into consumption. You've got a very large inventory of cars available for consumers now.

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White: Ed had some very recent figures on that, didn't you (Daggit), on automobiles?

H.M.Jr: We had a man in Detroit Monday.

Daggit: I don't have them with me.

White: Do you remember the general conclusion?

H.M.Jr: He saw Knudsen and Keller.

Daggit: I don't remember the order of magnitude. I know they are higher than in either of the past two years this time.

White: Well then, to sum up.....

H.M.Jr: I mean what - Larry Seltzer was in Detroit Monday and he saw Knudsen and - is it Keller?

Henderson: K. D. Keller.

H.M.Jr: Of Chrysler. And he found Chrysler in very good humor and he found Knudsen a little bit more worried. I spoke to Seltzer after he had seen the two of them, and neither of them were really - had very much grounds for worry. And of course, their recent orders have been pretty good.

But the thing that the General Motors are doing now - they're only manufacturing on order. I mean unless they have the orders, they don't make any cars. And the best illustration - I was trying to get a car for my wife, and I can't get a Buick in under three weeks. And they've got to make it, in other words, after they get the order.

But I didn't get from Seltzer - I don't know whether you talked to him - but I mean I didn't get - well, I think the automobile thing is pretty good; that's the impression I got. I mean that's what I got from him.

Eccles: I was thinking of the thing from the standpoint that during the winter months and the late spring months there isn't the consumption of cars - I mean not the cars that are sold at

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retail. And I understand that stocks in the hands of the dealers are possibly up in anticipation of the spring business, which is usually larger, naturally, than the winter business; and that these dealers are loaded with cars and those cars will likely go into consumption, and they will naturally want to reduce their inventory. In other words, between now and early fall they'll try to get completely out of cars. And I was wondering what influence that might have.

H.M.Jr: Well, may I just - they keep - you people may know it, too, but the thing that they've done - it's a so-called secret in Detroit, but they have all agreed amongst themselves that they are going to get out the new models a month earlier this year, which I think from this standpoint is good.

Eccles: Yes.

H.M.Jr: So they are talking in terms of August instead of September.

White: Tom Blaisdell, do you have any comment that would represent a different point of view than that which has been indicated?

Blaisdell: I don't think so, Harry.

White: Well then, possibly it is correct to summarize by saying that if business turns down this year to a lower level, then everybody here - I'm speaking of the technical men - will be dead wrong, with the exception of a little less so for Mr. Thorp, who is a little bit troubled by recent events, but not sufficiently so that he wants to change his prognostication. So the future will.....

H.M.Jr: Mr. Thorp is our hedge, huh?

White: He is one economist that may be correct.

That brings us to 1940, where there was a definite difference in view, the majority group feeling that sometime in 1940, with the inclination being

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toward the center of the year, sometime in the second or third quarter, there will be a downturn which will continue through 1940. The minority believe that there was no ground to anticipate any interruption in a continued upturn, though the upturn was moderate.

And I take it - would you be interested in the various reasons as to that, or shall we pass them?

H.M.Jr: I'd personally rather just say, "Let's take this at its face value." Now, what the hell are we going to do about it, huh?

White: Well, the very next sentence raises that, states that same question: "In the opinion of the majority the inadequacy of the 1939 recovery and the probability of a decline in 1940 justify a program of action by the Government." That's the conclusion that the majority came to. The minority opinion was that that was not so, that if the Government continued its present policy of reasonableness or appeasement or fairness to business, whichever way you want to call it, they would have continued recovery, and that any attempt on the part of the Government to undertake any kind of a comprehensive or positive program might jeopardize that recovery.

Am I expressing that view, Daggit, fairly on that? Would you want to add to it?

Daggit: Well, I'd put it a little differently.

(Mr. Noble comes in)

Noble: Hello, Mr. Secretary.

H.M.Jr: How are you?

(Mr. Noble is introduced to various conferees)

Noble: Now that everything is settled.....

H.M.Jr: Well, we just got to the point where we agreed on what business is going to be next year - next year, lousy - and now we're down to the point of

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what the hell we're going to do about it. So you are in at a very apropos time.

Duffield: Do you (Daggit) want your memorandum? I've got it here.

Daggit: No.

H.M.Jr: Up to this point the stage is all set for Mr. Tom Dewey. Now we're going to see what we can do to ruin him.

Noble: Well, I think from what I hear he's got the edge on Mr. Taft, at that, as far as Gridiron dinners are concerned.

H.M.Jr: Well, I just use him as a symbol. Have you (Eccles) got a better one?

Eccles: No, I haven't.

Daggit: Our idea is about like this. We see no good reason at this time for feeling that the recovery shouldn't continue gradually through '39 and '40 with the present program. Of course, there are many things that could upset the trend, and if the trend is upset then Government action necessarily would be required to bring a reasonably satisfactory increase in national income. But until then we don't feel that drastic action would be necessary.

White: Well, of course, when you say drastic action that implies some need for discussion as to whether you would call any particular program drastic or not. But if I understood the position which you took correctly - and if not, you alter it, because it represents the only minority opinion and therefore it is important to have it given full justice - your feeling was that, though there were possible interruptions of the trend, you didn't reasonably expect them, barring war, which was a hedge that everybody included,

Daggit: Yes, I don't feel that any clear reason has been given yet for expecting a decline in '40.

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White: And in the absence of a clear reason and from your examination you anticipate a continued recovery; and then, though you would not object to any moderate measures such as characterized Government measures in the past six months or a year, you feel that any more comprehensive measures or any more positive steps.....

Daggit: Exactly.

White:are not warranted at this time and might jeopardize the upturn.

Daggit: Yes, that's our feeling.

Duffield: Does Lubin run something along that line?

White: Lubin's view - Lubin also felt a little bit more optimistic about the prospect of continued recovery for 1940, though he said it would be dependent on several things which would involve steps being taken by the Administration, one of them being to make certain that the rising construction costs would be checked. He felt that increased building was going to be an important factor in the continued recovery and that that increased building could be nipped by price rises that might take place and that, I think he went so far as to say, in his opinion, would take place unless some definite action were taken at the appropriate time to prevent it.

Is that about as you remember it, Gene?

Duffield: Yes.

White: So there are those two points of view with, as I say, the majority feeling that the probability of a decline, as well as the inadequacy of the recovery even if it does come, justifies a program of action. And I take it that what they had in mind was a program of fairly comprehensive action that involved steps that they would expect to increase the national income by a large magnitude, several billions at least - steps designed in that direction.

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Now, if you want to, Mr. Secretary, we can take up the discussion of that point, as to whether or not in the opinion of the various technical men here it is desirable to prepare a program of action, in view of the varying possibilities. We wanted to steer away, if it's satisfactory with you - steer away from positive suggestions tonight because we haven't thrashed them out thoroughly in the Committee yet and we had thought that that might wait until a subsequent meeting.

H.M.Jr:

Oh, even if they are not all satisfied, let's - I'd like to get down to that, because everybody is busy and - I mean I'd like to get off the generalities and get down..... I mean one fellow says, "Well, business is going to be terrible." We've got Congress here for a couple more months and if the President should call on us and say, "Well now, have you got a program?" - and I always like to feel that we are a little bit in advance and ready. What would we say to him? That's the purpose of this meeting. And also, should we maybe - is it sufficiently acute that we shouldn't wait and maybe bring something to his attention? I don't know. But I'd hate to have the evening go by and not give these gentlemen a chance to say, if either we were asked or volunteered, what we would say. I'd like to hear some of the stuff.

White:

Well, I think the majority would feel that tremendous progress had been made in recognition of the necessity for developing a program. I say that in summary. Then, beyond that, if you wish, there may again be indicated by some of the men the various views which they have, without attempting to make it comprehensive.

H.M.Jr:

What do you say, Marriner?

Ecoles:

I rather agree with you. Damn it, time is going awfully fast and, as the Secretary says, we're all fussing around, busy with one thing and another, and if we don't begin to talk, in a general way even, why - after you discuss the thing in a general way, it takes a long while before you get anything concrete.

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- H.M.Jr: I'd hate to see the evening go by and not have some of the people say what's on their minds.
- Eccles: That's the way I feel about it.
- White: Well, I personally wouldn't want to take the responsibility for outlining at this stage any positive measures. We all have enough in the back of our minds. They haven't gone through the final mill. I'll let each man speak for himself.
- Eccles: You've got some views yourself, personally. I'd like to know what they are.
- Currie: That's a good idea. He's been pulling that on us as chairman of that meeting.
- Thorp: He sits back and gathers in the memoranda.
- Eccles: I'm surprised at Harry. He usually doesn't want to do that.
- White: I'm willing to start the ball rolling by sticking my neck out, merely for the purpose of discussion.
- H.M.Jr: Do you want to - I mean you have your choice of doing it yourself or letting Leon.....
- White: I was going to suggest that probably we might get along faster if I might indicate the men to give suggestions; then I could pick myself last. Well, let's begin with Currie. You've been talking for a long time about something we ought to do about this country. Here's your chance to start one of the things.
- Currie: Nice friendly introduction.
- Hanes: He's getting back at you, Lauch.
- Eccles: Well, I'd like to say this, that I've hardly seen Currie for a month here. I don't know what he's got on his mind.
- H.M.Jr: So you're worried, are you?

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Eccles: No, I'm not worried. I'm hedging.

Henderson: He's disclaiming responsibility.

H.M.Jr: This is marvelous.

Currie: My morale is completely gone.

Gaston: You're just out all alone on a raft of ice, Currie.

H.M.Jr: You've got the chairman worried.

Currie: I don't think, Mr. Secretary, I have anything startling or new or any white rabbit we all haven't heard of before.

Henderson: Why wouldn't it be a good idea, if I can interject, Lauch, for you in advance of that to summarize what you might call the basic question on savings and investment and what the problem is, before you take up some of the specific items for the repair of the lag in investment.

White: Do you mind, Leon, if we sort of skip that this time and concentrate on the suggested conclusions?

Henderson: I don't mind, but I.....

Currie: But I would like to open it that way, Harry, just for a few sentences, because what you're going to propose depends on your diagnosis of what is wrong, where the source of trouble is. I mean your remedies flow naturally from your diagnosis. And as Leon says, I have a pretty firm conviction that we are faced with a chronic - this is not an emergency problem, this is a chronic problem, something that has hit us since 1929; that in the twenties we built up a capacity to save in this country which has, since 1929, been out of all proportion to the outlet for private savings in business and enterprise. That's not just opinion. We've worked on that. We've gone into all the durable goods fields to see what we can reasonably expect on different levels of income, different levels of production, and there just is not

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enough there to take the place of a lot of the outlet for savings that we had in the twenties and which are now gone.

And consequently, if that diagnosis is right, then it seems to me the basic solution for our problem must run in terms of either supplementing private investment by public investment, not as a pump-priming program - I don't think pump-priming, as such, can work - but as a continuing, necessarily continuing, public program of investment; either that or, through our tax system and our social services, on the other hand, so decreasing the proportion of income which is saved in the community that a lower proportion of capital investments will support a higher national income.

Henderson: Or a combination of both.

Currie: Or a combination of both.

A third point is that I do not think we can have a continuing program of public investment which involves a continuing succession of deficits. I don't say that on economic grounds but on realistic psychological grounds. I think all the signs are up that you cannot expect the continued running of budgetary deficits. So that would appear to me to indicate the necessity of developing a program of public investments in self-liquidating types of projects, partially or wholly self-liquidating, which could be financed outside the budget. I think USHA is an excellent type of what I have in mind there, and that could be considerably expanded.

It is considerations such as these which led me, at the chairman's suggestion, to work on this railway problem to see if we could work out some analogous plan there, and about a year ago we worked up this railway equipment trust idea. That would be a continuing program of public investment which would be financed outside the budget. It amounts to half a billion a year.

I think certain changes which were made in the Social Security Act could be pushed even further,

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so that we would not show a deficit when we are running a cash balance. I think it's most unfortunate. I don't know whether we can shift enough from the ordinary budget and develop enough new projects within a year or so to really bring about what I consider the necessary development of public investment, and at the same time a balanced budget. I think, however, we can make more progress towards a balanced budget without interfering with the net contribution, without decreasing it.

If we had stepped up the inheritance and gift taxes - I think very little of that can go to consumption; practically all of it is money that otherwise would be saved.

Another form of public investment, and I think Harry would be much better qualified to speak of this than I am, is that of foreign loans. I think half a billion dollars, if you get up that high - 300 million, half a billion dollars of foreign loans, the proceeds of which are to be spent in this country, would be just as stimulating as housing or plant and factory building in this country, or Government spending.

Henderson: And would require less of an organization, either of the producing mechanism or the distributive system. I mean we'd be taking advantage of a system of production and distribution which already exists and the most of which has surpluses.

Currie: That's right.

The final thing I might mention would be the possibilities of a further stimulation of residential building through relaxation of interest rates in FHA mortgages. They are still, I think, rather high in relation to the Federal long-term interest rates in this country, in relation to Sweden, England, other countries.

Hanes: What are they averaging now?

Currie: About five and a quarter on low-cost housing, which is about six thousand dollars - which is pretty high, relatively speaking.

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I think that's all.

White: Do you want to pick up there, Leon, give them a rest, maybe come back with any additional brown rabbits?

Henderson: I agree very definitely with Lauch on the analysis. I think one of the big difficulties that we have had about investment has been a lack of knowledge of the arithmetic of the situation. I feel that places certainly where I have had a disagreement with my friends in private activity have been on the amount of the savings that were seeking an outlet. And we made a little progress recently in the consideration of that, particularly with the discussion of the strictures that are on trust funds and the large pools of savings. So I subscribe to that.

But I also think that, given a program that starts from a recognition of the enormosity of the problem, with the governmental action looking towards expansion of its investment and also considerable added pressure on the driving of funds into consumption, that there would be almost automatically an increase in the amount of private investment. To me that is one of the few ways in which a use of capacity would require anything more than just the spending of depreciation accounts.

On the most optimistic of the analyses here that Ed has discussed - it is entirely inadequate to a continuing maintenance of the existing set of arrangements, political, economic and otherwise. I don't think anybody can believe that the amount of unemployment and the amount of the debt and the continuing gnawing of people's feelings can at all be remedied even if we reach 72 or 73 billions of national income. And so I'd stress as much as anything the increase in private investment that would come from an intelligent governmental program.

I believe that as far as the Byrnes bill is concerned, it offers one of the best ways, given the amount of attention - and certainly Byrnes has shown a reasoning attitude toward a number of things - to accomplish the transfer away from

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some of the very definite deterrents of WPA.

But I think as far as this transition period that Lauch spoke about - I believe that we'd have to take on another - a fairly large program of public works and that it would extend into the uses - health and other things that we discussed last year, Louis.

And I also believe it calls for a pretty bold treatment, recognizing, as Lauch said, that the question of adding to the budgetary deficit and to the debt is getting to be an almost insuperable political burden. I think we've got to be bold and turn our minds to some other type of bookkeeping and other assets. And it looks to me as if there are sitting around there, lying loose, a number of those which could be tapped - if you want to, call them seigniorage or profits or extra stocks of gold. It seems to me that it is time to be considering their usefulness in this transition period.

I think we've got to be much bolder as far as our foreign trade program is concerned.

H.M.Jr: Could I interrupt you a minute before you get on? Could you hold your thought?

Henderson: Sure.

H.M.Jr: Just before you get on that thing - I hesitate to say this, but I do it in all sincerity. I don't want to be misunderstood. Mr. Currie has had this what I call philosophy or attitude or scientific approach, and I have urged him privately, and I'd like to again urge him tonight in front of Chairman Eccles, that I think in fairness to him and to all of us that his work ought to be promptly published. I mean we sit around here and we all come back and start from - let's call it the Currie theory. Is that all right, to refer to it as such?

Currie: No, I don't claim any originality for it. It's Keynes and Hansen and a lot of people.

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H.M.Jr: Whatever it is.

Henderson: We're hoping to provide a forum in which that can be done.

H.M.Jr: I mean his own paper, his own work, his own figures, and the basis for what he says - I mean it's never been given to the public and it's in circulation amongst you people here, and.....

Henderson: We recognized that and in our Committee we are planning.....

H.M.Jr: You don't mind my saying it.

Henderson:around May 15th a hearing on savings and investments, in which I hope we are going to provide a forum in which that kind of explanation, supplemented by the kind of interrogation that the Committee can make, will be put on, and we have had Hansen quietly at work on this thing for some time. And one of the things that we are trying to do is, in addition to getting a measurement of the capital formation, to get some measurement of the savings that the community makes annually in order to get a measurement of this problem of investment, as to where it resides.

H.M.Jr: Can I just argue with you a minute - I have my nerve with me - but if, for instance, Mr. Currie's work was published and, let's say that it was generally accepted - and I don't think it's had the circulation which it should have.

Thorp: Do you suggest the Saturday Evening Post?

Gaston: Yes.

White: Wouldn't be a bad place.

H.M.Jr: Be excellent.

Eccles: They'd never publish it.

Bean: There was an article in the Saturday Evening Post recently by Garet Garrett on the same problem.

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White:

It's a very simple matter. If the matter is as important as it is believed to be by some members, then it is extremely important that a broader portion of the public be acquainted with it, for two reasons. In the first place, if it has some flaws, some fallacies, then those objections, those flaws, those grounds for criticism, et cetera, ought to be forthcoming. If it can stand against the examination of a large group of economists and bankers or any others who feel capable of taking a crack at it, then it should have much more effectiveness, and we want to know it.

The test, I take it, of that thesis would be in the subsequent months that followed its publication, because there are a large number of people who might be quite competent, who unquestionably are competent to write on it, to give some ideas on the subject, to throw some factual light on the subject, both in your hearings that you contemplate and others who would approach it quite academically or on theoretical grounds.

Currie:

Another place is in the projected Fortune round table.

White:

Yes, and so let there emerge from all that discussion of what is apparently a matter of, I should say, vital importance - let there emerge something that would indicate to those who are eagerly fishing for what is the correct analysis of our difficulties - something that they can subscribe to, hold on to, so that they can say, "Well, this thing has been exposed to severe critics and to a large number of them, and to a lot of careful thinking, and apparently the thesis stands sustained." I'm for it, and let's go ahead.

On the other hand, it may emerge very badly shattered and a person might say, "Well, they haven't been able to maintain that thesis; therefore, let's stop talking about its being the basis for required action."

So that I quite agree with the Secretary that there is everything to be gained by making this

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available to a much larger number of people than it has been, but making it available in a form which warrants its perusal by others, not in some summary form, not merely a statement of belief, but setting forth the best kind of case. In other words, I would go so far as to say that anyone who holds that thesis and has the time and responsibility, owes it to society, to the community, to put that in a form where it can be carefully examined. I don't know whether that's wholly your view, but it is mine.

H.M.Jr:

Well - I mean that's the way I feel, because while, as Mr. Currie says I have never given him ample time, which is perfectly correct, I have gotten pieces of it at times and I have heard other people who have pieces throw doubts on it. Then when I question them they say they haven't got all the basic data on which you arrive at this and they never have had access to it, and so forth; so it isn't fair to anybody. Therefore, as I think I said about a month ago, I think in fairness to you and in fairness to the people who believe in you, the thing ought to be open to the public, especially if we're going to plan a whole program for the Government based on that premise. I think it's terrifically important.

White:

Of course, with the expectation that there certainly is not going to be any unanimity of opinion about this; but at least one will be in a position to select the particular critics whose opinions he feels are valuable, and he can range along that side which seems to impress him as being the most reasonable approach. But there certainly is not going to be any agreement on that thesis, any more than there would be on any other thesis.

H.M.Jr:

Please go ahead. I didn't mean to interrupt you.

Henderson:

I go further back than Lauch does as to the basic difficulty - go further back than 1929. I think the unbalance was there; the kind of adjustments which the system was taking were

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very, very unhealthy. There were the matter of expansion of consumer credit, the matter of stock speculation, matters of foreign loans, and other unhealthy things that were accomplishing a re-dressing of the balance.

I believe that there are ways, with a positive governmental program, of really making a very, very strong economy, because that difference can be corrected so that you have a very, very strong business economy as well as accomplishing the social ideals of the New Deal.

As far as foreign policy is concerned, Mr. Secretary, this may be heresy, but this is as good a place as any to confess it. You always start out on heresy with saying how firmly you have held to the faith before.

H.M.Jr: Well, up to now.....

Henderson: Up to now, the whole program and the reciprocal trade agreements fitted in with most of the things that my democratic ideas and my economic training could possibly hope for. But I think new elements have come into the picture and that the sooner we recognize it and move very, very boldly against it in an organized form, why, the better off we'll be. And I hope we don't have to piddle around on that. And I'm probably sticking my neck out quite far, but this is as good a place as any to do it.

H.M.Jr: May I say, everybody knows that up to now all these meetings - we have never had to read about them in the columnists, so I think you're fairly safe here. I mean so far we have been very lucky that we haven't read two or three days later in any column what took place at my house. I hope we can maintain that. So I think you're fairly safe here.

Thorp: I'd like to ask one question of what's in your mind on that, Leon, just in terms of the immediate requirements. Are you thinking of things that would require legislation?

Henderson: Some of them.

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Thorp: Or is there sufficient authority in the Export-Import Bank to carry through most of the things you have in mind?

Henderson: I think there are some of them - I don't think the Export-Import Bank has got enough funds to do the order of magnitude I've got in mind. I was just about to say to the Secretary that I think again we've got to be bold on how much we want to do, and I think that again it's a question of arithmetic. You say, what have we got to do in Latin America, South America, Russia, and places like that - what have we got to do in order to get this volume of business? And some of that would require going to Congress; some of it would require an exercise of Presidential discretion.

And that's one reason why I believe that, giving all effect to the optimism - that time is running against us, and I don't see that we'd lose anything by getting additional authority for the Export-Import Bank for what I call some pretty expansive and bold programs.

