

February 1, 1938.

MEMORANDUM:

TO - Mr. James Roosevelt
FROM - Chairman Eccles

In accordance with conversation I had with you the other day, I am enclosing herewith an outline of tentative program to combat the recession. I hope it will assist you in discussing matters with Harry Hopkins.

I wish you would tell Harry that we all miss him and hope he will hurry back.

Enclosure

MSB:VE

February 1, 1938.

Chairman Eccles

Outline of a Tentative Program

Luchlin Currie

to Combat the Recession

Attached is a proposed draft of a tentative program to combat the recession. Dr. Ezekiel has gone over it and I have incorporated some suggestions of his on phraseology. He is quite concerned lest this, or its substance, goes to the President before we have an opportunity to work through a well-rounded plan that will provide both for immediate steps and for longer-run follow-up steps. I took the liberty, therefore, of adding the final paragraph.

LBC:em

OUTLINE OF A TENTATIVE PROGRAM TO COMBAT THE RECESSIONGeneral

The level of costs and prices was too high in the summer of 1937 in relation to the then existent national buying power to lead to a further expansion in employment. Since then costs and prices have declined relatively far less than the decline in buying power. The Administration has apparently closed the door on any concerted or wide-spread attempt to reduce costs. Therefore, the only solution is to bring up buying power until the present uneconomic costs and prices become economic. A variant of this is to lower effective costs through the use of subsidies.

The longer a spending program is delayed, the more eventually will have to be spent. Various types of expenditures which are currently operating to maintain buying power may be expected to diminish month by month. These include industrial plant and equipment, utility expenditures and exports. Bank credit and consumer credit is continuing to be liquidated. Corporate bond prices are falling, thus threatening the solvency of financial institutions and foreshadowing financial difficulties. Therefore, the longer the delay, the greater the deflationary forces a spending program will have to contend with.

The program should be of such a type as to be capable (a) of getting a large amount of money out quickly and (b) of being tapered off gradually when and according as private activity expands. We must avoid both the 1933 and the 1936-37 mistakes. It is suggested that our initial goal should be a net excess of activity-creating expenditures over activity-decreasing receipts of \$400 million a month.

A large-scale spending program can be financed without any increase in the public debt. This should be possible (a) by using funds in the inactive gold account of \$1.3 billion and (b) by having various Government credit agencies which hold negotiable assets repay their indebtedness to the Treasury by issuing debentures to the public based on those assets. Some \$2 billion would be made available to the Treasury from this source.

Elements of a Program

1. The quickest outlet for increased expenditures of a maximum activity-creating nature is W. P. A. If the present means test were abolished it is possible that the work relief rolls would expand to between 3,500,000 and 4,000,000. (C. W. A. carried 4,500,000 ~~million~~ at its peak). At \$65 a month per person this would amount to between \$227 and \$260 millions a month. The sponsors' contributions, at \$15 per person, would amount to from \$52 million to \$60 a month additional, or a total of from \$280 million to \$320 a month. This would be about \$150 million a month in excess of the current rate of expenditures.

It is suggested that the hourly rate be reduced and the number of hours worked per month be increased so that sponsors get more for their money.

This type of expenditure could be tapered off as business activity increased.

2. Housing.

(a) It is suggested that for a limited period, (say up to January 1, 1939), all private building contractors be offered free W. P. A.

labor to a value of 10 per cent of the F. H. A. appraised cost of new houses up to \$16,000. The percentage of free labor provided could be gradually reduced as industrial activity recovered. This offer would apply to both publicly and privately financed housing.

This would frankly be a Government subsidy for a limited time to compensate for the present unfavorable rent-cost relationship. It would be a subsidy, however, that would not cost the Government any sums in addition to what it is scheduled to spend in any case. In fact the Government would save on such a subsidy as the resulting stimulation of private building would result in a decrease in unemployment and work relief costs.

(b) It is suggested that the present requirement that local communities put up 10 per cent in connection with U. S. H. A. slum clearance operations be repealed. This step, in conjunction with the offer of 10 per cent free W. P. A. labor for a limited time, should stimulate the spending of U. S. H. A.'s \$500,000,000.

(c) Funds should be provided for a test of the possibilities of cost reductions in large-scale residential building on a mass-production basis in the large urban communities in the East and Middle West. This could be done either through a wholly-owned Government corporation or corporations or through the Government supplying half the capital to any large private organizations that are organized for this purpose. In the former case there would be no subsidy of any kind not available to private contractors and the homes should be priced or rented to cover all costs plus a reasonable margin of profit.

The possibilities, difficulties and obstacles of large-scale building of multiple dwelling units should be thoroughly demonstrated before any further steps by the Government should be embarked upon. For the Government to enter this field for other than demonstration purposes would stop private initiative and would compel the Government to take over the whole industry, for which, at the present at least, it is not equipped.

(d) Any profits made by corporations in building operations this year should be exempt from the undistributed profits tax.

3. Rural Rehabilitation

\$100 million more might be allotted for this purpose. The record to date fully justifies the economic and social wisdom of this type of expenditure; and the funds are largely self-liquidating.

4. Old Age Pensions

Steps should be taken immediately to pay adequate monthly pensions to all persons over 65 years who have made contributions on Old Age Security account for at least two years. Some one and a half million people are now receiving an average of nearly \$20 monthly under the Old Age Assistance section of the Act. The suggestion just advanced would add another one and a half million persons. At an average monthly pension of \$20 this would amount to \$30 million a month or \$360 million a year. This would go a long way towards offsetting the present excess of collections over benefits on Old Age Reserve account.

This proposal would relieve part of the burden on younger people, would offset in large part the present highly deflationary effects of the operation of the present schedule of taxes and out-payments, and would remove the present highly unfavorable comparison between the Old Age Assistance and the Old Age Benefit sections of the Act.

5. Expenditures on Railroad Equipment and Way

The possibilities of initiating railroad equipment purchases and betterments to the trackage and plant through the use of Government credit are being canvassed. It is estimated that in order to provide adequate rolling stock to handle the volume of traffic consequent upon full recovery expenditures totaling \$1 billion a year for three years would be necessary. It appears urgent to work out some plan here in lieu of freight rate advances, which would seriously hamper the effectiveness of a Government spending program.

6. Highways

The possibilities of setting up a Government corporation to construct a super-highway toll road along the Eastern Seaboard between Washington and Boston should be explored.

7. Long-term Capital for Small Enterprises

The provision of longer-term capital for smaller enterprises through a new corporation subsidiary to one of the existing Government agencies appears eminently desirable.

This is merely a tentative outline of the first part of a longer program that is being worked on. Thought must be given to such measures as will insure that the immediate steps mentioned above are in the direction of insuring longer-term economic balance. The increasing sphere of monopoly elements in our economy, both of labor and of capital, raise serious problems that must be met unless we are prepared to contemplate the necessity of successive emergency spending programs every time business activity turns downward. Unless measures can be devised that will insure an even flow of capital expenditures approximately equal to current savings under stable price-cost relationships, it may prove desirable to enlarge the sphere and the flexibility of compensatory Governmental receipts and expenditures.