

*Important
Outline Summary*
October 31, 1937

Unless the Government acts boldly and without delay to stimulate private business this winter, chiefly in housing and construction, a major recession is inescapable. Business confidence can be helped immediately by facing the fact that the recovery movement has halted and by a comprehensive government program to encourage private spending and investment. It needs to be brought home clearly to the country that what was primarily responsible for stopping recovery was not the government itself, not taxes, or regulation, as the Aldriches are trying to make the public believe, but those business men and labor leaders who forced up prices so fast that by last spring they killed off further progress at the very time when and in the very fields where private activity was most needed to take up the slack as the government began to move towards a balanced budget.

The President is the only one who can provide the leadership and command the confidence of the country. A bold move by the Government at this time to energize private business will go far to change the widespread fear psychology and reverse deflationary forces before irreparable damage is done. Once the country knows that the Government is both aware of what is wrong and determined to prevent a new deflation, business is likely to wake up to the fact that this winter and spring will be the most propitious time to begin buying again. To insure that there will not be a repetition of the back-firing price distortions the Government can announce its purpose to oppose by every means at its command extortionate price practices and policies

both by business and by labor groups. Such extortions not only do most harm to that ill-fed-housed and clothed third of the population which this Administration has pledged itself to protect but recoil upon the perpetrators themselves by destroying the market for their products.

Wage-price policies of minority business and labor groups are what have thrown the recovery movement out of balance. This is where the Administration needs to hit hardest to break the log-jam -- and incidentally to circumvent the critics who would throw the whole New Deal to the wolves instead of disciplining the real culprits. The President commands the faith of the public. He alone can prevent the public from being fooled into blaming the setback on stock exchange regulations, the excess profits tax and the Government in general. He alone is in the position to expose where the blockade has been and why. The only squealing will come from those comparatively few business and labor leaders who were guilty of trying to hold up the rest of the country.

The public can be made to see that all the uproar about New Deal regulations and taxes, about the budget, etc., is eyewash. All of these alleged straightjackets existed in 1935 and 1936 when recovery was booming, national income was going up rapidly and corporate profits were outrunning even 1929 levels. ^{in many lines} The public can be made to see that the trouble is not lack of an adequate supply of money, as the inflationists would have the innocent believe. We have more deposits than we had in the late 20's; we have a billion dollars of idle bank reserves, interest rates were never lower nor the Government's credit better. The public can be made to see that what suddenly froze the recovery movement was the forcing up of various basic industrial prices; they were pushed up so far and so fast

that buying power could not keep up with them and the bottom fell out of the markets for the very goods in which the deficiencies were greatest -- housing, railroad equipment, plant expansion, etc. Broadly these constitute the heavy industries where depression hit hardest and unemployment was the greatest.

The public will not have difficulty in grasping the truth that there cannot be more of the needed and wanted things of life, more housing, clothing, automobiles, etc., if the production of these things is to be cut down or cut off by racketeering practices or by prices the public can't afford to pay.

The public will understand that no Government can tolerate these things -- least of all a Government pledged to help the underprivileged. This Government's striving for collective bargaining, for social justice, is not a license to organize minorities and monopolies to hold up the rest of the country. The public can be made to see that higher wages and shorter hours must be won by producing and selling more goods and thus earning more profits to be divided -- not by hoisting the prices of fewer goods.

Once this is driven home, the revitalizing of the recovery movement becomes possible, but this extortionate price obstacle is the first and biggest one to clear away. It can be made clear that the Government's duty is to be an umpire and arbitrator in capital-labor disputes; that it means to protect all labor and business from the evil practices of a few; that it means to make the private-initiative and profit-motive system function with fairness but without favoritism; that, with this in

mind, regulatory, taxing, monetary and other policies are being reconsidered and reappraised so that they may be adapted and perfected where necessary to induce private enterprise to forge ahead and overcome recession now.

In this connection it can be made clear that the Government must not accelerate deflationary forces by cutting down its contribution to purchasing power until private business has picked up again and supplied the deficiency. For both the Government and business to contract purchasing power simultaneously would repeat the Hoover mistake and instead of balancing the budget would throw it still further out of balance.