Now, it's the same way with housing. Lauch has spoken of what is possible as far as USHA and also through the financing charges of FHA. Again, I think that's too little in terms of what the potential amounts are and of what the deeds are; and again, I'd like to see a much bolder - a stand for a much bolder program, and again, working backward from what are the possibilities in terms of investment and employment in a certain market. As we know, this would be a low-cost housing market. And then find out what it takes to get that and let that be the limit of what we go to Congress for or what you go to your financing for, what you go in the way of interest rates, what you go in the way of expansion generally.

And I think, again, it's about time we moved very much further than you (H.M.Jr.) were willing to move on the Social Security. If you were correct in the movement that you took for the reasons that you assigned, Mr. Secretary, there is every reason for going further.

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H.M.Jr: In what direction?

Henderson: Well, in a reduction of what is going to be collected in the way of taxes. That is, if the principle is correct, and on this I'm assuming that there is a net withdrawal of consumer purchasing power which is an active deterrent, I think we could well afford to be much bolder on that and sacrifice a few feelings. I think we could capitalize on the drive for the Townsend Plan and things like that by an expansion of the Social Security classes and the out-payments that need to be made.

In short, while I go along with Lauch, I am more scared that we won't do what it takes. We've always got two measurements. One of them is the national income and the other one is the amount of the unemployment. And I think that if we sit by and go through the kind of rationalization in our own mind which says, "If we only go along with this program, sometime along in 1943 we will have got down to three or four million unemployed," that we have forgotten what we are here for. That's about the way I feel about it. Now, there are other items to go in there, and I have taken too much time already.

Blaisdell: Mr. Secretary, I'd like to reinforce what Leon said on one line. It seems to me that during the last few months, while I haven't been following it awfully closely, there's been a tremendous let-down in the pressure that's been on for the expansion of the Social Security program. Now, entirely irrespective of our general economic theory, whether we believe there should be more capital investment or whether there shouldn't, here is a program that rests on certain fundamental humanitarian aims, which I happen to believe also is a sound economic program. And the suggestion that we lay off the increase in taxes sort of was regarded as the signal for saying, "We mustn't expand." I recognize quite clearly that that was not the intent nor was it the direction taken by either the President's message or your statement or any other statements that have been officially made. But I do feel

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that there has been that effect. Again talking within this room, it seems to me that the pressure from the direction of the Social Security Board for an expansion of its own program dropped very markedly after that particular point.

Henderson: That's what I meant about hurting people's feelings, Mr. Secretary.

H.M.Jr: Well, you're not hurting mine.

Hanes: I wasn't conscious of that. I didn't know they had changed.

H.M.Jr: I don't think you're directing it at me. I know what you mean.

Hanes: He left me - I didn't know what you meant.

H.M.Jr: I think he's talking about the Board, aren't you?

Henderson: Yes.

Hanes: Social Security Board?

Blaisdell: I didn't know what you meant, Leon, so I said what I meant. There is a need for strong leadership at that point. That has at least laid the groundwork for part of the kick-back that we've gotten from the Congress, the feeling that, well now, did the Administration really want to drive here or didn't they?

H.M.Jr: I don't know whether you people want to know what I think or just talk at me. But I don't want to leave you under a false belief, because I'm not in sympathy with that. I just want to let you know that. But I'm here to listen and not.....

Henderson: Well, let's put it this way.

H.M.Jr: I don't want you to go out and say, "Well, hell, we told that to Morgenthau and he didn't say anything."

Henderson: Going back again to our subscription to the Currie theory, which you haven't subscribed to,.....

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H.M.Jr: I just want you to know I'm not in sympathy with it, and I didn't want you to go out of the door thinking that I was. And that's no news to you anyway. I don't want to sail under false colors.

Henderson: Mr. Secretary, you aren't like the description of La Guardia that was once given. La Guardia, it was said, was the kind of a fellow that if he saw somebody on the other side of the street that he didn't like, he would cross the street and call him an S.C.B. in order not to be thought yellow on this side. And we are never afraid that you would ever have to go to any extreme like that. You never have.

But getting back to this, as to the underlying - what I meant by the underlying basis for it - we know now in a way that the New Deal program has been extraordinarily honest in its bookkeeping. We know that. We know there are ways of bookkeeping and accountancy, and so forth, whereby this thing of the debt burden could have been considerably reduced.

H.M.Jr: Do you think that the new Director of the Budget can listen to this without being prostituted? Think he can take it?

Henderson: I think he can take it.

H.M.Jr: All right. I just wanted to make sure. He's kind of young and innocent. I just don't know how tough he is.

Henderson: We are reaching a limit on that. It is not possible to get from Congress the amount of appropriations in the regular budget to repair the deficiency in investment. There are no sets of conditions that we know of by which private investment is going to take up all that is needed. We've got an enormous rate of savings. And therefore, we've got to go where we've got a conscious control over savings, and that's what the payroll taxes are in their withdrawal from consumption. We've got that within our power, as to whether we go ahead on that basis; plus the fact that if we want to lessen our problem

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we've got to accomplish a wider distribution by the taxation basis and also by the increase of the social services to which we are committed.

Now, that's what I meant when I said I think if it was good to go along that far, we can afford to go further.

I have one other item - could I stick it in - so far as taxation. Again, maybe it's a confession. I haven't been able to see the arithmetic on the matter of certain of the taxes and things like that. I think we have reached a point, however, where earnest people who actually believe that there would be an enormous expansion in venturesome capital if there were certain things done - I think that the time has arrived for us to make those concessions as an earnest of our belief that the other group who believed so strongly are earnest in their belief - so that they would accept curs. I don't believe that it amounts to much budget-wise, therefore it's a mild form of concession; but if it does, to certain groups, give them a set of assurances that we have a respect for what they basically believe, I think we ought to do it. Now, that's going quite a long ways for some of us, and I don't know whether anybody else would subscribe to it.

Thorp:

I'd like to pick up that, because while I don't - I agree in general with the approach that's already been presented, I think that a good deal can be done from the point of view of encouraging and stimulating private investment; and that it is so much a matter of state of mind that if there are things such as the tax matter, for example, which are not serious from the point of view of affecting the Government budget, but might be very significant in terms of the state of mind of these business people, it seems to me a very worthwhile speculation to make in terms of whether or not that wouldn't help. Also I am wondering whether that isn't particularly important right now. As already indicated, I am rather more pessimistic about this year than any of the others seem to be, particularly eager to get off center just as fast as we can. It would seem to me that that is a very decided argument, if anything is to be done on the matter

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of taxes, to do it now, very soon, as an immediate stimulating factor, and one that unless it happens to be offset the same day with serious troubles in Europe, might actually give quite a fillip to the situation and release these forces that we all agree are present.

H.M.Jr: Well, does somebody else want to say something?

The way I feel is this, that as far as a tax program is concerned, you can't get any argument with Johnny Hanes and me on that. But supposing we follow the thought of Leon Henderson and say to business, "Now, here we'll give you this, but in the same breath we're coming along with a great big new spending program." I personally think that anything you might do along the tax lines would just be buried by the feeling that the Government was going to increase its spending program above the present levels. Now, I just think that anything that you could do through the tax avenue would be just killed.

Eccles: Well, I don't understand that - the point of view. I'd just like to say something on this whole subject, because I feel that there's been a good deal of talking around about various aspects of the problem that I have had my neck out on a few times.

We know that so far as the credit situation is concerned, that generally speaking there is an abundance of funds, both funds in existence in the form of balances of corporations and funds of savings banks and insurance companies, investors, trustees, that would like an opportunity to invest the funds. Now, the reason that we really have a depression, the reason that we have unemployment, is due to the fact that the existing supply of funds and credit is not being utilized. If an effective use was being made of the funds, that is, if we had what we may term a normal velocity or turn-over of funds, we wouldn't have the problem.

Now, it seems to me we've got to then determine what are the factors that deter or retard that

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effective use of funds. Let's take the business side of the picture before we get to what the Government, by way of public investment, may do. There is a feeling without question on the part of business that there would be a large volume of new investment if there weren't deterrents, and there is a good deal of discussion as to what those deterrents may be. There is no doubt that there is some deterrent of what we may term new investment of private funds due to this thing we call lack of confidence, brought about, in part, by a foreign situation and in part by tax factors or other factors.

We hear the Labor Board regulations are a factor. Well, that appears to be in the way of something being done. At least, there are hearings and there may be an opportunity to modify that feature. To what extent that is a deterrent, it is difficult to say.

I agree with Leon to the extent that those deterrents that - where business thinks they are deterrents, that is, the great body of business does - where there is usually close to unanimity of agreement, that it would be wise to undertake to eliminate them.

In the utility field - there's been a great deal said about that in the past, and if a positive statement with reference to that problem could be made and we could get the amount of private investment in that field going, and it's admitted that it could be four or five hundred million dollars a year - not immediate, but in a period of reasonable time - we ought to get it.

I do feel, however, that whatever is done in the direction of what you may term appeasement - that those results alone would be disappointing. I think that there isn't the slightest opportunity for a full investment in new enterprise of the existing surplus of funds adequate to meet the unemployment problem.

And I also recognize that you cannot and should not continue indefinitely to attempt to put those funds to work by the Government borrowing them

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on a deficit basis. The Government only borrows these idle funds because they are not otherwise used, and by the Government borrowing those funds they are not depriving private business of an opportunity to use them, not depriving private business of an adequate supply of funds. There is certainly an abundance of funds available for all the Government has had to borrow, plus anything that business may borrow.

But you cannot continue, it seems to me, to have the Government borrow those funds in order to put them into circulation, because that does continue to create a deficit and to increase the deficit. I agree that an increase in spending would be certainly politically inadvisable and would be impossible of achievement.

And I think the way to obviate that would be, in addition to such appeasement as may be possible to make - I am still strong for this railroad program and the utilities program, if you could get five hundred million in each in a year, and I think if a real effort were made that that could be done. Now that might require some help on the part of the Government, just as the Government has helped United States Housing Authority through the guaranty, and just as the Government helped FHA, Federal Housing, without supplying funds; and that's acceptable. But there has been Government assistance there without its appearing as a budgetary deficit and without its being talked of as a Government-spending or pump-priming program. Now, I think that we might well work out plans with reference to railroads, with reference to utilities, where we may through Government assistance get help in that direction that would not show up as a deficit and yet would not be as large as otherwise would be the case without any Government assistance in those fields.

In addition to that - I am not averse to this foreign lending, but I do think it would be achieved with very great difficulty, if you get it at all, and it will be very minor at the present time.

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Thorp: It isn't achieved with difficulty. The difficulty comes later.

Eccles: You're not going to get it back, possibly, if you make it.

But I do feel that in the case of the Social Security

H.M.Jr: Incidentally, you know, Brazil hasn't drawn on us for a dollar yet. Not a dollar.

Eccles: Well, of course, to the extent that they don't use it, it doesn't do us any good.

White: Today they asked.

H.M.Jr: Did they ask?

White: They're going to begin very quickly.

Hanes: They only got the edicts through yesterday.

H.M.Jr: I mean they freed their exchange just on the fact that they knew the Treasury of the United States was back of them. I was just mentioning it in passing. Up to now they haven't used any money. But the Chinese have, and have used it where it would do some good.

Eccles: Those loans, to be of any value, would have to be spent here. If we want to get rid of some cotton and some of our other surpluses, and we do it by foreign lending, naturally we would expect the money to be spent here and the goods to move. Only in that way would it be of any help.

Now, I think in the case of FHA, that interest rate could and should be reduced. I think with the abundance of funds and the low rate, that loans would be made at a lower rate. Some of them are being made in any case at lower than the rate required - lower than the maximum - or the minimum - well, it's the maximum rate that they can charge.

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I think if you reduce the maximum, they would still get the loans, and that would be helpful. It would not cost the Government anything. It would stimulate the volume of activity to some extent.

I feel that in the Social Security field if it were possible to pay out next year the amount that they may collect - in other words, they'll collect possibly - even without an increase in the tax, they'll collect around six hundred million dollars. If the benefit payments that are made would equal six hundred million instead of the hundred million that's expected, then there would not be this further withdrawal from consumption to be put into the reserve. True, the Treasury borrows it and spends it, but they've got to get it appropriated when they do, and that shows a deficit. That's where the trouble comes in.

Henderson: You take that five hundred million, Marriner, and think of the most that you can hope to get out of your railroad equipment plan. If you keep this other, keep the Social Security that way, and you get the other, they just offset each other. I mean that's the magnitude of it.

Eccles: I think you could increase those benefits five hundred million and you could get your railroad program of five hundred million. You could drop the interest in FHA. Now, none of these will affect the budget at all. And to get such foreign loans as you can get, bring about such appeasement as you can in the utility field and in the tax field and in the labor field. In that way, you would be, it seems to me, striking at this thing on all fronts and would be doing it without further deficit spending. You would be attacking it in a way to at least give far greater opportunity than there is today for utilization of these funds that are not now being utilized. And only through the utilization of funds - we call them savings - whether they are corporate or individual, they are the funds that are not going into circulation, not being used - if

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through this means we could increase the use of these funds, it would of course bring you the recovery and bring you the employment and bring you the increased tax revenue, which would in turn bring about your balanced budget.

Now that, to my mind, is the type of a program in general that I think we ought to approach. And that isn't counter at all to the Currie thesis, as I understand it.

H.M.Jr: Don't you understand it?

Eccles: I've been in accord with it. Yes, I think so.

H.M.Jr: Haven't you given him time to? Haven't you given him enough time?

Eccles: In fact, one of the reasons that I had Currie come over with the Board was due to the fact that I found he was pretty well agreed with a good many of the ideas I had.

Henderson: He agreed with the "Ecclesiastics."

Eccles: So I think that the depression after '29 was brought about purely due to the fact that the savings of the country during that period could no longer find an outlet when we quit making foreign loans and when we had developed consumer credit to the point that we had developed it, and when we had developed the automobile industry and had developed so many other fields of activity and that there was no further opportunity for an adequate investment in new enterprise of the existing savings. And we've got to find - now we're a creditor nation, we've got to find a use for those accumulations or we've got to reduce the accumulations through taxation, or we've got to do some of both. And I think that we've got to take a combination of these things and do all we can to enable private business to utilize the very maximum amount of funds that it is possible to get them to utilize. And those funds that they can't - are unable to utilize - we

could do some foreign lending; and then the Government has got to stimulate the use of the balance of them in public housing, in Social Security, in a railroad program, and in a farm program and the like.

It seems to me that that's inevitable if we're going to get out of the depression and get the national income up. Those funds have got to be put to use. And merely the idea of getting business confidence - there's nothing we can do to give enough business confidence to utilize all the accumulations. And when you stop to analyze the amount of funds that have got to be used to give reasonably full employment and try to define or ascertain the places that those funds can be used in private business when it's left to itself to use them, why, you just cannot figure out how it is possible to do it.

White:

It seems to me we are confronted with a problem which doesn't need at the moment the acceptance of the thesis that Currie enunciated and several subscribed to. Though one or might not agree with it, I don't think it is an essential prerequisite to the recognition of a necessity that something has to be done in the way of positive action. The program of removing those particular deterrents to a willingness of the business man to enter upon risk ventures should be undertaken if only to make certain that there is or is not something there. The cost of that type of program is not so great that one should hesitate, in view of the fact that so many very competent people believe that that is the cause of the failure of a substantial amount of capital to go into private investment.

But beyond that, I think, something needs to be done. Proof of that is the fact that no one seems to be ready to prophesy a national income greater than seventy billion for 1940, or somewhere within the range of a couple billion of that, and I think that most of us feel that a national income of seventy or seventy-two billion is completely inadequate, and contains consequences that have very far reaching repercussions on

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the social and political fabric; and that it is up to us - the time is getting rather short to see what steps can be taken to increase that national income.

On the other hand, I think it is recognized that deficit financing has reached the climax and that it is necessary to reduce the deficit or at least not to undertake any steps which would increase it. And some ways have been suggested of attempting to stimulate private investment, actually increasing investment, without operating under increased deficits.

But I don't feel that there is as much disagreement about the necessity for some such program as appeared on the surface, because I don't think the recognition of that necessity depends upon the acceptance of thesis that you can't maintain or you can't attain an eighty-five or ninety billion dollar income unless the public does some investing. We would like very much to attain an eighty-five or ninety billion national income, but before we do that we would like to at least increase the national income next year by several billion and the year following by another five billion. And there are those of us who believe that that simply is not in the cards unless some comprehensive step is taken, and we come to the inevitable conclusion that a program must be initiated as soon as it is politically feasible. And there are numerous ways; some have been suggested, but there are others. If they are done boldly, if they are done on a large enough scale - we have all had illustrations of policies undertaken which have completely failed, petered out, been dissipated, because the magnitudes involved were not large enough, the approach has not been bold enough.

So it is with housing. If you're going to reduce interest rates, make a substantial reduction, if you believe that's necessary, so it is possible to do something for the small business man in the way of loans, something for the farmer, something in the way of foreign investment, something

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in the way of railroad equipment, et cetera, down the line.

But I would like to end by the plea that I don't think it is necessary to accept any fundamental philosophy in order to adhere to the necessity for a substantial program that doesn't involve within the next couple of years increased deficits.

- Bean: Mr. Secretary, may I supplement Mr. White's comments by making at least the first comment of his a little more quantitative. If the view of business prospects for '39 is correct, as indicated in this document that you have, then next year, 1940, if we wanted an eighty billion dollar national income, Mr. Eccles would have to increase his index of industrial production to around 140. Just now it's at 98. That kind of an increase is physically, historically impossible. That's why we have come to the conclusion that nothing like an eighty billion dollar income is in the cards for 1940.
- Eccles: I don't think anybody figured that it was.
- Thorp: Of course, he's revising the index, as I understand it.
- Bean: What?
- Thorp: He's revising the index.
- Henderson: Upward.
- Hanes: Have you got the figures about the amount of savings you referred to? Does the Federal Reserve have any figure on the amount of idle savings, accumulative savings that might be available for investment?
- Henderson: We're going to have those, John, pretty well ordered for May 15. There are some, of course, but we're at work on that, on the best information that's available.
- Eccles: Well, John, I'm thinking of it in terms of the turn-over of funds. We have bank demand deposits

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and currency which represents the effective means of payment without the use of further bank credit, of the largest amount that we have ever had, so that it's - we know from any experience that we've had in the past that funds available are not being made use of, that with a very much smaller volume of funds we have had larger production and larger national income. Of course, the price level is a factor you've got to take into account.

So that it is pretty certain that the funds are not being - they are not working, they're not being utilized in production and in the employment of people. And that means that there isn't a feeling that there is a profitable use for them, there isn't the incentive to use them. There apparently isn't the opportunity to use them.

And consumer demand is a tremendous factor. Business doesn't produce goods and employ people and the funds don't flow unless they are able to sell and dispose of the goods. They won't continue to build up inventories and people won't incur debts unless there is some feeling of security of employment; and business won't use their funds or undertake to borrow funds either in the market or from the banks unless their capacity is - unless they're getting somewhere near their capacity, or unless they feel there is an opportunity for additional profit by further investment or utilization of those funds. I mean it seems to me that it's a pretty self-evident situation when you compare the supply of funds in relationship to what we have had in the past.

Hanes: Yes. I just wondered if you had any figures.

Currie: I have some figures here that have been derived from the National Resources Committee report on the distribution of income and savings in different income classes. They have what the distribution would be on a sixty, seventy, eighty billion national income, and what the probable consumer savings would be. They step up very rapidly; on sixty billion income, six billion savings; seventy billion, nine billion savings; eighty billion,

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twelve billion savings. You add six billion to that and you get eighteen billion, the figure of capital investment you'd have to have in order to get an eighty billion national income.

Henderson: How much did we have this year?

Currie: This is an entirely independent approach. I ran my figures entirely on the basis of past relations between past investment and income. Then take the consumers and what they save.

Thorp: What was it, Lauch - as against the eighteen that you need to have, have you any guess as to what it was?

Currie: The maximum we can see as an outlet for private capital expenditure, on the basis of full employment, which would be eighty-eight billion national income, is fourteen. That's allowing four billion a year for residential building, seven hundred million a year for railways, nine hundred million a year for electric equipment. I mean things of that order of magnitude add up to fourteen billion.

Bean: That would support eighty-eight billion dollars of national income?

Currie: It wouldn't do it. That's all you'd get on the basis of full employment, which is not enough to give you full employment.

Thorp: You'd need twenty billion or something of that sort, wouldn't you, Lauch - need twenty billion to get your balance? You can see fourteen.

Currie: You can see fourteen if you had full employment, but you wouldn't even get that fourteen unless you get full employment.

Bean: So what do we now have?

Currie: In '37, our best year to date since '29, we had nine billion, plus four billion inventory accumulation and plus a billion in Federal, State and local contributions.

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- Bean: Mr. Secretary, I'd like to go back for a moment to your suggestion that this kind of a discussion or this material, irrespective of the philosophy behind it, which comes to the conclusion that we must have something like that, seven, eight, nine billion dollars more investment in capital goods to get somewhere near full employment, ought to be gotten out for public discussion; and I have the feeling that it ought to be gotten out much faster than merely having Currie publish his material or a paper somewhere, and circulate in a larger group than this.
- Currie: It's getting out next month.
- Henderson: We're going to.....
- Bean: May I ask, in that connection, then, what kind of a show you're putting on, if I can use vulgar language.
- Thorp: It's correct language.
- Henderson: That's right, it is a show.
- Bean: Is it going to be a one-day discussion?
- Henderson: We plan to start about the week of May 15 - maybe two days then, two days the next week, and two days the following week. We plan to run two or three days in each of three weeks in which we plan to have five or six days. And the whole thing - we're trying to get something that will be substantial and solid.
- Bean: How many people would be involved in the presentation of material?
- Henderson: About thirty. We're going to introduce witnesses on a tremendous number of fronts and we're going to provide a forum for a discussion of a wide range of items in this savings and investment problem. It's the acutest thing we've got.

