

J. P. Stevens & Co., Inc.

Commission Merchants

261 Fifth Avenue
PHONE LEXINGTON 2-3700
44 Leonard Street
PHONE WALKER 5-2046
New York

PLEASE REPLY TO 44 LEONARD STREET

November 5th, 1937.

Chairman Marriner S. Eccles,
Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Marriner:

Two or three times since seeing you recently in Washington, I have been on the point of writing you with respect to the present business situation, as I see it. Realizing, however, that you are in much closer touch with business conditions throughout the country than I am and realizing further that you undoubtedly receive quantities of mail on this subject, I have thus far refrained from burdening you with a letter. Nevertheless, being sincerely concerned about the matter at this time, I have finally come to the conclusion that, as a Director of one of the Reserve Banks, I am really discharging a duty in writing to tell you of my feelings. In this connection our Board here in New York has, of course, reviewed the business situation carefully and I am familiar with the contents of George's letter to you under date of November 3rd, 1937, - a letter which covers the subject far more ably than I am capable of.

The real point I want to make with you is that, in my opinion, business is falling off at a much faster clip than most people realize. Many industries have thus far made a fairly good production showing by manufacturing on unfilled orders taken much earlier in the year. These unfilled order positions have now in many cases come down to the point where serious curtailments or shutdowns are imminent in those lines - the steel industry is a good illustration of this point. Too many of these situations may place us in a downward spiral with far reaching effects. It is the greatly reduced volume of current new orders that worries me. So far as I know there are not any statistics available dealing with current new orders but I believe, if such statistics were available, they would confirm the point I am trying to make, and I believe that when the statistics are actually recorded for the month of November, my feeling as to today's situation will be confirmed.

Before going further, please let me say that I am not viewing this picture from the viewpoint of my own industry - textiles. We went into our decline starting in April and, based upon past experience, I think we may well run into an improved demand for textiles before many other industries improve because of the fact that these latter industries have only run into this decline quite recently. I am trying to look

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at the business picture as a whole and, upon that basis, I reach the conclusion already stated that business is falling off at a much faster clip than most people realize. And my entire attitude in the matter is one of trying to be constructive and helpful.

To continue for a moment, we know, in addition to the steel and textile industries already mentioned that there has been a downward slide in the building, railroad equipment, copper, shoe, lumber, rubber and other major industries. The bright points today are probably retail business and the automobile business. It is probable that the Holiday Season, so nearly upon us, will enable the retail business to give a good account of itself for the balance of the year. However, if business in the production industries continues to decline, it does not seem unreasonable to believe that after the turn of the year, retail sales will begin to make an unfavorable showing. In the automobile business a high rate of production has continued for the purpose of stocking dealers and providing for the early demand for any new line. However, the slackening up in these other industries coupled with the recent drastic decline in security values and coupled still further with the 5% to 10% advance in prices of automobiles, makes the position of the automobile industry quite open to question before the winter is over. It does not seem reasonable to me that after the colossal number of cars that have been sold in the last two years, we can expect the automobile business to hold on last year's level with cars higher in price and business activity in a decline. Any substantial drop in automobile assemblies would have serious repercussions through many manufacturing channels.

When it comes to the question of what should be done, I have one or two thoughts although I am almost embarrassed to present them to one who is so far more informed on these things than I am. However, I know that your Board has done and is doing everything within its power to prevent too serious a reaction in business and, on the theory that a letter like this may possibly contribute in a very small degree to the work you are doing along those lines, I proceed. Frankly, I believe if the decline is to be stopped before assuming major proportions, it is going to take prompt and vigorous action on the part of the Administration.

In thinking about what steps are not only desirable but are also at the same time very practical, I suggest two things:

1. A let-up in the pressure against public utilities in such a way as to start the release of some \$2,000,000,000 in needed plant expansion and improvement. This does not involve legislation or any real change in Administration policy. Probably all that is necessary would be a simple assurance on the part of the Administration that

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existing public utility systems will not be duplicated by the Government.

2. A calming down of labor troubles, thereby stopping at least for the present, the forcing of costs to artificial levels which retard consumption. Again this would involve no legislation but merely some sort of assurance. I should think it would be possible to take the position that the present Administration has done more for the labor movement in five years than has been done in the previous generation and that it is now fitting for labor to consolidate its present position rather than to press for more. The result of Tuesday's elections in both Detroit and Akron would appear to make such a position politically tenable.

There is a third most important point but it does require legislation and therefore is more difficult. This point is a change in the capital gains and undistributed earnings taxes which would serve as a great stimulant to investors and business men. I appreciate fully that the revenue aspect is a controlling factor here. Speaking for the companies with which I am identified, we would rather pay a higher normal corporation tax than to be subject to an undistributed earnings tax which handicaps us in strengthening our financial positions and in normally expanding our business. In the case of the capital gains tax, I believe that a re-adjustment here would not necessarily result in the loss of revenue because of the fact that investors would be in a position to sell while under the present set-up, they are almost prevented from selling. This change would have the added advantage of keeping securities from going up too fast because investors would be able to sell and take their profits without being subject to such tremendous capital gains taxes.

A fourth and final point is one which is probably so difficult of achievement that I merely mention it in passing. This is the matter of housing which is currently blocked by the cost factor. I do not know whether or not a guaranteed annual wage could eventually be worked out to help this situation where there is probably the greatest field of all for the employment of labor and capital.

In my opinion, action on the first two points is possible at this time and would have a most favorable effect. Coupled with a real attack on the third point, I believe business activity would definitely pick up at any early date. This three point program, backed by some solution of the housing problem over a reasonable period of time, would, I believe, put us back into a sustained recovery movement. Surely it would reopen the capital market which is something that must be done if private capital is to replace Government spending.

The Administration was successful in stemming the too rapid advance in the Spring of this year. I commend that action. Now, however, it

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seems to me that the time has come to prevent this decline from becoming something unmanageable. If it carries too far, this decline will certainly manifest itself in the form of decreased revenues for the Treasury on the one hand, and as employment comes down, the demands on the Treasury will become undeniable on the other hand. Clearly it would appear that there is everything to be gained by action at this time and nothing to be lost.

I hope that you will pardon my temerity in venturing to write to you these frank thoughts with respect to the situation today as I see it. However, I feel that I know you well enough so that, even if you wholly disagree with every thought expressed, you are nevertheless perfectly willing for me to write you along these lines.

With warmest best wishes and assuring you of my sincere desire to be of service, I am

Yours most sincerely,

Boh

RTS-B