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- White: Are you going to pick witnesses that you know ahead of time are going to agree with your position?
- Henderson: Oh no. We are going to know what the witness is going to say, which is different.
- Bean: The thought I had in mind, Mr. Secretary, was that this material that Currie had that we studied, some of the rest of us studied, that the Committee is going to bring forward, ought to be utilized in an even wider way than the Committee now has in mind. And I wonder if it wouldn't be sensible for the Administration to take that material after the 15th of May and center around it a much wider public discussion of the problem by bringing in not just the few men who are coming for this particular meeting but men who will be invited to discuss with the Government the question of possible outlook for funds and for investment programs. I am sort of stuck by the fact that in the various projects that have been named tonight, all we get are dribblets of five hundred million dollars here and there, when the problem is one of getting within a relatively short time, say, a year or a year and a half, an aggregate addition of - shall I use a figure, Currie, of eight billion dollars more than we are going to have this year.
- White: In order to get an eighty-five billion income?
- Bean: To get even an eighty billion dollar income, you'd have to have something like seven or eight billion dollars addition to the amount you have this year.
- In other words, I'd like to see this particular thing dramatized and put on a much broader discussion basis than we have visualized.
- Thorp: I think you are relying a little too much on a hearing, Leon. I think it would be swell for what it would do, but oughtn't it to be supplemented? I mean if we want to focus it, wouldn't that be the time to have a number of speeches on this?

Henderson: Sure. We are aiming to make practically a conflict there.

Bean: Mr. Secretary, may I say one more word on this? I think something more than speeches by one or two or three individuals of the Administration seem to be needed, at least for the sort of thing that I would have in mind. If the Administration went out with a definite statement that it is going to do something to increase activity by doing this thing which every business man will recognize as sensible, namely, to increase investment in capital goods or whatnot, without deficit financing, and that in addition to what the Government can visualize it can do, it wants to get as much more to supplement that, and then to invite suggestions for the supplement, I think we might perhaps do more than merely get the results that we are apt to get by a few speeches.

White: You're presupposing that that thesis will be accepted.

Bean: I'm presupposing that when Currie comes out with his figures or anybody else comes out with similar figures, there will be very little disagreement with the basic conclusion that you must have for full employment, or something like full employment, an additional investment in capital goods of, say, six, seven, eight, nine billion dollars; the figure doesn't matter.

White: Well, let's take the sort of thing that.....

H.M.Jr: May I interrupt just a minute. Let me point this out to you. May I do this in my capacity as a personal friend of the President, that when you're doing this I think you ought to be very cognizant of the fact that you are opening yourself wide open to a terrific attack, that what you are talking about - we've been doing it for seven years, and so what?

Gaston: That's just along the line.....

H.M.Jr: I mean I don't know - just go back twelve months; it was just twelve months ago today. You just

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can move the thing back twelve months. You all sit here - I want to be polite, but I can talk to you (Henderson) because you're a tough guy - and you've got to realize what you're doing, and the answer to me is that you're just talking exactly the way you talked twelve months ago.

White: And nothing was done about it.

H.M.Jr: Excuse me. We got a four billion dollar deficit.

White: Oh no, that's not what we're talking about. That would be a gross misunderstanding.

H.M.Jr: Now, listen, I've listened to this, Harry - now, this thing has been tried for seven successive years, and we've still got twelve million unemployed. I want to point out - you're all just as much interested in Mr. Roosevelt as I am - before you launch this thing, I think you're opening yourselves to an attack that we've had seven years of deficits, seven years of increasing the thing, and we're just where we were seven years ago.

Henderson: I'll take that argument on any time: that we are just where we were seven years ago. The index of production isn't.

H.M.Jr: You are in terms of unemployed. You are not in terms of debt, but you are in terms of unemployed.

Henderson: No, you're not.

Gaston: Before you go into that, if you don't mind, I'd like to just raise a question, and that is what do you hope to obtain? Is it merely from the scientific, philosophical standpoint, an exploration of this question so as to arrive at a fruitful result, or are you considering the effect on public sentiment, public psychology, and the economy? If you just want a philosophical discussion, there are plenty of ways to get this argument out. I could start tomorrow and I could have it in columns, I could promote a radio debate, and use various other.....

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Henderson: We've got the mandate.....

Gaston: That is, if you want an economic discussion. But I am terribly afraid that your economic discussion, even in the way that you are speaking of dramatizing it, is going to result in nothing more than scaring people to death by presenting an extremely pessimistic view of our whole situation and of the future of our economy. It seems to me that the way to approach this thing is to decide on a program here in the Government as quietly as possible, if you have something that is really constructive that we can agree upon. If, for instance, the tax thing - that's one thing; or if there is something in the way of self-liquidating expenditures that could be agreed upon, that's something else. If there are concrete, definite things that can be agreed on, then launch those things as Administration propositions, as reassuring, encouraging, stimulating projects which we have ready.

But to launch a general discussion involving the thesis that we have a degenerating economy and that the picture is black - I think it's terrible.

Henderson: Well, I don't go on the basis - that's what I said I would be glad to argue on. We are at the present time, despite four months of poor business and things like that - we are at a level of 98 in the index of production, which is roughly 85 percent of what we were in 1929 in production.

We've probably got about 10 million unemployed and, counting what the increase in working population has been since the New Deal came over seven years ago, there are close to seven or eight million people more that are employed than there were seven years ago. We've got a credit structure that is much better.

When I said "dramatize," I didn't have in mind playing up what a terrible situation we are in. What I have in mind is getting over, in effect, what the essence of this problem is.

Gaston: I am sure the essence of this problem is pretty frightening to the general public, which won't understand much of it.

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Henderson: What is more frightening, Herbert, than the prospect of this piddling around for five or six years?

Gaston: This isn't the alternative. If you have something constructive, then let's do it.

Henderson: That's what we want.

White: Well, Herbert, we are concerned with alternatives. None of them are very good. That's the unfortunate part. But if you will concede to begin with, and that's an essential requisite to accepting the need for doing anything - again, there are two points of view. One is that there is nothing we have to do beyond remove what restraints it is possible politically to remove and then we'll go forward. Now, if that's the thesis which a person subscribes to, then I think everything else that is said falls by the wayside, because the rest of it is not necessary and anything that you would do in the way of introducing a larger measure of control or a larger measure of participation or a more comprehensive program on the part of the Government, can only serve to jeopardize that program.

Gaston: I wasn't suggesting a program of inaction, Harry. I was suggesting quite the contrary. I was suggesting that we refrain from advertising our doubts in advance of having something constructive to propose.

White: You were directing yourself against the question of the publicity of this particular program.

Henderson: I understood the Secretary wanted to have the thesis given circulation and discussion.

White: Well, I guess he - no, the Secretary wanted it done in academic - I shouldn't say - in scientific or in scientific and quasi-scientific meetings.

Thorp: Now we're talking about the Temporary National Economic Committee.

Blaisdell: You said "quasi-scientific," didn't you?

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White: They're the other half.

Bean: Mr. Gaston, suppose we talked about needs and what the Government proposes to do to meet part of those needs. Isn't that different from talking about a deteriorating economy which is on the decline, which you're afraid of? The latter doesn't enter into the picture with that approach. We can continue to have an economic problem that, translated into terms, means the need for such and such items. We can say that here are some suggestions of what the Government proposes to do and still not disturb too many people.

Hanes: Leon, I don't want to ask you anything that's a secret.....

Henderson: Nothing secret about it.

Hanes: You say two days a week for three weeks? Is there no way to put it on and get it over with quicker than that?

White: John is willing to have the stock market take a crack over one week and have business go to hell.

Henderson: What we're going to explore - one of the things is the rate of savings. Here are some of the things we're going to do. What is the problem? What are the outlets for investment? You see? What has been the rate of investment during the twenties in utilities, housing, things like that? What is the present rate? And things like that are among the things we're going to do. We hope to call a number of people, including Mr. Lamont and some others, to give an expression of their views on what is needed in savings and investment. We hope to give a - we hope to provide this forum for people to talk on this particular subject. And it is the acute thing as far as this Committee is concerned, just as it is an acute matter every time we come into a discussion of governmental policy; this question of savings and investment always pops up. All we propose to do is to give it an airing and to make it significant.

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- H.M.Jr: Poor Harry's got a tough job having me for a boss. He's tried so hard to work on me. He just thinks he's got me up to a point and then I slide back again.
- White: I was just congratulating myself on having a boss with an open mind.
- Henderson: And we were sympathizing with him.....
- H.M.Jr: I slip right back again.
- Henderson:for having a boss with an open mind. They get in the way once in a while. They'll listen to the other side.
- White: No, you knew the general views of the large group here, and the fact that you continued to listen
- H.M.Jr: Don't say it.
- White: I couldn't finish the sentence without.....
- H.M.Jr: See, he's getting a little contaminated.
- Henderson: Mr. Secretary, I don't think there need be any apologies for what the Government's intervention was last year. I don't think there's a bit of doubt that we'd have been in a hell of a tailspin right now if the Government hadn't intervened. And we are up at, roughly, 100 in the index of production, and I feel that any positive step now, leaving out all the theoretical considerations of the multiplier, things like that - I think any activity that is taken right at the present time generates more recovery and more use of capacity and more use of credit, of pools and reserves, than it would at a lower rate. I think we are at a particularly strategic time right now for an additional amount of Government action.
- White: I should like to see less discussion of theoretical bases and even of the philosophy of one direction or another, and more of the specific program, because I have the definite feeling that in the bulk of the program there will be a large measure

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of agreement; in fact, there will be sufficient agreement so that you could go forward on a large measure of the program. There are some aspects of programs that would be raised by one or another that would raise these other questions, but there are a number of things that I think everybody could go along with, those that have expressed themselves here tonight representing what we know to be both points of view. And these specific programs are the things I'd like to see brought forth and settled on their merits in the light of these various points of view.

H.M.Jr: I don't see why everyone should be so kind to Mr. Noble, giving him all this information without his saying a word. I think he ought to say something.

Noble: All I could say - I feel I'm about three or four meetings behind. And, more than that, I was just saying to Dr. Thorp I have just come from a very practical bunch of business men of the Business Advisory Council, who have been telling me in very practical terms as to how to get business recovery; and I said to Dr. Thorp it would have been very nice if I could have brought them up here and put one here just in between us, because.....

H.M.Jr: Well, why don't we do that sometime?

Noble: I thought of that, Dr. Thorp, about the Business Advisory Council. I thought tonight how helpful it would be, instead of having just that group, if you had some small business men in with them and perhaps somebody representing Labor and different thoughts rather than just to have a group representing one philosophy or one practical business man's point of view. As it is, when they're through, they still have to go out and argue their other cases.

But I'm learning, Mr. Secretary. I just prefer to be a listener.

Thorp: Has the Business Advisory Council - is it at the point where they are making specific suggestions that would be significant for us here? Or hasn't it reached that?

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Noble: Of course, they're wholly practical in that they want certain specific - they have certain specific objectives that they think if put through - they too would like to see some boldness and perhaps some chances taken and gambling on the future. They think that if there could be a little lessening of the - a little more liberal administration of the Wagner Act or the Wages and Hours, and the taxes lessened - in other words, take a chance. Business takes a chance on an advertising program, puts in an investment, they go ahead, and if they watch their step they can stop it if it doesn't work.

Bean: For my own information may I ask, Mr. Noble, about the Wagner Act, one question? When your Council talks to you about modifications of that, do they speak in terms of their own experience in their own plants, or do they just reproduce what they have heard in the air?

Noble: Well, as a matter of fact, they don't find so much fault with the Act. It's the administration of it. I think they feel that - even with the small business man - there is a feeling that the administration is not impartial.

Eccles: Well, the regulations too. Wagner himself admitted that some of the regulations could be modified. With the modification of the regulations and a different type of administration, the Act itself - they can still conform to the Act and stay within its framework.

Noble: The small business man's problem - thirty percent of the small businesses have a capital of less than five hundred dollars - or rather, net worth. Eighty percent of all businesses have a net worth of less than ten thousand dollars. Only four percent of businesses have a net worth of more than two hundred fifty thousand dollars.

Gaston: In number of businesses, Mr. Noble?

Noble: What?

- Gaston: You mean in number of businesses - these percentages.
- Noble: Yes.
- White: Is it your thought, Mr. Noble, that the business men you are referring to believe that if these matters were taken care of that you have suggested - and probably there were a few others that you have had in mind that you have not mentioned - that boldness in that direction would result in a substantially higher level of national income next year?
- Noble: Oh, wholly, yes. And I think that they feel, and I think too, of course, there must be more capital investments.
- White: How do they propose to get that?
- Noble: They don't know exactly how to get that, except there has been some thought about - I don't know that I follow their views on that - about possibly having National Capital Banks - that the Government and commercial banks might share in the formation of a series of banks. Some bills have been presented, I believe, on that score.
- Gaston: Equity investment institutions.
- Noble: That's right, yes. But, of course, they would be successful only as the management was good.
- White: Do they feel that the accomplishment of these few things that you indicated, and others along similar lines, would of itself not be sufficient to induce a substantially larger flow of private investment, or do they feel it would be?
- Noble: They think that would do it.
- White: Then these other things you speak of might increase it still further but would not be necessary for a substantially higher income.
- Noble: Of course, I think I'd reflect the opinion of business men generally - that that would be all that was needed.

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- White: That's a definite cleavage of opinion, and I don't know whether there is any way of compromising those two views short of possibly some further pursuance of the analytical basis which forms the background. On the one hand you have this group who feel that if you do these things, fix labor, fix taxes, you'll go ahead fast enough, that we've gone ahead in the past and there's no reason why we can't go ahead in the future. And therefore, that would presuppose a very different kind of program from the one that has been suggested by many of us tonight, who feel that doing those things may help some but not enough to be decisive.
- Noble: Of course, I think the pooling of knowledge and experience is the finest thing in the world, and I think we should mix up the groups.
- White: It would be very interesting.
- Henderson: That's what we want to do at this hearing, Herb. I'm sorry that you feel that we're going to stir up the animus just on one side, to serve any special purpose. We are intending very definitely to provide a forum there for discussion.
- Gaston: That wasn't exactly my idea, Leon. I was afraid that by a mere discussion of a program which would inevitably magnify the dangers and the handicaps of the economic situation we were in, that you'd do more to frighten people and stifle business because of fright than you would accomplish in the way of good.
- Eccles: I agree with Herbert, in part at least, that I think at this time it's too late to undertake to have the Administration adopt or recognize an economic philosophy here of what we may term over-savings or - on the other side, that's under-investments - therefore it becomes necessary to have this seven or eight billion of new investment and the Government must provide it some way or another. I think that the hearing is all right, personally, that this is a factor, and you are undertaking in your Committee to cover the field and certainly this is an important element: why is it that capital, idle funds, savings don't flow? And you'll get

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a diversification of views. You'll get an opportunity to bring out the facts and the figures with reference to this thesis of over-savings, and you will also get other aspects of the problem brought out. But that of itself doesn't necessarily mean that there is an acceptance.....

Henderson: No.

Eccles:of any particular thesis, economic thesis, so far as the Administration is concerned.

Henderson: We won't take the results of this, Marriner, until next year.

White: Then you feel, Mr. Secretary, that we ought to go ahead - at least this technical committee ought to go ahead, pushing whatever its program is. And I hope you'll give us another opportunity to come with some positive suggestions which we will have in the near future.

H.M.Jr: Well, the way I see the purpose of this Committee - that we ought to be ready to give - if the President should ask us certain questions that he wants to..... We talked about railroad equipment. We have worked on a bill to take care of the power companies and put them on a self-liquidating basis. Roads - I don't know what happened to that roads memorandum.

White: Well, we have it.

Eccles: Taxes.

H.M.Jr: Taxes, housing, public utilities, and - I mean any of those things.

White: Well, that's what we're going forward with.

H.M.Jr: I think the Committee ought to continue. I think we want to be at least ready in case he should want anything. And I do think that this group ought to pay more attention in the future to possibilities of war in Europe and what we'd do in that case.

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White: We haven't touched that.

H.M.Jr: And I think we've got to more and more pay attention to that, certainly until the situation clears up. And I think that - take the railroad equipment thing, which is an excellent example. I mean if there was a war in Europe, we'd be called on at once - I mean what is the railroad equipment situation, and it would be very useful if we were ready.

White: Was there a study made of the freight car shortage?

Currie: I kept up with that. The total of serviced freight cars reached an all-time low.....

H.M.Jr: I think if you gentlemen would keep that in mind - I mean the possibilities of war in Europe and what it means - I'd like to meet with you people again.

April 20, 1939

What are the prospects for continued recovery in 1939 and 1940? How soon may we expect the national income to reach a level of \$80 billion a year? What are the threats to continued recovery?

- - - - -

Summary of Answers

1. The outlook for 1939 is ^{for} moderately improving business.
2. Two views were expressed on the outlook for 1940.
 - (a) A majority expressed the view that a business decline would develop in the second or third quarter of 1940.
 - (b) A minority expressed the view that there would be continued business improvement in 1940.
3. In the opinion of the majority the inadequacy of the 1939 recovery and the probability of a decline in 1940 justify a program of action by the Government.
4. The more optimistic minority opinion did not envisage enough improvement during 1940 to reach a national income of more than \$72-73 billion. The majority expressed the view that the rate of national income in 1940 would not reach the 1937 level which was \$70 billion.

- 2 -

5. The national income will not reach a level of \$80 billion a year in 1940 and there is very little prospect that it will reach such a level in 1941 even assuming a moderate price rise. The earliest year in which there is a real possibility of attaining a \$80 billion national income, assuming a continued recovery, is 1942-43.

6. Factors which will promote recovery during ensuing months of 1939 include: (a) the current high level of consumption relative to production, (b) continued expansion of the building industry, (c) the Government's increasing contribution to general purchasing power and (d) the expansion of installment credit.

7. In the majority view, threats to continued recovery in 1940 include: (a) sharp curtailment of the Government contribution to general purchasing power, (b) too rapid price advances especially in building material and labor, (c) a sharp increase in private savings as compared with consumption expenditures, and, as a result, (d) an inadequate volume of private capital expenditures.

In the minority view, the present high level of consumption will pull production and employment up to comparable levels, and fresh impetus will be given the recovery movement in 1940 by capital goods expansion and by replenishment of inventories.

TO:

Miss Chauncey

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Miss Chauncey,

This file was started by the letter from the Secretary to Mr. Coonley, dated March 8th, after a discussion in the Secretary's Office on March 2. There was no previous correspondence from the New York Office of the N.A.M. before this letter of the Secretary's on the subject of Depression questions.

Helen Pope

I do not know whether Mrs. Farrell takes care of this file or if it goes to Mrs. Small's files.

From: MR. DUFFIELD

April 28, 1939

Mr. E. V. O'Daniel,
Vice-Chairman, Committee on
Study of Depressions,
National Association of
Manufacturers,
14 West 49th Street,
New York, New York.

Dear Mr. O'Daniel:

Your reply to Secretary Morgenthau's list of questions arrived during his absence from the Department. On his behalf, I should like to thank you for the material which we will find very helpful and which correlates well with the work we have been doing here for the Secretary. I shall turn your letter and the answers to the questions over to the Secretary when he returns next week.

Very truly yours,

Eugene S. Duffield,
Assistant to the Secretary.



National Association of Manufacturers
OF THE UNITED STATES OF AMERICA

44 West 49th Street, New York

April 25, 1939

Hon. Henry M. Morgenthau
Treasury Department
Washington, D.C.

Dear Mr. Secretary:

Mr. Coonley, President of the National Association of Manufacturers, referred to the Association's Committee on the Study of Depressions your letter asking several specific questions concerning statements which had appeared in the Committee's report.

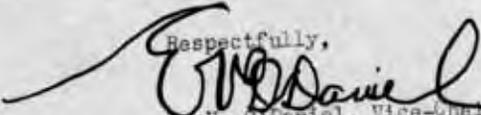
The Committee requested the writer, in view of his attendance at the conference in your office March 2, and because he is also vice-chairman of the Committee, to make a detailed reply, upon behalf of the Committee to your letter.

I regret that this reply has been so long delayed, but, as you will appreciate, there is inevitable delay in action resulting from the necessity of conferring with committee members and consultants.

It gives me great pleasure to submit to you the attached replies to the several questions listed in the memorandum accompanying your letter.

These replies must, Mr. Secretary, be considered as the viewpoint only of the Depression Study Committee; we have wished to avoid the further delay which would be necessary if each of the detailed answers were to be reviewed by the entire Board of Directors of the Association. If, however, you should desire to have the attached replies reviewed and acted upon by the Board of Directors we shall be glad to so arrange.

Respectfully,


E. V. O'Daniel, Vice-Chairman
Committee on Study of Depressions

EVO'D:ansh

QUESTION 1

"Has the Association any statistical studies which trace the relations, if any, between business activity and the trend of either excess reserves or Federal expenditures?"

ANSWER

At the outset it must be observed that fluctuations in the volume of business which in itself is a composite of a great many activities cannot be expected to flow directly from any single cause. The N. A. M. recognized this in its study of Depressions when it listed a considerable number of factors which contributed to the depression of 1938. It should be emphasized that in the opinion of the N. A. M. developments in the Member Bank reserves and Federal expenditures can be considered only as contributory and not necessarily as dominant causes of the contraction in production and employment which developed in 1937.

In considering the matter and in concluding that developments in reserves and expenditures were contributory to the depression, the N. A. M. and the people who worked with the N. A. M. had before them, of course, the statistical records of member banks' excess reserves, net deficit cash expenditures of the Federal Government and the volumetric records of business activity. All of these records are conveniently obtainable from the Federal Reserve Board. Two of them are regularly published by the Board. For example, the record of excess and required reserves appears in diagram form on page 99 of the Federal Reserve Bulletin for February, 1939. The volume of industrial production appears on page 97 of the same issue. Diagrams of the volumes and kinds of bank credit appear in the Federal Reserve Bulletin from time to time and are also conveniently supplied in the book of Federal Reserve Charts sold

by the Board of Governors of the Federal Reserve System for 50%.

A study of the net federal contributions to community expenditures was prepared by Arthur D. Gayer and read before the American Economic Association on December 30, 1937. The data were subsequently published by the American Economic Association. Various other analyses of the same sort of material have been made and the results have become generally available. For example, in the Times Annalist, similar sorts of records have been displayed from time to time.

The conclusion by the N. A. M. Committee that developments in excess reserves and expenditures contributed to the 1937-38 depression was reached through a study of the above described data and through careful reasoning about them. Thus the governmental policies which resulted in increasing the reserves required against deposits by the members of the Federal Reserve System and which resulted in the sterilization of imported gold very definitely contributed to a shrinkage of excess reserves of the member banks. This shrinkage is apparent in the charts above cited. Whether or not it was either necessary or wise, these policies did, in fact, result in a very substantial liquidation by banks, particularly in the New York area, of their holdings of government securities. Explanations provided by those familiar with banking matters in the New York area set forth that New York banks toward the end of 1936 were facing a situation in which they might have to borrow at the Reserve Banks. With their reserves immobilized and their expansion through gold imports prevented and with the increases of currency in circulation and a withdrawal of funds from New York normally to be expected during the winter season, these banks were facing a situation which required them either to liquidate some of their assets or to replenish their reserves through borrowing. In this belief, they chose the former course.

The end results of these policies by the Government and by bankers in reaction to the governmental policies were that the rapid increases in bank credit and bank deposits which had been going forward were terminated and in their place contraction appeared.

In the matter of Federal expenditures, it may be observed that the payment of the Bonus resulted in the elevation of the net cash disbursements as shown by Dr. Gayer's study to a rate of approximately \$5 billion per annum in the middle of 1936. The same figures indicate that by the spring of 1937 the monthly expenditures had fallen to a level which represented an annual rate of approximately \$600 million. This reduction, moreover, was brought about in large measure by the impact of high taxes of a nature discouraging to enterprise.

The N. A. M. does not hold any brief whatsoever for the belief that deficit expenditures of the government constitute an environment contributory to economic health and business prosperity. As a matter of fact, in the episode cited, the principal error probably lay in the extreme elevation to which expenditures were pushed in the middle of 1936 from which the subsequent contraction evolved. The "super-pump-priming" of 1936 provided an artificial stimulus which led business as a whole and compelled individual enterprises under competitive conditions to indulge in insound practices of which accumulation of excess inventories was an important feature.

Given, however, the condition of excessive pump-priming in 1936, the violent withdrawal of the stimulus contributed to the production of depression conditions. It is wholly unreasonable to suppose that sudden changes in magnitudes of \$5 billion to \$6 billion in annual rates in the magnitude of dollar incomes can be undertaken without producing repercussions in the economy as a whole.

This represents, in brief and summary fashion, the kind of statistical data which were considered and the kind of reasoning about them by means of which the N. A. M. reached the conclusion that raising of reserve requirements, sterilization of gold, and drastic instead of gradual reduction in Federal cash expenditures were among the immediate factors precipitating the 1937-1938 depression. It is again to be recalled and emphasized that the N. A. M. study committee dealing with these matters is convinced that business depressions are complex phenomena resulting from the interaction of a multitude of economic forces. A statistically precise relationship between a decline in business and an antecedent change in but one or two economic factors, is, therefore, neither to be sought nor expected. In its judgment, however, the matters under discussion in the preceding paragraphs were important contributory elements.

QUESTION 2

"In connection with paragraph (z) and the related matter on page 27, paragraph 4, how much importance does the Association attach to Government expenditures as business stimulants?"

Notes

- (1) Paragraph (z) on page 23 of the Depression Study Committee report, to which the first reference is made, reads:-

"The principal immediate factors which precipitated the economic collapse of 1937-1938 were:-

- (1) Government acts each of which separately might have been desirable if done at the proper time, but which were done at the wrong time and in the wrong way, particularly when their combined effect is considered.. -

(z) Drastic instead of gradual reduction in Federal cash deficit expenditures."

- (2) The material on page 27, paragraph 4, to which the second reference is made reads:-

"Certain non-government factors, coupled with the governmental factors already discussed, also existed prior to the 1937-1938 depression, and contributed to the extremely sharp drop in production and employment during the 1937-1938 depression. The principal non-governmental factors were:-

.....

- (4) Too ready acceptance of apparent effects of government spending policies, and making business calculations thereon; in many instances, moreover, business deliberately sought government financial aid."

ANSWER

The effect of drastic reduction in Federal cash deficit expenditures under certain conditions is considered in the answer to Question No. 1.

The present question deals with the relationship between government spending (deficit spending as referred to in paragraph (z) and business stimulation.

It is our opinion that the establishment or continuance of such cash deficit expenditures may at any point of the business cycle have an effect upon business activity.

It is always a question whether increased public spending will be offset -- or more than offset -- by decreased private spending; the main problem is whether such deficit spending will stimulate business activity in a time of depression.

We believe that fluctuations in government cash deficit expenditures have a limited influence upon short term fluctuations of business activity, particularly when production is at low levels. The effect becomes increasingly limited as it continues to be used over a long period of time, for the following reasons:

1. Ordinarily such spending is effective mostly within the area of consumers' goods.
2. It sets up counteracting forces, since the only funds the Government has to spend are raised either by taxation or by public borrowing. Both have repercussions on business, taxes tending to be deflationary, while public debt expansion arouses apprehensions.
3. Business uncertainty is caused by such government spending since neither the duration nor the amount nor the results can be counted upon with any degree of definiteness. One of the notable features of the American economy during the period of Federal deficit spending has been the ab-

sence of normal volumes of long-term undertakings by business men.

4. Long continued government deficit spending becomes a source of great fear among those who would like to use money but cannot get it, and, even more important, among those who have money to invest but refrain from investing it. This is true because such spending becomes the basis for schemes to put the government into competition with business and to extend its activities in various ways. It may also lead to confiscatory taxation, currency manipulation, monetary depreciation or debt repudiation.

Observation of curves showing the amount of net government spending, in comparison with business activity shows a very irregular relation between the spending and the level of business activity. The limited nature of the several "boomlets" which have occurred since 1933 may be mentioned in evidence.

The practical problem arising out of these considerations is, of course, how to reduce deficit expenditures in a way which will be rapid enough to avoid the prospect of inflation, such as appeared in the middle of 1936 but which will be sufficiently gradual so as not to contribute to business recession, as occurred in 1937.

QUESTION 3

"How much importance is attached to easy money conditions?"

ANSWER

It is believed there is no single quantitative measure which can establish the importance of easy money conditions. We are, however, of the following opinions:

1. Easy money conditions are never a "dominating" economic factor in the entire business situation. Such conditions are themselves a result of business conditions, showing the lack of demand for funds.
2. The ability to obtain loans may often be more important than the interest rates. In periods of severe depression there may actually be neither ability nor desire to obtain funds despite the existence of very low interest rates.
3. Interest rates may be so low as to discourage thrift and reduce investment.
4. Interest rates may become so low as to cripple the country's financial institutions by reducing earnings, as a result of difficulty in finding suitable loans and investments, and obtaining lower yields thereon. This condition tends to delay recovery.
5. The economic importance of easy money conditions varies in different industries. They are important in the building industry, in public utilities, and in a few other industries in which the capital charges form a large part of the operating costs of the industry. In most fields, however, interest

costs are but a minor item in operating expenses, hence easy money conditions do not play an important role in stimulating business activity. In general, however, it may be stated that easy money conditions are helpful and stimulating to business if they occur under such conditions as will permit business to make use of the funds at the rates asked.

We attach very little importance to easy money conditions as they exist today, since their existence marks the fact not only that bank reserves are excessive, but that there is little demand for funds to be used in business.

QUESTION 4

"Has the Association any studies tracing the effect of the government's farm price policies?"

ANSWER

(Dr. Coulter's statement will be used as the base answer; he is being asked for the source of all his statistics to permit checking; preliminary checking where the sources are known indicates that his statistics are correct.)

Extensive study of agricultural data discloses that ordinarily over a considerable period of reasonably normal years, curtailment of production (whether reduction in acreage and number of animal units or reduction in yield of products) has led to upward adjustment in prices. And contrariwise, expansion (or increase in yield) has led to downward adjustment. This conclusion is conditioned upon no substantial change in number of consumers, per capita consumer demand, development of substitutes, consumer purchasing power, changes in monetary values, and a host of other factors, - i.e., other things being equal.

It does not follow from this that a falling off in quantity of products results in a proportionate price advance or that farm income is greater because of the higher price. Indeed, extensive study of this particular point discloses that on the whole, farmers over a long period of years have received a larger income from larger crops (or other products) at lower prices than from smaller crops (or other products) at higher prices, or even medium quantities at medium prices.

Because of the natural economic law of supply and demand which operated automatically to influence production (and in turn to influence price move-

ments) during ordinary or reasonably normal periods of time, there developed an unfortunate, ill-founded belief that any desired adjustment in farm income could be brought about in a single country such as the United States merely by governmental adjustments in basic units of agricultural production such as acreage devoted to crops, number of animal units, etc. (or by governmental adjustments in the price structure).

This general thesis was widely discussed during the 1920's and for political reasons was accepted in one form or another by major political parties in the United States during the campaign of 1928. It led to the passage of the Federal Farm Board Act of 1929 and later to the passage of the first Agricultural Adjustment Act of 1933, and a series of other agricultural acts extending from 1933 to date. Two major departures are to be noted here:-

1. The government would assume responsibility for directing adjustments in production and in price (displacing natural economic laws).
2. An attempt would be made to apply during extraordinarily abnormal times (when many other disturbing forces were at work) the simple principles which produced a degree of satisfactory results in normal times. However efficiently or accurately the natural economic law of supply and demand operates over relative long periods of time under approximately normal conditions (taking account of population changes, development of substitutes, changes in consumer preferences, -- and per capita demand, -- changes in consumer buying power, changes in monetary values and other factors), it now seems perfectly clear that an attempt to adjust farm income through government (or other) control of production

or prices during extreme depression or boom periods must result in failure.

An examination of all available data with reference to economic changes during the last decade seems to disclose that such recovery as has taken place in the economic position of American agriculture (aside from farm debts, farm taxes, and some other special phases) since the depth of the world-wide depression:

1. Started with world-wide economic recovery.
2. Progressed in the same direction and generally at the same rate.
3. Was not intimately related to special farm programs to control production, price, farm income, etc.
4. Insofar as related to these control measures, agricultural recovery in the United States was interfered with and in some cases definitely hampered, delayed, or prevented.

We have here pointed out (1) that such recovery as has taken place has substantially followed nation-wide and world-wide recovery, and (2) in general, that farm programs have more often hindered, delayed or prevented recovery and have interfered with general national and world recovery.

This memorandum is intended to deal only briefly with the particular actions taken by the national government in the United States during the last decade. The outstanding actions taken fall primarily within the following groups:

1. The Federal Farm Act of 1929 aided in the marketing of staple farm commodities through special marketing agencies in such a manner as to hold prices above general world open market levels. While the immediate result was to bring somewhat higher prices to American producers

than they would otherwise have received and thus temporarily to maintain a somewhat higher farm income, the long-run result was to stimulate foreign resistance to American prices. In turn this encouraged foreign expansion in the production of leading staple farm products, -- especially such crops as cotton, wheat, corn, etc. It may be said that foreign countries were already engaged in substantial expansion in production of these commodities for other reasons such as attempts at self-containment, programs of national defense, etc. It seems apparent that the policy adopted by the United States, at least, stimulated and encouraged foreign resistance against buying in this market and further expansion of production in other parts of the world.

At the same time, the policy adopted in this country tended to encourage domestic resistance against desirable local, voluntary or normal production adjustments which ordinarily would have taken place. In other words, it tended to encourage American farmers to continue producing at full capacity or even to expand production in the belief that somehow the national government would find a way to hold up prices or advance prices and thus raise farm income to higher levels. It should be noted here that the Federal Farm Board constantly appealed to farmers not to expand, but rather to curtail production, stating that otherwise the higher price levels could not be maintained.

2. In view of the complete collapse of the programs attempted by the Federal Farm Board and in view of the world-wide depression which had developed between 1929 and 1932, the national government undertook in 1933 to develop a production control program. (First was adoption of the Agricultural Adjustment Act of 1933.) This control program aimed not merely to prevent domestic expansion, but to bring about substantial curtailment of domestic production, the purpose being to attempt to raise the price level. It was hoped that with curtailed production and higher prices the farm income might be improved. But this program had even more disastrous effects upon American agriculture than the preceding program.

- (a) Foreign buyers were even less able and willing to pay American prices.
- (b) Foreign production was expanded even more rapidly than during the earlier period. (Again this may have been partly stimulated by programs of national defense, self-containment, etc.)
- (c) Volume of exports declined even more rapidly than before so that even with curtailed production in this country, more burdensome surpluses accumulated.
- (d) Domestic consumers were even less able to pay the higher prices.
- (e) Program of production curtailment resulted in increasing the number of people unemployed, and opportunities for employment were greatly curtailed.

Insofar as there was improvement in the domestic situation, it was clearly a part of the world-wide improvement, but lagged behind world-wide improvement because of the methods used in an attempt to improve conditions.

3. The third outstanding effort on the part of the national government was to raise the domestic price level above world prices, -- in an effort to increase farm income. It centered around the policy of making loans on staple farm products (without recourse). While in some cases (for short periods) this policy seemed to have definite merit (such as in the case of the early loans made to corn growers) the next result of the program to date has been to further retard domestic agricultural improvement. Due to a series of drought years in the corn and wheat belt farm prices improved. Credit for this improvement was claimed for the loans-without-recourse. It would appear, however, that insofar as farmers received higher prices, or secured greater farm income due to higher prices, these were entirely because of short crops resulting from drought years added to the general world-wide recovery movement. Where drought failed to bring about a curtailment of domestic production (supplementary to production control programs) the loans-without-recourse led to the accumulation of tremendous surplus reserves which in time brought about lower farm prices and farm income rather than higher, thus forcing the government to be responsible for a tremendous carry-over and to make supplementary payments to producers whether for curtail-

ment of production or to supplement the market price.

4. A further feature of the program which has constantly interfered with the natural economic laws of supply and demand and which had in mind an effort to improve the price structure (or to increase volume of sales) in the hope that farm income would thus be increased, has centered around the various programs conducted by the Surplus Commodities Corporation. These programs should largely be classed as supplementary relief measures. While in some local instances they have seemed to bring temporary and local benefits to small groups of farmers and on the other side have given supplies of perishable products to relief clients, the net result may have been to injure the general price structure for the perishable commodity group as a whole. It is doubtful whether much (if any) was added to the farm income of the country, although large expenditures of public funds were made.
5. The fifth group of activities in connection with farm programs centered around the development of marketing agreements. In some instances these helped to develop the general growth of farmers' cooperatives; in some instances they seemed to interfere with that development. Generally speaking, these marketing agreements were intended to improve the price structure to the farmers even if it meant leaving surplus commodities to deteriorate. In some cases, consumers were burdened with higher prices, hence purchased smaller quantities. Opportunities for employment were lessened. There is no definite evidence to

indicate that farmers received greater agricultural income as a result of these programs while on the other hand, it seems that consumers as a whole were unable to purchase as large supplies of these commodities as they otherwise could have purchased and general recovery may have been retarded.

QUESTION 5

"Does the Association feel that the government should take any action to affect the general price level or specific group of prices?"

ANSWER

It is inescapable that the government should sometimes take actions which affect the general price level or specific groups of prices, in the course of supervision of the monetary system, foreign policy, anti-trust policies, etc. The effect upon prices of contemplated government action in any of these fields, is certainly an important consideration which should be carefully weighed, in the light of the environment at the time, and the probable effects of the action.

As we understand it, however, this question must be intended to refer to action designed to control general prices, perhaps with the view of controlling the level of business activity.

We do not believe the government should take such action. We believe that in the long run prices which will promote production, employment, and trade are far more likely to be established in free markets than from government attempts to fix price levels.

We do not believe the government should take action to control specific groups of competitive prices. These involve relations between various commodities or their prices, and such relationships cannot be controlled by any general means such as may be contemplated in currency management. Such general means tend to affect all prices and cannot be used to raise some prices while lowering others.

QUESTION 6

"Has the Association studied the profit cycle of industry or of particular types of industry to determine the best length of time for a loss carry-over?"

ANSWER

The Committee's views of this subject may be summarized as follows:

1. In economic theory, the period of loss carry-over should be indefinite, that is, the loss should be carried over until completely offset by subsequent profits.
 - (a) Otherwise, there is a depletion of economic capital.
 - (b) In effect, a tax on earnings under any other condition is in the economic sense really a tax on a loss.
2. If it is felt that some definite loss carry-over period should be provided it should cover all industry and be as long as possible, since otherwise there will be great hardship imposed on many companies; it must be borne in mind that business and profit cycles are far from having any uniform length.
3. If there is no such long general loss carry-over period then there should be established different periods for different industries, with differential tax rates also established for different industries.
4. If this is not provided for, then there should at least be a general carry-over period sufficient to take care of the

"average company".

5. Since the average industrial cycle is approximately 40 months it follows that the loss carry-over period for industry as a whole should be at least 4 years.
6. But in order to provide anywhere near adequate treatment for the durable goods industries which suffer most from fluctuating business conditions and earnings, the carry-over period should be at least 5 or 6 years.

QUESTION 7

"Has the Association studied the effect of inventory valuation methods on taxable as distinguished from actual net income?"

ANSWER

On the basis of extensive study which the Association has previously made, the Committee suggests that profits which exist on company books only because of increases in inventory values should not be taxed; similarly losses should not be allowed, to the extent that they are the result of declines in inventory values. To tax on any other basis means in effect that when the price on raw material is rising the lower-priced material sold out of inventory is replaced by higher-priced goods. Assuming that the physical amount of inventories remained the same, the profit made on the sale of a low-priced goods may be completely absorbed in new inventories. Such profit does not exist in cash and is not available for distribution in dividends, the payment of debts, or the purchase of additional plant and equipment, but under the present tax law and the regulations for determining income, inventory profits are taxable. We believe that the tax laws should be changed to correct the inequities of the situation described.

It may be pointed out that this problem would not be completely met but would be alleviated if we should include in our tax act adequate provision for a loss carry-over.

QUESTION 8

"Has the Association studied the practicality of defining the existing area of government activity, either geographically (TVA) or by function (Farm Credit)? Would such a delimitation, if practical, be reassuring?"

ANSWER

We do believe that such a delimitation would be reassuring.

Through its committees on National Economic Policy and government relation to industry the N.A.M. continues to give detailed study to this problem with a view to determining a basis for such delimitation.

Question 9

"As to the financing of small companies, has the Association made any historical study showing how small business formerly obtained financing, whether through the exchanges now subject to regulation, through banks or from private investors? Has the Association any information on the character of financing which small business or business in general needs? On the related question of capital formation and investment, mentioned on pages 28, 30, 33, and 35, (mentioned in the Depression Study Committee report) does the Association feel that the supply of investment capital now available is sufficient to meet financing needs?"

ANSWER

1. There has never been any organized method of financing small business. As to its initial capital investment, the great bulk of small business was financed, as to junior capital, by the savings of individuals in local communities, and as to other capital, by bank loans, secured by real estate mortgages, or unsecured, and by the sale of bond issues through local channels. Formerly about 60% of all American business enterprises were making a profit. At the present time only about 30% are able to show profit. This reduction in the prospect for profit, together with a radical increase in the rates of taxation on personal incomes, and with more severe regulation of commercial banking from various sources, have effectively shut off these sources of supply. The mortality of small business has always been very high in America but so has the birth rate and the aggregate volume of small business has been great. Small business generally has possessed great vitality and recuperative power. Prior to the depression the historical evidence is that the expansion of small business has depended primarily upon reinvested

earnings with bank loans and security flotations playing a secondary part. When small business has been "hard up" it has relied chiefly on local community support as the source of funds necessary for its continued existence.

2. Character of financing which small business or business in general needs:

Business in general, including small business, requires capital in the form of direct investment by individuals in unincorporated enterprises, or investment in the common stocks of incorporated enterprises. Such capital is venture capital rather than debt capital.

3. Does the Association feel that the supply of investment capital now available is sufficient to meet financing needs?

The Association is of the opinion that there is ample investment capital potentially available. It believes, however, that investment in business is not being undertaken because of severe handicaps. In the first place the opportunities for successfully conducting business have been curtailed by increasing government competition with business; by excessive governmental regulation of business; and by governmental policies and legislation in the field of labor. Secondly, high business taxation and high personal income taxation have curtailed the net returns and the prospect for profits, thus reducing both the ability and the incentive to invest. Thirdly, uncertainty as to future government policy on many important subjects has seriously deterred investment. Therefore, the demand by the entrepreneur for venture capital as well as the offering of such capital by investors remains relatively small.

QUESTION 10

"Can the Government be of any assistance in helping business to avoid these mistakes by, for instance, collecting and publishing current figures on inventories, orders, sales and installment credit?"

Note - This question relates to the following statements in the Depression Study Committee report -

"Certain non-government factors, coupled with the governmental factors already discussed, also existed prior to the 1937-1938 depression, and contributed to the extremely sharp drop in production and employment during the 1937-1938 depression. The principal non-governmental factors were -

B. Business

1. Mistaken inventory policy on the part of some industries. Induced by the labor situation and fear of inflation; also lack of appreciation that while an increasing inventory may be necessary where sales are high, it should be in lower ratio to sales volume.
2. Unwise consumer credit policy of many companies, resulting in an increased volume of unsound installment selling."

ANSWER

It would be of practical assistance to business if prompt, objective and more adequate data were available concerning stocks of goods or physical inventories, unfilled orders for leading commodities and the volume and character of installment sales and credit. It is suggested that the problem ^{be} studied cooperatively by representatives of government agencies and of business, with the view of limiting, so far as practicable, the burden on business in reporting and on government in compiling such information.

QUESTION 11

"Does the Association refer to foreign trade restrictions imposed by this government?"

Note - This question refers to the following part of the Depression Study Committee report -

"Certain non-government factors, coupled with the governmental factors already discussed, also existed prior to the 1937-1938 depression, and contributed to the extremely sharp drop in production and employment during the 1937-1938 depression. The principal non-governmental factors were -

.

Increase of artificial restrictions of foreign trade."

ANSWER

No; the statement had reference to exchange restrictions, quota arrangements and barter trading as engaged in by and between other nations.

QUESTION 12

"What steps does the Association feel that the United States needs to take or can take by itself at this time to achieve this goal?"

Note - "This goal" refers to the following statement in the Depression Study Committee report -

"The following analysis sets forth the more essential conditions which experience shows should prevail to give assurance of continued prosperity.

.

Definite and dependable currency standard."

ANSWER

The Committee's views on this question may be stated as follows:

1. We do believe that this government could do things which would facilitate the attainment of the goal despite unsettled foreign conditions.
2. Specifically, we believe steps should be taken which would definitely indicate both the intent and the ability to balance the Federal budget at a reasonably early date by reduction of government expenditures.
3. The stabilization fund should be retained as long as world economic conditions continue in their present state.
4. We believe that the executive department of the government should have the power to declare a temporary embargo on the import or export of gold.
5. The President's power to order the printing of \$3,000,000,000 in greenbacks should be repealed.
6. The discretionary power of the President to change the value of the dollar should be repealed.

7. The silver purchase act should be repealed.

QUESTION 13

"Does the Association consider the existing control over speculation and credit adequate?"

ANSWER

The section of the Depression Study Committee's report upon which this question (and also the following question) is based was prepared as a presentation of the more essential conditions which experience has shown should prevail to give assurance of continued prosperity. It might also be described as a statement of objectives. The Committee has not, however, proceeded far enough in its analysis of current conditions in relation to these objectives to be prepared to answer this question. The Association's Committee on Industrial Financing is continuing to give detailed study to all aspects of this particular subject.

QUESTION 14

"What steps would the Association suggest as being most helpful in attaining and maintaining the employment goal described on this page?"

Note - "The employment goal" referred to is expressed in the following statement in the Depression Study Committee report -

"The following analysis sets forth the more essential conditions which experience shows should prevail to give assurance of continued prosperity.

1. A balance between industrial, commercial and agricultural pay-rolls, employment and physical output, as indicated by the long term trend of relationship of pay-rolls to employment and of employment to physical output. This implies the absence of abnormal and violent changes in unit labor costs, which effect the relationship to prices and profits. It also means an absence of the extensive cyclical unemployment which characterized depressions, and of the undue industrial expansion and labor inefficiency of booms.
2. General harmonious labor relations.
3. An opportunity for employment at productive work for all those able to work and willing to accept available jobs at wages which conform to their productivity, together with an opportunity for advancement.
4. The adoption by employers of all feasible methods for stabilizing the volume of employment in their respective enterprises."

ANSWER

See the answer to Question 13. With reference to point (2) as quoted above, we believe that the best answer, certainly as far as business responsibility

is concerned, is contained in the H.A.M. report on "Model Employment Procedures," copy of which is attached. The answers to the remaining three points required (and are receiving) consideration of a large number of factors, all of which affect the achievement of the desired objective.



National Association of Manufacturers
OF THE UNITED STATES OF AMERICA

14 West 49th Street, New York

March 13, 1939

Mr. E. S. Duffield
Office of The Secretary of the Treasury
Washington, D.C.

Dear Mr. Duffield:

I wish to acknowledge on behalf of Mr. Coonley the Secretary's recent letter requesting more specific information on certain points made in the report of our Committee on Study of Depressions.

We expect that our statisticians will shortly have available in the particular form desired by you the information requested which we will then forward.

Sincerely yours,

Noel Sargent
Noel Sargent
Secretary

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March 9, 1939

Dear Mr. Coonley:

I am sending you with this letter a copy of the transcript of the meeting with Secretary Morgenthau on March 2nd. You will recall that he promised you a copy of this transcript. As he pointed out at the meeting, this transcript is kept merely for his personal records and is never used publicly by the Treasury Department or any one in it.

Very truly yours,

Eugene S. Duffield,
Assistant to the Secretary.

Mr. Howard Coonley,
President, National Association
of Manufacturers,
14 West 49th Street,
New York, New York.

Enclosure

March 6, 1939

FOR THE SECRETARY:

My dear Mr. Coonley:

In accordance with the discussion at our meeting on March 2, I am sending to you with this letter a list of questions on which we would like information and on which the Association would appear to have worked in preparing its study of depressions.

As you will see, some of the questions ask for statistical data -- working papers of the experts -- while other questions ask for opinions. If the questions are not clear or if your committees or experts would like to discuss them with members of our staff, Mr. E. S. Duffield of my office will be available to assist you.

After we have had an opportunity to exchange information on these and perhaps other questions, I hope that we can meet again to continue the helpful discussion which we began last Thursday.

Sincerely yours,

Secretary of the Treasury

Mr. Howard Coonley,
President, National Association
of Manufacturers,
14 West 49th Street,
New York, New York.

Enclosure
ESD:hp 3/3/39

Sent to Miss Chauncey
For the Sec'y's Files.
Original mailed 9:20 A.M.

MAR -4, 1939

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QUESTIONS BASED ON "A STUDY OF DEPRESSIONS"

*which trace the relations
if any.*

Page 23, paragraphs (x) and (z) -- Has the Association any statistical studies which ~~indicate a correlation~~ between business activity and the trend of either excess reserves or Federal expenditures? In connection with paragraph (z) and the related matter on page 27, paragraph 4, how much importance does the Association attach to Government expenditures as business stimulants? How much importance is attached to easy money conditions?

Page 24, paragraph 1 (z) -- Has the Association any studies tracing the effect of the farm price policies? On the related subject appearing on page 26, paragraph 2, does the Association feel that the Government should take any action to affect the general price level or specific group of prices?

Page 24, paragraph 2 -- Any background on the several tax questions raised in the March 2 meeting would be helpful. For instance, has the Association studied the profit cycle of industry or of particular types of industry to determine the best length of time for a loss carryover? Has the Association studied the effect of inventory valuation methods on taxable as distinguished from actual net income?

Page 25, paragraph 3 (x) -- Has the Association studied the practicality of defining the existing area of Government activity, either geographically (TVA) or by function (Farm Credit)? Would such a delimitation, if practical, be reassuring?

Page 25, paragraph 3 (y) -- As to the financing of small companies, has the Association made any historical study showing how small business formerly obtained financing, whether through the exchanges now subject to regulation, through banks or from private investors? Has the Association any information on the character of financing which small business or business in general needs? On the related question of capital formation and investment, mentioned on pages 28, 30, 33, and 35, does the Association feel that the supply of investment capital now available is sufficient to meet financing needs?

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Page 27, paragraphs B 1 and 2 -- Can the Government be of any assistance in helping business to avoid these mistakes by, for instance, collecting and publishing current figures on inventories, orders, sales, and installment credit?

Page 28, paragraph D 2 -- Does the Association refer to foreign trade restrictions imposed by this Government?

Page 34, paragraph 3 -- What steps does the Association feel that the United States needs to take or can take by itself at this time to achieve this goal?

Page 34, paragraph 2 and 4 -- Does the Association consider the existing control over speculation and credit adequate?

Page 35 -- What steps would the Association suggest as being most helpful in attaining and maintaining the employment goal described on this page?

MEETING OF FISCAL AND MONETARY
ADVISORY COMMITTEE

May 23, 1939.
10:30 A. M.

Present: Mr. Eccles
Mr. Frederick A. Delano
Mr. Donald C. Smith
Mr. Hanes
Mr. Ruml
Mr. White
Mr. Hass
Mr. Bell
Mr. Duffield
Mr. Currie

Delano: Mr. Secretary, I asked the privilege of presenting to you here the views of a committee that we have been working with on this thing - six or seven men of the Industrial Committee, including your Dr. White, Mr. Currie and others. They have been working now for three or four days - longer than that, four or five days - on a presentation, and this is the last copy we got - just finished about fifteen minutes ago.

We have divided it up into three parts: first, the reason for action at this time; second, the long-range point of view; and finally, the proposal for immediate action. And I'll handle it as you may want. I'll read the whole thing and let you follow and then discuss it, tear it all to pieces, if you like.

H.M.Jr: I think if you could read the whole thing through, maybe....

Delano: I really think that you ought to hear it. Perhaps you can read it quicker yourself, but unfortunately we couldn't have enough copies.

H.M.Jr: Well, I think if it could be read out loud for the benefit of everybody....

Delano: I'll be very glad to try my hand at it.

"The need for action."

Ruml: Mr. Delano, let me read it.

Delano: All right.

Ruml: "It is the consensus of those who have been looking into current industrial conditions that the time has arrived for special action. It is generally agreed by representatives of the various Federal agencies concerned with industrial activity that in the absence of such action, the unemployment situation will in all probability be substantially the same in 1940 as it is now.

"1. The present business situation and prospects for the next 12 months point at best to only a small increase in employment in 1940 over the present number. Therefore, the unemployment problem is not likely to be substantially different from what it is now and not much better than it was in the summer of 1938.

"2. Nearly half of the increase in industrial employment during the last half of 1938 has been lost during the first part of 1939 as a result of such factors as the uncertainties growing out of the European situation and the failure of business to engage in substantial capital expenditures.

"3. There may be a moderate pick-up in industrial production during the last half of 1939, but the course of activity during 1940 is quite uncertain, in view of a possible tapering off of the net contribution to purchasing power by the Federal Government, the failure of private investment to show real vigor, and the postponement of investment until after election. The amount of employment at best in 1940 is not likely to be as good as it was in the first half of 1937.

"4. During the first part of 1937, 35 million persons were employed in non-agricultural occupations. Today less than 35 million are employed. During 1940 we shall be doing well if, given no additional recovery programs, we again have 35 million persons employed in all non-agricultural pursuits.

"The non-agricultural working population in 1940 will be about 2 millions greater than in 1937, totaling somewhere between 43 and 45 million persons.

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We shall have fully 8 or more millions unemployed persons during 1940 (compared with less than 2 millions in 1929).

*5. In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.

*6. For full employment we need a 50 percent increase in industrial production and a national income of about 90 billion dollars. Even an 80 billion dollar national income, estimated to be necessary to balance the budget, is out of the question this year (with the rate so far this year of only 65 billion dollars). It is also out of the question for 1940.

*7. If the Administration's program is to be fortified with real recovery in 1940, the outlook for business recovery during the next 12 months requires the adoption of measures that will increase employment by an amount more than is now in prospect.

"A Long-range Program and Immediate Proposals

"If there is to be any reasonable expectation of a marked increase in business activity in 1940 a program must be adopted which will assure greatly increased investment and expenditure by private and government agencies. A series of proposals relative to that requirement is appended for consideration.

"If, however, it is proposed to secure and maintain reasonably full employment, a more comprehensive program than the one indicated here is essential. The formulation of such a program directed towards correcting basic maladjustments in our economic system should be a primary item on the agenda for study and review by all the agencies concerned. Unless this longer range program is soon formulated, the efficacy of the proposals below will be greatly diminished.

*The proposals appended seek to assure a higher level of business activity during the next year

- 4 -

by undertaking investments which for the most part will be financed outside the budget and by providing incentives to investment with government participation or sponsorship.

"In addition, there are some projects which do call for increased expenditure. In view of the acuteness of the need, the critical character of the year, and of the further fact that time is needed for the more basic reforms, these additional expenditures in the budget appear justified.

"PROPOSALS FOR IMMEDIATE CONSIDERATION

"Each of the proposals suggested for consideration, though of varying significance, should have definite significance, should have definite favorable repercussions on industrial activity.

"1. Public works.

"A public works program should be continued in the present form of a grant of principal and also by an alternative procedure of making the grant in the form of an interest subsidy with amortization of principal. Although there are some communities that could not avail themselves of interest free loans because they have already attained the statutory limitations on borrowing, there are many where the debt limitations have not been reached. Moreover, the prospect of being able to borrow at no rates of interest would be a strong inducement to alter restrictive state laws. The addition of this method of stimulating local responsibility for public works should not preclude continuation of procedures previously authorized by the Congress.

"2. Railroad Equipment Construction Program.

"There is urgent need for new railroad equipment. New equipment construction will not be undertaken in volume, however, without positive Government action. This action might take the form of either of (a) setting up a government self-financing corporation to order new equipment and rent and lease it to the roads; or, (b) having the Reconstruction Finance Corporation make loans covering the full

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cost of equipment for long maturities and at a low rate of interest, the equipment to be ordered before June 30, 1940 and delivered before June 30, 1941.

***3. Self-liquidating transportation facilities.**

The development of self-liquidating projects, such as tunnels, bridges, express highways, etc., along the lines worked out by the Bureau of Public Roads, would afford a means of increasing buying power without increasing budgetary expenditures. While inevitable delays would be encountered in getting a sizeable program under way, nevertheless, if the authority were secured at this time, money would be going out in 1940. There is urgent need of developing avenues for self-liquidating public investment not only for immediate purposes but as part of a long-range program.

***4. Government guaranteed loans to promote United States trade with foreign countries.**

A substantial increase in exports could be secured by making loans on favorable terms to certain foreign countries; a high proportion of the proceeds of such loans to be spent in the United States. Carefully controlled loans used for the purpose of increasing the industrial productivity of the borrowing country made at low interest rates would be far more secure than the private and largely unproductive loans of the 1920's. A program of such loans would further both our economic domestic program and our foreign policy.

***5. A power network.** The inter-connection of major electric power plants (public and private) with principal markets and industrial centers has been proposed as a defense measure with important peacetime use. A Federally owned and controlled corporation to hold and operate a 'power grid' would stimulate large scale operations on a generally self-liquidating basis.

***6. Housing.** Consideration should be given to a reduction in the rate for insured F.R.A. mortgages and in the minimum rate at which the Federal National Mortgage Association will purchase insured mortgages.

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Interest rates have softened since the reduction secured a year ago, and a further reduction would assist in giving a needed impetus to residential building. The prospects under this program are improved by the announced action of the Department of Justice in the construction industry.

"7. Farm investment program. Loans to small farmers and poor farmers at no rate of interest for the purchase of equipment and for investment for farm rehabilitation and diversification in accordance with the program of the Farm Security Administration.

"8. Other suggestions that merit consideration.

"a) Extension of the 'food-stamp' program for the increased sale of surplus farm produce to low income groups in the United States should be considered if current experiments are successful.

"b) The present Youth work program should be expanded. It now employs about 240,000 young people and could be expanded to employ 820,000 people, at a cost of \$331 million, or an average of \$400 a year.

"Present 'in school' work program could be expanded from 400,000 at present to 680,000, at a total cost of \$68 million. This would make possible employment of 1,500,000 young people at a total cost of \$369,200,000.

"c) Old Age Security. The amendments to the Social Security Act now pending, while helpful, still leave much to be desired. On the Old Age Insurance part of the program alone, tax accruals in the next calendar year will exceed benefit payments by about 500 million dollars. Ways and means of correcting or removing this deflationary influence should be explored.

"9. The Capitalization of Revenue-yielding Assets. Wherever it appears feasible, revenue yielding assets of the Government should be capitalized, and guaranteed debt substituted for direct debt.

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"Similarly, current expenditures on self-liquidating projects should be financed through the issue of guaranteed obligations.

"10. Taxation. No additional taxes on consumption should be imposed. If additional revenues are considered desirable, they should be raised from taxes that bear least on consumption, such as state - estate and gift taxes and personal income taxes on the middle income brackets."

It's very important if you're to hold these documents to make that correction, because it's quite misleading.

H.M.Jr: You mean the word....

Ruml: The word "estate" instead of "state." We haven't yet come to the point of taxing the state, but that may come later.

White: It's on the way.

Ruml: Have you (Hanes) explored that possibility: franchise tax for state charters?

"The tax exempt privilege for future issues should be eliminated and a program for the reduction of the volume of outstanding tax-exempts should be inaugurated. Certain revisions in corporate and other taxes that would eliminate what are conceded to be inequities and injustices could be carried through even though there may be slight reductions in revenue. In any corporate tax revision, preferential treatment should be accorded corporations earning less than \$25,000 a year."

Now, we don't consider this program, even if it were all adopted, Mr. Secretary - that it would be a decisive program, but we think it would be helpful.

H.M.Jr: Marriner, have you had a chance to digest this?

Eccles: I've never seen it until just this minute. I've been out of town last week. Went out Wednesday, didn't get back to the office until yesterday, and I haven't had a chance to....

H.M.Jr: I didn't know whether you'd want to start the discussion.

Eccles: Well, I'd like to do whatever you want to do on it. It seems to me if it's going to be discussed here today, we ought to start right from the first and go through it.

H.M.Jr: I'd like to make a little short statement to explain where I stand and then - not as to the details. And that is this. I say this in this room for the benefit of you people. I mean I feel very, very strongly that we need a program which needs Congressional action, looking forward to curing some of the basic ills, which will be good not for one year but let us hope will be good for five or ten years. And we have always ducked the difficult things.

And I am in complete disagreement with the expression that the best thing for business is to get Congress out of town as quickly as possible; and then, having done that, leave it to the opponents of this Administration to list all the things which we haven't done for six or seven years. Now, getting Congress out of town, I think, would be the worst thing that could happen. And there are so many things which - railroads and all the rest of these things.

I mean I don't want to find myself arguing whether it's good or bad, using that as an example, to lend the railroads the money to buy more equipment; it may be all right. But it doesn't cure the railroad thing and put them on a self-sustaining basis. The railroads when they get through - they'll still have the same troubles which they have and will continue to have them. And that's as good an illustration as any.

Now, I can't over-emphasize how strongly I feel the need of keeping Congress here until Christmas, because from a political standpoint if we don't get them this year certainly any child would tell us we won't get them next year. While I have never believed in the theory that business executives meet somewhere and go on strike against the Administration, and I have never subscribed to that, I do think that if we don't cure these things, next year they could very well say, "Well, we've waited seven years, we can wait 12 months longer."

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And all of these things - I mean everybody knows what the big problems are; I'm not going to try to list them. Now, the kind of program that I'm interested in, for my country, is the kind of program which would go right after the fundamentals and get those cured. If we could do that as the keystones, then I'd be more than willing to look at some of the other things to tide us over until these fundamental things are made into laws and take hold.

Now, again to illustrate my point. I think the President signed the United States Housing Authority bill sometime last April or June. Up to yesterday the United States Housing Authority had drawn on the Treasury for the magnificent sum of 37 million dollars. And they've been going 10 months. And, talking about another housing program - I mean how can you go up and say, "Give us another housing program," when they are authorized to spend 800 million and they've spent 37? Which again illustrates that if we cured some of these things....

And I've heard Marriner talk about this thing for two years, about going after the basic things. And if we did, then you'd have no trouble with me doing something which might - well, to use the worst expression, unkindest expression - a shot in the arm which would take care of the next six months to twelve months. But I can't get excited over another shot in the arm for six to twelve months when I feel fairly confident that at the end of the twelve months the unemployment situation will be as bad or worse. Now, that's - I could talk for hours, and I feel this thing fervently. I'll do anything within honor to sustain that position. But unfortunately, I've met with complete failure. Now, I can't be any more frank than that, can I Mr. Delano?

Delano:

Well, I for one - I don't disagree with anything you've said, Mr. Secretary. We did think in this discussion that we'd have to differentiate between the things that - we'd have to state what the situation was and the things that we thought were immediate - admitting that they weren't the final solution.

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I don't know that this group that we were with have any right to say, "Well, Congress has got to pass legislation that will put the railroads on a proper basis." That was a little beyond our frame of reference, I'm inclined to think. I suppose the President has been thinking about that a good deal the last three or four years and there are some reasons why he hasn't been able to make progress. Some of them are fairly obvious, some of them more problematical.

Or take that housing matter. You probably know the reasons why that hasn't gone further than that better than I do.

H.M.Jr: Well, there are all kinds of reasons.

Delano: We can't do any more than say, "Well, there ought to be some money spent on housing." If the administration of housing hasn't been able to push it faster than this, well, they ought to explain the reason or see if we can unblock the difficulties. I suppose the trouble is acquiring properties, getting the plans adopted, and all those things that they have to do.

H.M.Jr: Well, as I say, before I got into this - you see, you've got one page devoted to long-range program and there is really nothing in it other - to make up a long-range program. Then all the rest of it is devoted to the immediate situation.

Ruml: The purpose of the page on the long-range program was really a disclaimer, in the sense that we do not consider the specific measures that are proposed to constitute a long-range program. There are a series of items each of which is or may be good. Some of them are rather important, some less important. But as far as, again, the need for being decisive with respect to the situation, I don't think any of us think they will be.

H.M.Jr: Well, Ruml, nobody has ever given us a chart here of the way we should or shouldn't do. We could be meeting today as a committee or meeting as individuals. We could do anything we want. But

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I feel this situation is so desperate and time is running so fast against us that if there is going to be a complete reversal over in the White House and an expression of a program and an expression that Congress must stay here.... Was it in '35 they kept them here through 'till September?

Bell: Yes, end of August.

H.M.Jr: That was until September.

Eccles: Then they called them back in '37 to a special session.

H.M.Jr: Well, yes; they got the stuff through. But this - I mean I'm going to - I'm just raising the question whether some of you people mightn't want to get together a document and a round-robin stating the position. And there are plenty of people who aren't in this room, who hold very important positions, who I know would sign it and who haven't got a particular responsibility but are interested in the success of the country and Mr. Roosevelt. I mean you could get plenty of people to sign it. But it means that Mr. Roosevelt has to turn a complete somersault in his attitude towards keeping Congress here.

Eccles: Well, I agree with you on this question of Congress. Why on earth there should be any desire to get Congress out of here, with conditions as they are, when legislation is absolutely essential in order to meet the problems - the powers just do not exist, it seems to me.

Hanes: All these things require legislation, practically all of them.

Eccles: Certainly a lot of them. We certainly can't deal with the situation as it exists today without some Congressional action. And to adjourn Congress with the idea that things are going to get better because of wishful thinking just seems to me perfectly asinine. I agree with you a hundred percent that it ought to be the business of Congress and the business of the officials in the Government here to stay right here continuously until conditions get better. What the devil are public officials and Congress for?

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- H.M.Jr: Well, I'll go a step further. I mean I - I even go further. I think that the gamble is in letting them go home and do nothing. That's the gamble. You can't whistle this country up to 80 billion dollars. The gamble is in letting these fellows go home.
- Eccles: I agree a hundred percent.
- H.M.Jr: That's the gamble, and that's the complete difference. And I'm not saying anything that I haven't been saying now for some time. But I can't - I'm licked.
- Eccles: Well, I believe that so far as I know, the people in the administrative branch of the government that I know are not talking about Congress getting out of here. The only people that talk about Congress getting out of here are the leaders on the Hill, are the political people that don't have the responsibility for the administration of the governmental functions.
- H.M.Jr: And the President.
- Eccles: Well, yes, he may be, I suppose, but isn't he influenced to some extent by his leaders up there in that regard?
- H.M.Jr: I suppose so.
- White: Mr. Delano has a suggestion that might present possibilities for compromise. Is it possible to let them - tell them they're going home for four weeks or five weeks during July and specify the date when they're coming back before they go, so that they'll get out of the worst heat. Give them one month vacation, then have them come back; let them get acquainted with the conditions back home, too. Is that a possibility?
- Delano: More than that, you could give them a program to be working on.
- H.M.Jr: The only trouble with that - I'm just taking a leaf out of the President's book - last summer he announced to Congress that he had a very nice

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cool place on the Hudson River which is - as you know, it's too cool - and he would go up there and stay there until they got the legislation through. And they began to go to work in August, when it got so hot the fellows couldn't sleep in their rooms. Now, you remember, it got so hot, and he didn't get his legislation - it was the Public Utility Holding Bill, wasn't it - he didn't get it until it was so hot these fellows couldn't get any sleep. And when they couldn't sleep nights and get a place other than a park bench, by God, they put the thing through. That's the cold turkey on it. The same suggestion that you made has been made by somebody else close to the President. I mean, to use vulgar terms, "Sweat the bastards into giving us a program," and that's what you do, just sweat them into it.

Bell: There's one advantage. This year they've got air cooling up on the Hill.

H.M.Jr: But they haven't got it in their bedrooms, and these fellows can't sleep. And therefore the coolest place is Congress and they'd rather sit in the halls of Congress than they would in their own bedrooms.

This thing is desperate. I've heard Marriner say this for two years, about doing the difficult things.

Eccles: Been talking longer than that. But all we do is drift until we get up to an emergency program and then take an emergency program. There's been a series of emergencies here as long as I've been in Washington.

White: Well, all that is unquestionably in agreement, I think, with the expressions of everybody who worked on this. However, I wonder if even that statement doesn't avoid an important difficulty, and that is the shaping of enough basic measures, enough portions of a program that might fall under that category, within a time which would make it possible for Congress to get to work on it. Possibly the way out might be to see how fast whatever groups you wish to get started on this can produce the sort of program that you think is worth fighting for. Maybe if they start

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right now and meet continuously and drop everything else - it might be within a few weeks or a month you will have something that you are willing to make an integral portion of this more immediate program.

H.M.Jr:

Well, Mr. Delano, if I might make the suggestion, which would certainly be helpful to me - if you people could - that instead of approaching it this way, with eight or nine pages, whatever it is, on the temporary thing and then just mentioning the other, wouldn't it be possible to get up a state document as to what are the basic ills of the country which legislation will cure, and get up a thing which would be, say, over a five-year period; and then get enough people who are interested, besides ourselves, to sign this thing and send it over to the President. And then if you want to have a sub-program as to a short-range program, you can put in these things. But put all the stress on this thing. And if they believed in it, they could say they felt that the only way to save this situation would be to keep Congress here until this thing was gotten through.

Now, I'm willing to sign such a program, and I know that there are a lot of people, I'll say the heads of - Cabinet members and the heads of important agencies - that I'm quite confident would sign it. And approach it from that angle rather than this.

Now, I'm just throwing that out. I mean what have we got to lose? As far as I'm concerned, all I've got to lose is to tell me that - well, what the President's - that I'm wrong, he disagrees with me. And so what? I mean I'm none the worse off. I'm willing to risk whatever risk there is involved, as far as I'm concerned, with putting my name to it. There is no risk as far as I'm concerned personally, and everything to be gained if he would see the light. It all centers with him. It's a mental state with him.

And please - I'm talking as though you people were members of my Treasury family. I can't be any franker with you. The thing is so desperate.

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DeLano:

Well, I want to say I think that - I haven't seen the President officially or unofficially for at least two months; the last time I saw him was on a Saturday afternoon when we went down the Potomac, a day in early April when it snowed, and I didn't have any conversation with him, so I don't really know. But I did get a message that it was exceedingly desirable that our committee should get to the President some sort of a program this week. I got that message on Thursday of last week. It wasn't a written message, so I don't know in detail just what was expected. But I got the impression that the President will be making a message to Congress or something like that, and that he wanted to be able to state what the present conditions require. We didn't know whether he wanted a complete plan. I don't think we were ready to make a complete plan, although our committee had done a good deal of work on it.

Now, the members on that Industrial Committee are full-time men; they've all of them got their jobs, like this man (White) here and Mr. Currie and others. And when they meet with us over at our shop, they usually do it out of hours, and we sit in and discuss these various problems.

I don't know to what extent the President wants to state the seriousness of the situation as he views it, or whether he.... And so we put it in this form: first, that there was need for action; second, that there was a long-range program which would need more study than we had been able to give it; and third, that there were some things that must be done immediately if we were going to hold our own in the next eighteen months. Now, whether the President would want to give that out or not would be for him to decide.

I wouldn't object at all if the President took exactly the position that you have taken, that this is no good because it's too temporary, it doesn't go down to the basic needs. I think the two cases should be pointed out; the railroads and the housing are good illustrations of things that we have all been talking about for five or six years, and still we - it seems pretty futile. It's futile

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in part because of the necessity under democratic processes of convincing a great many different people and getting them in line.

Eccles:

That's the problem.

Delano:

I listened to Senator Taft last night and got pretty well disgusted with what he said. But he said a good deal the same sort of stuff that a good many others are saying. And then I listened to the President on the radio. I thought the President was swell. Still I'm not sure that he's got - that the leaders in Congress will do what he wants. You know that probably better than I do. He's got men who call themselves Democrats but who really are of a very conservative point of view. I didn't listen to Pat Harrison because I wasn't at the Chamber of Commerce to hear him make his speech; but some men told me what he said and it seems to be it was pathetic - a man who was one of the great leaders of the Senate, whom we've got to rely on for getting through stuff like this, saying the things that he said.

Eccles:

It seems to me that it is too late almost to get a fundamental long-range program. There's an election coming next year. I think too that the very nature of our system of government is such that we are not set up to operate on any long-range planning. We can't make a five-year plan because you have an election every two years. It's unfortunate, but I've about come to the conclusion that any long-range plan so far as getting one through Congress is concerned - it's an impossibility.

I think the Administration itself should have a plan and every piece of legislation that is proposed should fit into a program and should have a longer range objective. As to whether or not you could expect to propose a comprehensive long-range program to Congress and get anywhere, I rather doubt it.

It seems to me that, speaking of the railroad program - we all know of course that the railroads really need, a good many of them, reorganization

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and general rehabilitation. But the thing is so complicated and there will be so much controversy about it that it is a question whether it is possible to get more than is now proposed. The bill that Wheeler is handling is rather pretty constructive and attempts to effect reorganization and do other things that are helpful to the railroads.

On this matter of equipment, I have for the last two years talked to a good many railroad men and they are all favorable to a railroad equipment program. And irrespective of whether the road goes through a receivership or not, it's got to have equipment, it's got to be kept up. And it is one type of government help that could enter the picture where it would cost the government practically nothing and it would stimulate those industries that actually need some stimulation - steel industry, railroad equipment industry, and so forth.

That could be done and you could - that in itself is a - I don't know how long-range it may be, but certainly the railroads.... You couldn't say necessarily that it was an emergency. It is a constructive program where money is being spent or is being loaned in creating real wealth, and it wouldn't have attached to it the stigma of government expenditure that is wasteful. And it would get business support. To that end it ought to be psychologically favorable.

On this housing thing, I think it's a question of timing largely. The difficulty is that a program like that of the United States Housing Authority - it's just like Federal Housing. I remember in '34 when we first got the bill through; it was two years almost before the thing got organized and got regulations and got set up so it functioned. We had Mr. Moffett in here and a group of bankers that they brought in and we just didn't get anywhere for nearly two years. Finally, we did get to rolling. I think that the Housing Authority - it's a question of timing. Maybe by next year, I think, we possibly will see the expenditure that we expected this year -

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just about a year late. But after it once gets going, you have there a continuous mechanism.

Now, on F.H.A., on Federal Housing, I've been following these recent amendments, and it's just a typical case of what you're up against. This what they call the Cochran Amendment that - they've been holding this thing up, and on July 1, of course, the legislation expires and as a result the Federal Housing is bogging down. It's one thing that has been going along. As compared with March, it's been sliding off, and it ought to be going up at this time of the year. And whereas last March, as compared with a year ago - for the last week of March this year as compared with a year ago, it was eight million more for that week than a year ago; whereas within thirty days from then there was only a two million difference. It's been going right on down. Now, one of the reasons for that is, as I say, this amendment having to do with the prevailing wage clause, which can't be gotten out. Now, that's in to stay on the large-scale housing section, and there have been something like 25 million of approved applications cancelled, because the prevailing wage just simply cannot be paid anywhere in the South and in the Middle West.

I talked to the Federal Housing people yesterday about the matter. They say that so far as the large-scale housing, which was coming forward in very fine shape - that is, the limited dividend thing like this place over here in Virginia and the one out on Sixteenth Street - that they expect that large-scale housing will be reduced at least one-third permanently over what it otherwise would have been; that the prevailing wage just cannot be paid and make the projects profitable either in the South - I know they can't in the West, the part I'm from; it would finish that type of housing there entirely, at least for the time being, until there is an awful big change in the rental structure, and then they may do it.

H.M.Jr: Large-scale.

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- Eccles: That's right, large-scale.
- White: Unless you substantially reduce the interest cost.
- Eccles: That's right. But you're going to have difficulty unless the Government does the direct financing. You can reduce - it is now four and a quarter on the large-scale and you might reduce it a half of one percent, you might get it to three and three quarters, or reduce a quarter of one percent to four percent, but you can't do much beyond that.
- Now, I just mention those things as typical. There was one thing that was really rolling ahead, damn it. We get a prevailing wage amendment up on the Hill, you get the Cochran Amendment; that ties the whole thing up temporarily.
- Bell: What is the Cochran Amendment, Mr. Eccles?
- Eccles: That land cannot be put in at more than the last sale price and in no case more than, I think, ten percent of the cost of the project - something like that. But it means if you get a piece of land that was bought fifty years ago at two dollars or three dollars, that's all it can be put in at.
- Hanes: The prevailing wage scale - that's not added, that was already in.
- Eccles: No.
- Hanes: That's been added?
- Eccles: That's been added. We've been able to kill that every year. It was killed by 40 to 42. And damned if they haven't got that in on the large-scale. Now, it isn't on the small housing, it's only on the large-scale that they've put that in. But I checked it and Bob Wagner said he was double-crossed on it with Lodge and that crowd, and damned if he's going to get himself out on a limb again. So there you are.
- H.M.Jr: You want to say something, Mr. Smith?

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Smith:

Well, I don't - I'm such a newcomer in this official family that I rather hesitate to add my voice to it. But following the example of frankness of the Secretary, I must say in general at least that my fears have been too well confirmed; namely, that we probably haven't been doing continuous economic planning, which seems to me very necessary. Or, if there is planning going on, it's spasmodic and doesn't lead up to executive action.

And I'm wondering if again we are not very much in the position of the fire department or the fire chief, we'll say, who wishes that he had a long-term program of fire prevention worked out and in actual operation, but finds himself in the position of putting out fires wherever they arise. It seems to me that what we are right now up against is the purchase of fire equipment rather than the development of a fire prevention program. It's a question of timing. The two things might obviously go along together. But I am wondering if perhaps we don't have to think of the program of immediate action while at the same time committing ourselves to a little more earnest, systematic and energetic economic planning which will get at the basic problems to which you refer. That is, if we were to wait perhaps to get underneath the basic problems without in the meantime doing what may seem to be reasonable things, our basic difficulties accumulate.

I have not seen this memorandum before the meeting, as the rest of you haven't, and I have no specific proposals to make. But it does seem to me that a situation of this sort tends to emphasize the need for a rather systematic program of planning. That is - I'll take Mr. Marriner's point - of course you can't stick to a long-term plan, but at the same time that doesn't preclude long-term thinking on the part of the Administration. I see a good many reasons why public housing has slowed up. In any event it's going to be, I think, a rather slow tedious sort of thing, for a great many reasons. But maybe we can get at it by stimulating private housing with low interest rates, doing something about labor costs, and so on.

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I don't want to get into the details because frankly I don't know enough about each of these items to discuss them intelligently. But I hope that the Government can - we can stop buying fire equipment to put out fires and do the fire prevention job.

H.M.Jr:

Well, you use the fire department, which is a good example. I use another one, being a farmer, and that is the question of getting the seed bed ready. You can plant all the seed that you want. But if the ground is sour or if it isn't - if you don't plow deep enough and the seed bed isn't ready, you're going to continue to get poor crops. We've just been pouring on the seed and the fertilizer with a badly prepared seed bed, and the result is we're not getting the production we should.

Now, if this group has the energy or is so inclined to write out something that they agree might be done at this session of Congress, to put up to the President, and then want to come back, I'd be more than pleased to meet again. But just to send that kind of thing over - I personally feel that it's just adding good seed to bad and you'll see poor germination and it's just some more shot in the arm stuff that doesn't cure anything. And I'm not interested any more in that kind of a program. I want to save your time as well as mine. I mean I'm just not interested any more in these short-range programs. I mean you've got to do certain things to make it attractive for private capital to go to work.

White:

Was your thought, Mr. Secretary, that this statement would include some generalizations with respect to emphasizing that something needs to be done, or is it your thought that this statement....

H.M.Jr:

Excuse me. Can you hold your thought a minute?

White:

Yes.

(H.M.Jr. goes out to take a phone call)

Hanes:

May I ask a question about what is the over-all sum of expenditures contemplated? Any over-all figure? One billion, two billion - what is it?

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- Currie: The entire program, with the exception of some of the farm proposals, need not involve any additional budgetary expenditures. A governing consideration through it all was an attempt to keep the contribution to buying power without increasing the deficit.
- Duffield: What about disbursements, what about net cash outgo?
- Currie: That's what I meant by net cash contribution.
- Eccles: What he (Duffield) meant was, how about the increase in the net cash outlay, without budgetary effect?
- Duffield: Yes.
- Currie: There would be an increase, but it's hard to estimate. We didn't put down the figures. This public works, for instance, if it were carried through similar to the U.S.H.A. principle of a grant of interest rather than no grant and part of the principal - that would be a negligible charge on the budget. How much would go out that way I don't know. We'd have to go into that. There are considerable differences of opinion. I think a sizeable program could be initiated; other people don't think so. They feel that constitutional debt limitations would get in the way.
- The railroad equipment thing - we fancy that either through loans or through an equipment corporation - I'm sure in the case of the corporation that you could get half a billion out.
- Eccles: I think the corporation is out, though, Lauch.
- Currie: I don't.
- Eccles: I'm perfectly sure that the railroad people themselves would fight it bitterly.
- White: What's the alternative? They say they'll borrow, but there's been no indication in the past to give any assurance that there will be any substantial loans made.

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- Eccles: I think if you try to set up the equipment corporation, before you got any real volume - it would be two years away, just like other new activity which is set up - no immediate action.
- Currie: There is this big difference in this case, Governor, between this and housing. There is no question of a new type of housing, getting land sites and the other things as in U.S.H.A. The equipment capacity is right there, the plans are right there. You can order standard box cars and freight cars tomorrow. You know you need them. There is no reason at all to delay on that part of the program. On the special program, streamlined trains and others, there would be delay.
- Eccles: You'll get opposition on the railroad equipment thing. I was for it two years ago very strongly. Then was the time to do it. But I think now if you want any quick action, and with the general attitude of business, you'll get almost united opposition to the Government owning a corporation and buying equipment. There would be the great howl about the Government encroaching and stepping into a business field. I don't think you can get by with it at all.
- Bell: What evidence have you, Lauch, that the railroads will borrow money to buy equipment?
- Currie: I haven't got very much, Danny, on that end of it. That's why I'm a little bit more skeptical than the Chairman is on how much money would be taken up for loans. I am told by people quite close to the field that many roads just regardless of the terms will not borrow from the R.F.C. for equipment, will not go deeper into debt. Other roads we don't know about.
- (H.M.Jr. returns)
- H.M.Jr: Well, at the request of the President we saw Mr. Carl Gray and Mr. Willard of the B. & O., and Mr. Willard told us, using his railroad as an example, that he had enough idle cars and equipment, which he could repair in three to six months, to take care of a fifty percent increase of business.

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And he turned to Carl Gray and said, "Is that indicative of the industry?" and he said, "Yes." They needed fifty percent more traffic, see?

Eccles:

I think that's right when it comes to old equipment. I talked to Wilson McCarthy yesterday - used to be on the R.F.C. - he's been handling this D.&R.G. receivership. I also talked recently to the vice-president and treasurer of the Pennsylvania Railroad - last summer, just a year ago now. And, speaking of what McCarthy said about it, he said that they had - he mentioned it, I didn't at all - he was just saying that they had made a survey of the equipment situation and the amount of equipment that they could buy if they could get it on the right terms. He said, "Now, we've got plenty of equipment, but, God, the cost of rehabilitating it and maintaining it!" and he said, "It's obsolete, old and heavy." He said, "We could afford to scrap the whole works just rather than put the money out to put it in good repair and then keep it in repair and then the additional cost of operation."

Now, I think that if you could get terms of twenty to twenty-five years, which is the life of equipment, and buy the equipment over a year or two delivery period at this time, you'd be able to contract for equipment possibly at ten or fifteen percent less than you would under a condition of full business activity; and then if you had your two percent interest charge on the equipment, the cost of two percent interest and the amortization over that period of time, they tell me, would be less than the maintaining of a lot of this old equipment.

Bell: You're talking about a replacement program now.

Eccles: Yes, a replacement program.

Bell: What are you going to do about the debt on the present equipment you're going to scrap?

Eccles: Well, it's paid, most of it.

Bell: I don't think it is paid.

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- Eccles: Yes, it is. All the equipment - all this old equipment is - you see, your equipment trust certificates were issued for ten years and fifteen was the top on equipment trust, and all this equipment I'm talking about is twenty-five years old or more. What percentage of the total equipment, Currie, is over twenty-five years old, where they haven't had equipment trusts on it?
- Delano: I was told that the average age of equipment is 19 years.
- Eccles: The average. If you could just replace what is over 25 years old....
- H.M.Jr: Marriner, if I may interrupt, I'd like to keep this thing on this basis. Time is of the essence. I don't want today to discuss any one of these temporary programs. What I am saying to you gentlemen is this. I would love to be a part of a program which would help to lay before the President - try to convince him, nobody else, that at this session of Congress we should cure some of the basic evils which are the matter with this country and which we haven't done during the last six and a half years. Now, I'll do anything on that. But simply to go to him and be part of another spending program to take care of six to twelve months - frankly, gentlemen, I don't want anything to do with it. Now, I can't be any franker than that.
- But I'll do anything within - that is honorable, and I'm willing to be the spearhead, I'm willing to be the whipping boy, I'm willing to do anything to try to convince him as to the necessity of doing it this summer.
- Ruml: Mr. Secretary, I'd like to put before the group the criticism - my own views with respect to the general scale in terms of which thinking has to be done on this thing, because I think it is very important to get it in scale. If my scale is wrong, I'd like to change it. But it seems to me that what we have to have is an aggregate program, private and state and municipal and Federal, that would involve the investment of about ten billion dollars a year every

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year more than we are doing today. Now, obviously you can't get up to that this year or next year; but if you're talking of five years, you will not gain full employment unless that is your position.

Now, you can add up all you can think of in terms of private housing and railroad equipment and the utility industry and retooling and all the rest of it, and you're still going to be a long ways short, anywhere from four to six billion dollars short, depending on how optimistic you are as to what can be done privately. And if it isn't done privately, it has to be done some other way - state, municipal, Federal or what-not.

Well, from my own thinking, by just using that kind of arithmetic, it forces the consideration of what are now considered rather drastic measures. In the end, I don't know - I think you'll have to get an average standard of life much higher than we have today, because I don't believe you can go on investing ten billion dollars a year in productive facilities without getting to a position where then you have to invest twelve, fifteen, or what-not, because your potential production will increase so rapidly. But I get very pessimistic about little programs that involve 500 million dollars, I must say.

White:

I wonder whether there isn't a grave danger here of ending on not only a sour note, but one that doesn't accomplish anything. If I understand you, Mr. Secretary, your thought is that there may be a statement prepared for the purpose of convincing the President that action is necessary and necessary now, and that that action should include or should be built around changes, modifications, suggested proposals which attempt to correct some of the basic maladjustments. If that is your thought, I think that it would be an excellent idea to go to work on that and we could have something out in a short period of time, very short period of time.

If, however, your thought is - or the thought expressed by some others....

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- H.M.Jr: Excuse me. You have expressed my thought. You can stop right there.
- White: I mean we don't want to have to pick just what those basic proposals are. You mean just the first....
- H.M.Jr: No, you could stop right there, as far as I'm concerned.
- White: I think we could do that in a very short time. That might well be the first task.
- H.M.Jr: I don't know how Mr. Smith feels, but as far as I'm concerned you could stop right there.
- White: I think that can be done without holding up....
- H.M.Jr: John?
- Hanes: Yes, I agree with you.
- Eccles: Of course, you get the question of what are the basic problems.
- White: If we have to indicate what the basic problems are, then I'm afraid, to continue Mr. Smith's analogy, that all the houses will burn down before we get our fire apparatus.
- H.M.Jr: That's why I said, "Stop right there." Let's see what can be done at that point.
- Delano: I should think we'd want to do what you did, we'd want to give something as illustrative. For instance, the railroad problem is a good illustration, as good a one as you'd want.
- H.M.Jr: Now, again talking very much in this room, the President thinks that the public utility problem has been solved, and he says if I can't see it I don't understand it. Well, I don't think, and a hundred thirty other million people don't think it's been solved. He thinks there's nothing more to do on the public utility problem. Now, what I'm interested in on the public utilities is to get them so they think it's solved, so that they'll go ahead and spend their share of the money. He says it's solved.

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I admit I'm dumb, I don't understand it. Certainly the public utility industry doesn't understand it.

Delano: Does he mean by public utilities just the electric power? That is much nearer solved than other problems.

H.M.Jr: Well, I think he did mean that; but certainly in the minds of the public it isn't.

Eccles: Well, of course, your labor problem - after all, you've got two basic problems which we can't possibly solve at this time; we'll have them with us in more or less acute form for some time. And those are your labor problem and your agricultural problem, and they're both basic and they're both at the bottom of a good deal of the rest of our troubles. And yet you can't - you've got to deal with them as they are. And the question of new investment is related very closely to both of them.

Take housing, for instance. Now you've got - I was down in Houston day before yesterday and damn it, the whole town was tied up in strikes. They've got - I say tied up; it isn't, but they have got a lot of strikes there. You've got labor now demanding - where they've been getting twelve dollars a day for eight hours in any number of places, they are now demanding thirteen dollars a day for seven hours, on housing. Now, how in the hell can you get anywhere on a housing program with that kind of a labor situation?

H.M.Jr: Could I just talk to you (Delano) a minute alone? Could you gentlemen excuse me a minute? I just want to talk to you, if you'll come with me.

White: You see, Marriner, there is this great danger, which Mr. Smith points out, which I think you have in mind. We're liable to fuss around so long about getting agreement on basic problems; and if the suggestion of an immediate program is to await consummation of a basic program, then I'm afraid you're going to be stuck with neither....

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- Eccles: I don't think you ought to do - I think it's too late now. I think if you're going to do anything that we expect Mr. Roosevelt to carry, it can't be related - I mean it can't be a determination of all of these basic problems and an attempt at a solution of them. I think that it's got to be somewhat of an emergency operation, keeping in mind, of course, what the basic problems are. But, as you say, we could be here all summer discussing what the basic problems are. And then you ask Congress to deal with the basic problems and they want to have hearings for two years, want a study to be made.
- Ruml: Marriner, there is nothing inconsistent with doing both. This fire chief that has been brought into this conference - part of his fire prevention program is having apparatus to fight fires with, so they don't spread. I think the thing I feel is that these programs made here do not fit into any general setting. Now, they all are consistent with the general setting.
- White: I think you are probably over-emphasizing the temporary nature....
- Ruml: Let them be long-term, Harry, I don't object to that. But I don't see in this set of proposals that they are flesh on a skeleton of a more general orientation.
- Eccles: Well now, I don't agree with that at all. I don't think there is a single thing in this program, as I see it - and I've seen it for the first time this morning; of course there's nothing particularly new in it, just different aspects put together - I don't see anything in this program that isn't pretty fundamental and wouldn't fit into a longer range program. Now, I'll admit that it certainly isn't all-inclusive and it isn't complete, but there isn't anything in this - any part of it that is inconsistent with any long-range program.
- White: It's a misnomer, I think, to speak of this purely as a temporary program, because if you take the list from one down....

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- Eccles: Your railroad equipment isn't a temporary emergency. I mean it isn't a thing that affects the budget; it is merely stimulating private activity through Government help, such as Federal housing has been doing right along. It isn't using Government money; it will be using private money with, of course, the R.F.C. to lend it. Now, that could be long-range, it could be a program that would apply until such time as the railroads were able to carry themselves. Now, I think that two-thirds of your railroad problem today - those that are left - is a depression problem. The railroad problem that we talk about would disappear in a hurry if you had an 80 to a 90 billion dollar income, and what we are trying to do is to adjust the railroad problem based upon a 60 billion dollar income instead of support the railroads with this thing and get the income up. Then the damn problem would disappear.
- Bell: That's right.
- Eccles: Huh?
- Bell: That's right.
- Eccles: So that part of the program seems to me to be certainly....
- White: You can say that about the next one, number three, self-liquidating transportation facilities. There is always - that can be a continuing program, though obviously the amounts involved would vary very substantially.
- Ruml: It's fragmentary rather than temporary.
- White: I consider that - that's right.
- Ruml: That's really the word.
- Eccles: Now, this Social Security....
- Ruml: It is from my point of view. You get all involved in fragments, you have no sense of relative emphasis.

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- White: That's what we need - to determine the emphasis on the basic program, not to specify the items; but to so close the statement as to indicate the extreme necessity for a basic program, and the general pattern, possibly.
- Eccles: But, Beardsley, here is where I disagree with you. It isn't on the seriousness of the problem, it isn't on the size of the problem, see, at all. Where I disagree with you is that what you would propose to do would so completely shock the public and Congress that in the first place the President and people in the Administration would just not even dare to touch it, and therefore you get nothing. Now, I'll admit that we may go along until a crisis develops, see, of such a serious proportion that your program then wouldn't shock anybody because they'd be willing to accept damn near anything in order to meet the gravity of the situation. In the meantime, I think all we can hope to do is to keep this thing rocking along, see, for a year at a time until either Mr. Roosevelt, if he should go in again, or until somebody else that happens to be in here is willing to accept a more drastic program. That is, the public today can't, in my opinion, be made to realize the great need of increasing the consumption in this country.
- Ruml: Well, there is no reason why we shouldn't look at it. It wouldn't shock us particularly. I mean it seems to me transparent that if the figures are what I can believe them to be, the talk about doing it by private investment or public investment is just so much wasted wind, because you have to have all of both you can possibly get and can possibly think of. Now, there is no - I mean there is no argument there, if you look at a ten billion dollar deficiency in investment. And so it goes all along the line. And I think that we duck some of these things simply because we don't see the scale we have to work on.
- Eccles: Of course, you're talking about a 90 billion dollar program, which we of course do need to meet the unemployment thing.

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- Ruml: By the time you get to 80 - I mean you'll be shoving the thing over the hill all the time.
- Eccles: I agree. But the thing is, by God, I'd like to get up to 70 first.
- White: Some of us would settle for 68.
- Ruml: That's nothing.
- Eccles: I'd like to get the unemployment down from - well, I don't know where it is - 12, maybe, down to 10, or from 10 down to 8. I think if you're going in that direction, the thing sort of will feed on itself for a time and give you....
- Ruml: It's nothing, Marriner.
- Eccles: It will for a time....
- Ruml: Yes, in the twenties, swell.
- White: At any rate, you need time for a basic program, and unless you get an emergency program you're not going to have any time for a basic program.
- Ruml: You're not going to get an emergency program unless these fragments are worked into something that gives a program meaning.
- White: We'll have all we can do to agree on these details for the time being.
- Eccles: This Social Security thing....
- White: It's long-range - old age pension scheme in the long-range.
- Eccles: If you can shift from collecting five hundred million more than you pay out to a basis where that is evened up, so that you collect on a pay as you go basis....
- Ruml: May I be excused?
- H.M.Jr: What's that?

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Eccles: I think we can all be excused, can't we? What else have we got to talk about?

White: What's the task....

H.M.Jr: I take it in 24 hours you fellows will come back with a program.

Delano: Twenty-four hours is pretty....

White: With a statement.

H.M.Jr: With a statement.

Delano: I think we can bring back something.

H.M.Jr: With a statement.

Delano: A statement of some things we think are essential, and a suggestion that Congress ought to stay until we give it to them - something like that.

White: It will be in the form that we get others to acquiesce, I take it.

H.M.Jr: Yes. If you people are so disposed, I'd be delighted to see you at 11:00 tomorrow.

Delano: Tomorrow?

White: Give us - make it Thursday - another two days.

H.M.Jr: Another two days?

White: I mean Thursday, or Friday noon would give us....

H.M.Jr: I won't go beyond 11:00 o'clock Thursday.

White: All right.

H.M.Jr: And I want you to know, there's always the chance that I'm going to be called on the Hill before Ways and Means before that, and then what happens I don't know. I just want to....

White: I want to make sure that we understand that this statement is going to emphasize the necessity for securing Congressional action now, and action on both a basic program and an emergency program, without specifying the details of either basic or emergency; that this will be merely the first step in the direction of getting action.

H.M.Jr: Yes. But what I'd also - if I may suggest, state the basic need for five-year planning. Why do we need a thing like this? What is the desperate situation? What's going to happen if we don't have one? You see?

White: Then that would be the first step. If that were acceptable, then we'd immediately proceed to attempt to....

H.M.Jr: I mean I think, Harry, what you need is an economic statement explaining in very simple language why you people think that the thing is going to get steadily worse, not on a month-to-month basis but on a year-to-year basis; and that's why we need a five-year plan and that's why we need legislation to cure certain of these evils. And first give us a chance to let private capital go to work and then, second, figure out how much more you've got to supplement it by. Huh?

White: This should be a document, presumably, for the President and not one we'll have to consider can be made public.

H.M.Jr: I go back - anything we send him, I always go on the basis, will be made public.

Bell: One form or another.

H.M.Jr: One way or another.

Eccles, could you come back at 11:00 Thursday?

Eccles: Let's see - yes, I think I can come back.

H.M.Jr: Mr. Smith?

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Smith: (Nods yes).

Eccles: I don't feel very hopeful about it. I've about reached the frame of mind: let the damn thing go and take its course. I've been in that frame for some time.

H.M.Jr: That is, what's the use?

White: You don't feel that way. If you do, you ought to go out, get a couple of drinks for yourself.

Eccles: I've about made up my mind that the damn thing has got to go and take its course until we get such a crisis in the country that we'll deal with the thing either in one way or another.

White: Do you know any more jokes, Marriner?

Eccles: Huh?

White: I say do you know any more jokes?

Eccles: That's the way I feel.

White: No, you don't.

Eccles: Yes, I do.

Ruml: Progress or catastrophe.

Eccles: That's the way I feel about it. I'm giving up.

H.M.Jr: The tragic thing is, that's the way most of the people in this town feel.

Eccles: If I knew where the hell to go, I'd go there.

White: You mean if you like this statement, you'll fight for it.

Eccles: I'll fight for something I believe in.

White: If you believe in this statement, you'll fight for it.

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Eccles: Yes.

White: Then you're not all licked yet, you've got some fight in you yet, if you see something you like.

Eccles: I don't feel I'm licked, I feel the country's licked.

White: That's the boy.

Eccles: I'm just part of it.

H.M.Jr: Well, Marriner, I thought that White had almost a hopeless task keeping me in line, but it seems he's got almost as much trying to fix you up.

Eccles: Yes, I've been pretty damn hard, I suppose, lately. You reach a point after a while where you just don't give a damn. There's nothing - in other words, you say, "God, what the hell difference does it make?"

H.M.Jr: Well, I haven't reached that point yet; and, as I say, I'm willing to offer myself as a whipping boy if there has to be one.

THE NEED FOR ACTION

It is the concensus of those who have been looking into current industrial conditions that the time has arrived for special action. It is generally agreed by representatives of the various Federal agencies concerned with industrial activity that in the absence of such action, the unemployment situation will in all probability be substantially the same in 1940 as it is now.

1. The present business situation and prospects for the next 12 months point at best to only a small increase in employment in 1940 over the present number. Therefore, the unemployment problem is not likely to be substantially different from what it is now and not much better than it was in the summer of 1938.
2. Nearly half of the increase in industrial employment during the last half of 1938 has been lost during the first part of 1939 as a result of such factors as the uncertainties growing out of the European situation and the failure of business to engage in substantial capital expenditures.
3. There may be a moderate pick-up in industrial production during the last half of 1939, but the course of activity during 1940 is quite uncertain, in view of a possible tapering off of the net contribution to purchasing power by the Federal Government, the failure of private investment to show real vigor, and the postponement of investment until after election. The amount of employment at best in 1940 is not likely to be as good as it was in the first half of 1937.
4. During the first part of 1937, 35 million persons were employed in non-agricultural occupations. Today less than 35 million are employed. During 1940 we shall be doing well if, given no additional recovery programs, we again have 35 million persons employed in all non-agricultural pursuits.

The non-agricultural working population in 1940 will be about 2 millions greater than in 1937, totaling

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somewhere between 43 and 45 million persons. We shall have fully 8 or more millions unemployed persons during 1940 (compared with less than 2 millions in 1929).

5. In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.
6. For full employment we need a 50 percent increase in industrial production and a national income of about 90 billion dollars. Even an 80 billion dollar national income, estimated to be necessary to balance the budget, is out of the question this year (with the rate so far this year of only 65 billion dollars). It is also out of the question for 1940.
7. If the Administration's program is to be fortified with real recovery in 1940, the outlook for business recovery during the next 12 months requires the adoption of measures that will increase employment by an amount more than is now in prospect.

A Long-range Program and Immediate Proposals

If there is to be any reasonable expectation of a marked increase in business activity in 1940 a program must be adopted which will assure greatly increased investment and expenditure by private and government agencies. A series of proposals relative to that requirement is appended for consideration.

If, however, it is proposed to secure and maintain reasonably full employment, a more comprehensive program than the one indicated here is essential. The formulation of such a program directed towards correcting basic maladjustments in our economic system should be a primary item on the agenda for study and review by all the agencies concerned. Unless this longer range program is soon formulated, the efficacy of the proposals below will be greatly diminished.

The proposals appended seek to assure a higher level of business activity during the next year by undertaking investments which for the most part will be financed outside the budget and by providing incentives to investment with government participation or sponsorship.

In addition, there are some projects which do call for increased expenditure. In view of the acuteness of the need, the critical character of the year, and of the further fact that time is needed for the more basic reforms, these additional expenditures in the budget appear justified.

PROPOSALS FOR IMMEDIATE CONSIDERATION

Each of the proposals suggested for consideration, though of varying significance, should have definite favorable repercussions on industrial activity.

1. Public Works

A public works program should be continued in the present form of a grant of principal and also by an alternative procedure of making the grant in the form of an interest subsidy with amortization of principal. Although there are some communities that could not avail themselves of interest free loans because they have already attained the statutory limitations on borrowing, there are many where the debt limitations have not been reached. Moreover, the prospect of being able to borrow at no rates of interest would be a strong inducement to alter restrictive state laws. The addition of this method of stimulating local responsibility for public works should not preclude continuation of procedures previously authorized by the Congress.

2. Railroad Equipment Construction Program.

There is urgent need for new railroad equipment. New equipment construction will not be undertaken in volume, however, without positive Government action. This action might take the form of either of (a) setting up a government self-financing corporation to order new equipment and rent and lease it to the roads; or, (b) having the Reconstruction Finance Corporation make loans covering the full cost of equipment for long maturities and at a low rate of interest, the equipment to be ordered before June 30, 1940 and delivered before June 30, 1941.

3. Self-liquidating transportation facilities. The development of self-liquidating projects, such as tunnels, bridges, express highways, etc., along the lines worked out by the Bureau of Public Roads, would afford a means of increasing buying power without increasing budgetary expenditures. While inevitable delays would be encountered in getting a sizeable program under way, nevertheless, if the authority were secured at this time, money would be going out in 1940. There is urgent need of developing avenues for self-liquidating public investment not only for immediate purposes but as part of a long-range program.

4. Government guaranteed loans to promote United States trade with foreign countries. A substantial increase in exports could be secured by making loans on favorable terms to certain foreign countries, a high proportion of the proceeds of such loans to be spent in the United States. Carefully controlled loans used for the purpose of increasing the industrial productivity of the borrowing country made at low interest rates would be far more secure than the private and largely unproductive loans of the 1920's. A program of such loans would further both our economic domestic program and our foreign policy.

5. A power network. The inter-connection of major electric power plants (public and private) with principal markets and industrial centers has been proposed as a defense measure with important peacetime use. A Federally owned and controlled corporation to hold and operate a "power grid" would stimulate large scale operations on a generally self-liquidating basis.

6. Housing Consideration should be given to a reduction in the rate for insured F.H.A. mortgages and in the minimum rate at which the Federal National Mortgage Association will purchase insured mortgages. Interest rates have softened since the reduction secured a year ago, and a further reduction would assist in giving a needed impetus to residential building. The prospects under this program are improved by the announced action of the Department of Justice in the construction industry.

7. Farm investment program Loans to small farmers and poor farmers at no rate of interest for the purchase of equipment and for investment for farm rehabilitation and diversification in accordance with the program of the Farm Security Administration.

8. Other suggestions that merit consideration

a) Extension of the "food-stamp" program for the increased sale of surplus farm produce to low income groups in the United States should be considered if current experiments are successful.

b) The present Youth work program should be expanded. It now employs about 240,000 young people and could be expanded to employ 820,000 people, at a cost of \$331 million, or an average of \$400 a year.

Present "in school" work program could be expanded from 400,000 at present to 680,000, at a total cost of \$68 million. This would make possible employment of 1,500,000 young people at a total cost of \$369,200,000.

c) Old Age Security. The amendments to the Social Security Act now pending, while helpful, still leave much to be desired. On the Old Age Insurance part of the program alone, tax accruals in the next calendar year will exceed benefit

payments by about 500 million dollars. Ways and means of correcting or removing this deflationary influence should be explored.

9. The Capitalization of Revenue-yielding Assets. Wherever it appears feasible, revenue yielding assets of the Government should be capitalized, and guaranteed debt substituted for direct debt.

Similarly, current expenditures on self-liquidating projects should be financed through the issue of guaranteed obligations.

10. Taxation. No additional taxes on consumption should be imposed. If additional revenues are considered desirable, they should be raised from taxes that bear least on consumption, such as ^{state} state and gift taxes and personal income taxes on the middle income brackets.

The tax exempt privilege for future issues should be eliminated and a program for the reduction of the volume of outstanding tax-exempts should be inaugurated. Certain revisions in corporate and other taxes that would eliminate what are conceded to be inequities and injustices could be carried through even though there may be slight reductions in revenue. In any corporate tax revision, preferential treatment should be accorded corporations earning less than \$25,000 a year.

MEETING OF FISCAL AND MONETARY
ADVISORY COMMITTEE

May 25, 1939.
11:05 A. M.

Present: Mr. Eccles
Mr. Frederic A. Delano
Mr. Donald C. Smith
Mr. Currie
Mr. Bell
Mr. White
Mr. Duffield

Delano: Mr. Secretary, I think perhaps I ought to explain that immediately after our meeting some of our group got together. None of my colleagues stayed, so that I am a sole representative of the Resources Committee. But I went with the brilliant young men that have been helping and advising us; we had a meeting that afternoon, and then next morning we got together, each of us with some sort of a program written out. When we came to compare those programs, they didn't any two of them agree anywhere near, and we decided that Mr. White had perhaps the most constructive program of any and we put it up to him, with such help as he needed from the others, to prepare that program and to bring it here today. Now, none of us have seen it yet, so you'll hear it at the same time that we do.

White: We met again yesterday afternoon and there was some agreement, more disagreement. We talked again last night - conferred with some of the men - and I tried to incorporate this morning what I thought would be acceptable to everybody. But it can very easily be substantially improved, and we can make whatever changes and corrections and suggestions you have this afternoon. So that anyone can feel perfectly free who is interested in thinking about this, to cast all or as much of it aside as you like. I don't know whether you want it read aloud or not.

H.M.Jr: Come on, Harry.

White: Would you like to have it read?

H.M.Jr: Don't you think so?

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White: All right.

H.M.Jr: Harry, you wrote it; maybe you can read it. Is that all right with you (Delano)?

Delano: I think it would be better to read it.

H.M.Jr: Go ahead.

White: We tried a briefer one, but it didn't seem to include what everybody would have liked, so this is longer. But we can make a two-page summary of this; and I think that a good deal of this can be boiled down - cut off at least a couple pages.

"1. It is almost the unanimous opinion among Administration officials and technicians in Washington, thoroughly loyal to the Administration, that there is little if any prospect for market recovery during the next two years.

"2. They also recognize the possibility of a downturn in business activity before the end of 1940.

"3. With a moderate improvement in business the unemployment situation will not be substantially different from what it is now. With no improvement in business the number of unemployed will increase because of the annual accretion to the labor supply of more than half million a year, and because of continued technological change.

"4. Even under favorable circumstances an improvement in business could, in the first place, be only moderate and, in the second place, could not be continued long enough to sustain an \$80 billion income. The inability of our economy to maintain even the modest objective of \$80 billion is due to the existence of certain fundamental maladjustments which have been developing. It is more and more apparent that a profound change in our economy has taken place since the 20's. We have for the first sustained period in our history a volume of savings which at a high level of national income is considerably in excess of the profitable outlets for such savings. This discrepancy increases as the national income rises. (That is one of the chief reasons why

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a given volume of government expenditures will provide adequate outlets for the savings at a national income of \$50 billion whereas a similar volume would not provide adequate outlets at \$65 billion.)"

That sentence could easily come out.

"Consequently we must accept the inevitability of a low national income unless either or both of the following happen:

"(a) The development of important new or additional outlets for the savings of the nation;

"(b) An increased proportion of the national income is spent on consumers goods thereby reducing the volume of idle funds and increasing the profitable outlets for saving.

"5. The reduced outlets to savings characteristic of the 30's are the result of the following:

"(a) Absence of large new industries which over the previous decade had accounted for enormous new outlets for savings - automobiles and complementary industries, glass, etc., electric power and public utilities, chemical industry, rayon, radio, motion pictures, expansion of highways, aviation. The only new industries of any significance which have recently developed and which are on the horizon are armaments, aeroplanes, television, airconditioning, and these together cannot - barring war - be very important over the next few years as outlets for additional capital.

"(b) Basic difficulties in certain important industries which for special reasons do not provide nearly so important an outlet for capital as they did in prior decades.

"(c) A decreased rate of population growth, plus the slackening of the rate of population movement from rural to urban areas.

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"(d) The virtual cessation of foreign investment which in the 20's accounted for roughly from one half billion to a billion dollars a year.

"(e) The almost complete absence of borrowing for the production of public works by local governments which during the 20's had accounted for roughly a billion dollars a year outlet for capital.

"(f) Sharply curtailed expenditure on non-profit private building, i.e., churches, clubs, universities, etc. In the 20's these accounted for from a half billion to a billion dollars a year and they now are less than 200 million.

"(g) A high level of residential and commercial construction and....

"(h) The trend of technological change over much of industry in the direction of reduced amount of capital investment required per unit of output.

"6. The situation is further aggravated by the fact that those who have or control the nation's savings are definitely more timid in undertaking business risk ventures. The record of losses in the past ten years taken together with the disturbed international political situation and the increased rate of social change has operated to alter the evaluation of the risk of business venture. A larger proportion of the national savings now go into life insurance companies and trust funds which together with the banks are the most conservative investors of capital in the community. In addition the tax burden has increased as compared with the 20's, thus reducing the net profits left to the investor or business entrepreneur that he can expend as he wishes.

"7. The experience of the United States is not unique with regard to the changed nature of the economy. The advanced European countries have been suffering from the same retrogression of the economy. They, however, have temporarily solved their problems by a new industry greater than all the new industries of the past period combined, i.e., armaments.

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"8. Turning to the immediate situation there are numerous indications that the prospects for substantially increased national income in 1939 and 1940 are not good.

"There are only two elements in the picture which are bullish:

"(a) Disinventory has been taking place for some time and inventories are now at a low level.

"(b) Expenditure on consumers goods has been maintained despite the decline in business activity.

"On the other side of the picture are the following:

"(a) The upturn which began in 1938 reached its peak in December and since that time the level of business activity has been downward.

"(b) The public works construction program is not scheduled to reach a level higher than we reached this month.

"(c) The monthly net contribution to purchasing power by the Federal Government under the existing program will not exceed its present level.

"(d) There is little basis for the expectation that our exports in 1939 and 1940 will exceed the 1938 level despite the increased armament programs abroad."

These are, of course, conclusions that are based on more detailed studies in each case.

"(e) Housing activities appear to have reached a plateau and there does not seem to be any prospect of a further marked increase of home construction.

"(f) No substantial increase in investments is expected in the railroad industry.

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"(g) There is little prospect of an expansion in public utilities.. The present capacity of the industry is adequate to meet the needs of the country even with a moderate increase in the level of business activity.

"(h) Despite the increase in orders for armaments both domestic and from abroad, the heavy industries are still depressed.

"(i) There is nothing in the prospects of the agricultural situation to justify the expectation that it will supply a stimulating influence on business activity.

"(j) There is a further political factor, namely, there will probably develop a strong tendency on the part of certain groups to forego the prospects of immediate profits by postponing any investments or plant expansion until after the election.

"9. Even if there is a moderate increase...."

H.M.Jr: Can you excuse me a minute? Can you wait a minute? Do you mind? I just got a message from the White House. Can I be excused a minute? I'm sorry. I'll go in the other room. You don't mind, do you? Would you mind going right ahead, gentlemen? I mean just continue, will you?

(H.M.Jr. leaves room)

White: Shall we go ahead, Marriner?

Delano: Do you think there is any use going ahead?

Eccles: No, let's wait.

Delano: I think you've done a swell job.

White: The real meat will come in the last page.

Eccles: That's a peach of an analysis. I think you certainly hit the nail on the head all the way along. That's the first time we....

Delano: Realistic?

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Eccles:really have talked about what the factors are. You can't get a program unless you recognize the....

Delano: Get a realistic point of view.

Eccles:unless you realize the conditions that confront you. We talk about a program. To meet what conditions? You've got to analyze the conditions.

White: Lauch points to an interesting and important addition, where I mention the fact that "The experience of the United States is not unique with regard to the changed nature of the economy" and that they have introduced a new industry. There has been another change which is at least as important, you see, in England, which is the one country which has made the highest advance - that is, of the important countries - and that change is the reduced ratio of savings to expenditures on consumer goods.

Eccles: To a high-consumption economy and a low-savings economy. That's right. But that which is true in England is equally true in Sweden.

White: As you stated it, it's true in Sweden. As Currie stated it, it has become increasingly so in England.

Eccles: True in Sweden, Norway and Poland, and I think Switzerland.

(Discussion continues at random for several minutes until H.M.Jr. returns)

H.M.Jr: I think you people would like to know that the President and I and the leaders on the Hill have come to a complete understanding on the tax program.

Eccles: That's a good thing.

H.M.Jr: Yes.

Eccles: Are they going to start hearings on it right away?

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H.M.Jr: Right away. We have come to a complete understanding.

Delano: Fine.

H.M.Jr: Senate, House, White House and the Treasury.

Delano: Splendid.

H.M.Jr: So that's something.

Delano: We didn't read all the way.

Eccles: We've been waiting.

H.M.Jr: I'm sorry.

Delano: We've been discussing what's already been read.

H.M.Jr: Well, there was a little - I'm sorry. But I did want to tell you that, because from my standpoint it's important.

White: Shall we proceed?

H.M.Jr: Please.

White: We were at the bottom of page 4, at 9.

"Even if there is a moderate increase in business activity next year the unemployment situation will be substantially the same in 1940 as it is now.

"(a) Nearly half of the increase in industrial employment during the first half of 1938 has been lost during the first half of 1939 because of declining business activity.

"(b) During the first half of 1937, 35 million persons were employed in non-agricultural opportunities. Today less than 35 million are employed in non-agricultural opportunities. During 1940 we shall be doing well if we again have 35 million persons employed in all non-agricultural pursuits.

"The non-agricultural working population in 1940 will be about 2 million greater than in 1937 totaling somewhere between 33 and 35 million persons.

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We should have fully 8 million or more (compared with less than 2 million in 1929).

"In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities."

Now, that's the situation. Then we go on to say:

"In view of the fact that there is no expectation for more than a moderate rise in national income for the next fifteen months, and in view of the further fact that a decline in business activity some time during the next fifteen months is a possibility, and, most important, in view of the conviction that a sustained full recovery is impossible unless action is taken on basic maladjustments:

"There is general agreement among the persons referred to above that a comprehensive program of action should be initiated at once, such action to be designed to accomplish two things:

"1. Make some important contribution toward the elimination of the basic maladjustments which stand in the way of a sustained full recovery. Though the full effects of this program will not be felt for several years, it is vitally important that such a program be initiated at once for two reasons:

"(a) It will take a long time before such a program could be worked out and put into effect.

"(b) It is important to make clear to the public that this Administration intends to push toward a further extension of New Deal principles and will adopt measures designed to insure long-term and sustained prosperity, and that this Administration recognizes the existence of basic maladjustments and will take steps to solve them.

"2. A program of immediate action designed to insure a substantially increased national income

in 1940 and to protect us against a sharp downturn in business during the next fifteen months.

"Some of the measures which can be undertaken to correct basic maladjustments can be initiated with sufficient rapidity to raise the national income in 1940.

"If to these additions to national income resulting from measures taken to correct basic maladjustments there be added additions to national income resulting from measures specially designed to increase investment and expenditures in 1940, an increase in the national income of \$5 billion or so can be assured for 1940.

"There appears to be general agreement in the group mentioned above that Congress should not adjourn until an adequate program has been inaugurated. Or, if Congress is to adjourn, it should do so only with the distinct understanding that it would reconvene after a short vacation prepared to deal with these major problems, some of which have been before us for a long time."

Now, we might follow that with some discussion of the basic things - railroads, housing, et cetera.

H.M.Jr: Marriner, do you want to....

Eccles: I think it's a damn good statement. I agree with the analysis of the fundamental conditions. I think that if we had discussed these basic causes more than we have, the course we needed to follow would have been a very much clearer one. And I don't think that it is possible to develop either a short or a long program intelligently unless there can be some recognition and agreement upon the basic problems.

I think that right here is the real fundamental division between the liberal group within the New Deal and the business fraternity outside. The business fraternity have always taken the position that if left alone savings, whether corporate or individual, would immediately go to work in new enterprise as

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it has done in the past, which of course would tend to give employment. As long as funds circulate into new enterprise - housing or industry of whatever kind it may be - it naturally does give employment; and they have assumed that to be the case. I think their assumption is entirely erroneous.

On the other hand, I think the Administration have failed to recognize this fundamental fact, that these funds don't naturally accumulate, and have done some things to retard some of the investment that would have gone forward, even though it would have been entirely inadequate.

And the Administration itself haven't recognized, it seems to me, that its job was not primarily one of reform, but one primarily of inducing the use of idle funds through a combination of Government and private activity.

And this statement, to my mind, recognized what I have believed thoroughly for a long while. Merely to operate along on a question of deficit financing and a pump-priming idea has never been my idea, in spite of what has been said. The Federal Government gets deficits because they borrow funds that private capital save and don't use. I don't think there is any other alternative unless we adjust the tax system so as to increase consumption and reduce savings, such as the British have done. And if we would recognize as a long-range program that the Government is going to have to devise ways and means of utilizing either through taxes, through borrowing, or through the inducing of private industry to do so, all of the savings, then we get at the heart of the problem. That's all there is to it - the use of funds that accumulate on the part of corporations and individuals. And we've got to devise ways and means whereby private capital ought to be first given the opportunity to use what savings - funds accumulate; failing to do it, we've got to then through Government activity see to it that those funds are taxed, further accumulation is reduced, and in addition to that that we borrow enough to keep them going. I don't think there is any other recourse. This seems to me to state that.

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Now, as to how to do it, that thing is left open here. That, of course, is the.... But if we can agree on what the fundamental problem is, I think that we could go a long way toward an approach of the solution. If we say, on the one hand, that it isn't an under-consumption, that there is an outlet for all these savings, then of course we approach it in one way. If, on the other hand, we assume that we've got to get consumption up first in order to get new investment, then that's another approach. And I think it is important that we agree upon that fundamental approach before we try to work on a program.

White: When you speak of inducing capital to seek new outlets, take advantage of new outlets, I take it you have in mind a large sector of our economy which would provide those inducements if certain evils or outstanding obstacles were eliminated. An outstanding case of that would be the railroad industry, for example. That is, when you're speaking of inducing capital to go in, you have in mind the correction of some of these basic maladjustments which apply to specific sick industries which already exist.

Eccles: That's right. You have the automobile industry - General Motors and Chrysler increasing their cash, piling it up, and not paying out their earnings. The statements of Chrysler that I read last week for the first quarter of this year gave the largest earnings in the history of the company for the first quarter. They took \$7,800,000 in depreciation and didn't put it back - charged it off, but it wasn't reinvested. The net result is they added to their cash \$20,000,000 after paying a four million and a half dividend. They're not paying it out. They're adding to cash. Well, naturally, that's - and it isn't lack of confidence and it isn't taxes that bother them; it's the lack of a volume of business that enables them to use these funds, because they've got the profits, they've got the plant and facilities to produce all the market can take, and they still can't use it. General Motors is the same. I can take dozens and dozens of corporations and analyze their statements and show you exactly the same picture.

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Now the railroads, on the other hand, would spend a lot of money if they could get it. Here is an industry that has no idle cash. Of course, they are somewhat of a decadent industry, while the automobile is an advancing industry.

Bell: Maybe it's because of past policies that they haven't got any cash.

Eccles: It's a depression problem in part.

Bell: If they could follow the automobile policies, they could have cash, they wouldn't have so much debt.

White: The history of those two industries is so different that that comparison over-simplifies it.

Eccles: What you say, Harry, is true. The railroad problem is a special problem.

But you have in addition to that what I think of as somewhat of a deterrent, and that is this labor policy. And I know there are people - there are some of the economists and the people in the New Deal that disagree with me rather heartily on that. They think I'm anti-labor. Now, I'm not, but I know definitely that labor policy in the building trade is a real deterrent factor on large-scale housing development.

Bell: At least, that's been a factor in past depressions, where you have reduced labor and helped the situation and labor has come up last.

Eccles: It is a factor.

White: Little dangerous to say, Marriner - you speak of labor in general and then select a couple of outstanding sores. The statement that you are "for labor, but" might be said by anybody from Vandenberg to George. I should like to hear you qualify your statement by saying there are certain segments of the labor situation that are deterrents, so you wouldn't be misunderstood.

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- Eccles: I wouldn't make a public statement and bring that all into the picture.
- White: You wouldn't want to be misunderstood even here. But you could almost hear our friend Admiral Byrd or Coughlin....
- H.M.Jr: Admiral Byrd?
- White: Did I say "Admiral Byrd"?
- Eccles: You mean the Senator.
- H.M.Jr: In view of your helping the Chairman, I've got to help you.
- White: I didn't mean Admiral Byrd, I meant Senator Byrd.
- H.M.Jr: You think that both labor and Admiral Byrd are frozen, huh? Go ahead, Harry.
- White: No, I just didn't want to misunderstand him.
- Eccles: Now let me, so that I won't be misunderstood, say what I have in mind with reference to the labor policy, which is this: the cost of labor in the housing industry, from the source of the raw material - take the forests, take the iron ore in the mine, all the factors that enter into building construction - is certainly three-quarters of the cost. Now, if you follow it through, you'll see that the profit that comes out of the thing and the taxes that come out are not the great items, when you take the breakdown of any operation.
- White: Of course, you take your national income and over 60 percent goes to labor.
- Eccles: That's right.
- White: But, after all, labor is the country. But I didn't mean to get you off on that.
- H.M.Jr: Why can't we all take this - I think it's a very interesting document - and study it a little bit.

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huh, and then if Mr. Delano and Mr. Eccles and Mr. Smith - if any of them want to exchange views as to what the best use to make of this thing is to make it effective, why, I'd be receptive, see? But in the meantime I'd like to just let it cook a little bit.

White: I'd like to, if it's all right with the rest of you, do this over, give you all copies this afternoon. We can make some....

H.M.Jr: All right, but frankly, I'm just exhausted.

Delano: Well, Mr. Secretary, you spoke of one thing....

H.M.Jr: I think if you - do you think that's all right, Mr. Smith, if they kind of let this thing cook a little bit? Then, as I say, if you people - what's the best thing to do with it, you see? What?

Delano: Well, of course....

H.M.Jr: What?

Delano: I can see this, that the first four or five pages of this are pretty lugubrious reading, and yet I think it is very essential in order to be realistic, in order not to blink at the facts. It isn't what you give to the public. You wouldn't want to give it all to the public.

H.M.Jr: Well now, you fellows think over what you want us to do with this, see? In the meantime it's going to cook. Is that right?

Eccles: All right.

1. It is almost the unanimous opinion among Administration officials and technicians in Washington, thoroughly loyal to the Administration, that there is little if any prospect for marked recovery during the next two years.

2. They also recognize the possibility of a downturn in business activity before the end of 1940.

3. With a moderate improvement in business the unemployment situation will not be substantially different from what it is now. With no improvement in business the number of unemployed will increase because of the annual accretion to the labor supply of more than half million a year, and because of continued technological change.

4. Even under favorable circumstances an improvement in business could, in the first place, be only moderate and, in the second place, could not be continued long enough to sustain an \$80 billion income. The inability of our economy to maintain even the modest objective of \$80 billion is due to the existence of certain fundamental maladjustments which have been developing. It is more and more apparent that a profound change in our economy has taken place since the 20's. We have for the first sustained period in our history a volume of savings which at a high level of national income is considerably in excess of the profitable outlets for such savings. This discrepancy increases as the national income rises. (That is one of the chief reasons why a given volume of government expenditures will provide adequate outlets for the savings at a national income of \$50 billion whereas a similar volume would not provide adequate outlets at \$65 billion.)

Consequently we must accept the inevitability of a low national income unless either or both of the following happen:

(a) The development of important new or additional outlets for the savings of the nation;

(b) An increased proportion of the national income is spent on consumer's goods thereby reducing the volume of idle funds and increasing the profitable outlets for saving.

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5. The reduced outlets to savings characteristic of the 30's are the result of the following:

(a) Absence of large new industries which over the previous decade had accounted for enormous new outlets for savings -- automobiles and complementary industries, glass, etc., electric power and public utilities, chemical industry, rayon, radio, motion pictures, expansion of highways, aviation. The only new industries of any significance which have recently ~~taken place~~ and which are on the horizon are armaments, aeroplanes, television, airconditioning, and these together cannot -- barring war -- be very important over the next few years as outlets for additional capital.

(b) Basic difficulties in certain important industries which for special reasons do not provide nearly so important an outlet for capital as they did in prior decades.

(c) A decreased rate of population growth, plus the slackening of the rate of population movement from rural to urban areas.

(d) The virtual cessation of foreign investment which in the 20's accounted for roughly from one half billion to a billion dollars a year.

(e) The almost complete absence of borrowing for the production of public works by local governments which during the 20's had accounted for roughly a billion dollars a year outlet for capital.

(f) Sharply curtailed expenditure on non-profit private building, i. e., churches, clubs, universities, etc. In the 20's these accounted for from a half billion to a billion dollars a year and they now are less than 200 million.

(g) A high level of residential and commercial construction.

(h) The trend of technological change over much of industry in the direction of reduced amount of capital investment required per unit of output.

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6. The situation is further aggravated by the fact that those who have or control the nation's savings are definitely more timid in undertaking business risk ventures. The record of losses in the past ten years taken together with the disturbed international political situation and the increased rate of social change has operated to alter the evaluation of the risk of business venture. A larger proportion of the national savings now go into life insurance companies and trust funds which together with the banks are the most conservative investors of capital in the community. In addition the tax burden has increased as compared with the 20's, thus reducing the net profits left to the investor or business entrepreneur that he can expend as he wishes.

7. The experience of the United States is not unique with regard to the changed nature of the economy. The advanced European countries have been suffering from the same retrogression of the economy. They, however, have temporarily solved their problems by a new industry greater than all the new industries of the past period combined, i.e., armaments.

8. Turning to the immediate situation there are numerous indications that the prospects for substantially increased national income in 1939 and 1940 are not good.

There are only two elements in the picture which are bullish:

(a) ^{Dis} This inventory has been taking place for some time and inventories are now at a low level.

(b) Expenditure on consumers goods has been maintained despite the decline in business activity.

On the other side of the picture are the following:

(a) The upturn which began in 1938 reached its peak in December and since that time the level of business activity has been downward.

(b) The public works construction program is not scheduled to reach a level higher than we reached this month.

(c) The monthly net contribution to purchasing power by the Federal Government under the existing program will not exceed its present level.

(d) There is little basis for the expectation that our exports in 1939 and 1940 will exceed the 1938 level despite the increased armament programs abroad.

(e) Housing activities appear to have reached a plateau and there does not seem to be any prospect of a further marked increase of home construction.

(f) No substantial increase in investments is expected in the railroad industry.

(g) There is little prospect of an expansion in public utilities. The present capacity of the industry is adequate to meet the needs of the country even with a moderate increase in the level of business activity.

(h) Despite the increase in orders for armaments both domestic and from abroad, the heavy industries are still depressed.

(i) There is nothing in the prospects of the agricultural situation to justify the expectation that it will supply a stimulating influence on business activity.

(j) There is a further political factor, namely, there will probably develop a strong tendency on the part of certain groups to forego the prospects of immediate profits by postponing any investments or plant expansion until after the election.

9. Even if there is a moderate increase in business activity next year the unemployment situation will be substantially the same in 1940 as it is now.

(a) Nearly half of the increase in industrial employment during the first half of 1938 has been lost during the first half of 1939 because of declining business activity.

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(b) During the first half of 1937, 35 million persons were employed in non-agricultural opportunities. Today less than 35 million are employed in non-agricultural opportunities. During 1940 we shall be doing well if we again have 35 million persons employed in all non-agricultural pursuits.

The non-agricultural working population in 1940 will be about 2 million greater than in 1937 totaling somewhere between 33 and 35 million persons. We should have fully 8 million or more (compared with less than 2 million in 1929).

In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.

In view of the fact that there is no expectation for more than a moderate rise in national income for the next fifteen months, and in view of the further fact that a decline in business activity some time during the next fifteen months is a possibility, and, most important, in view of the conviction that a sustained full recovery is impossible unless action is taken on basic maladjustments:

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and will adopt measures designed to insure long-term and sustained prosperity, and that this Administration recognizes the existence of basic maladjustments and will take steps to solve them.

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