Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 21, 1938

To Chairman Eccles

Subject: Implementing the Recovery Program

From Lauchlin Currie
LBC

Attached is a draft along the lines you suggested. As I shall be out of town Monday and Tuesday, when I shall be speaking to the Illinois Bankers Association, I thought I'd better get this to you today.

I checked with WPA, and find that the language that would have permitted the use of WPA labor in private housing is still out of the appropriation act, and they expect it to remain out.

FURTHER IMPLEMENTATION OF THE RECOVERY PROGRAM

If the recession is to be checked and the recovery resumed before the end of the year it is imperative that the spending and lending program be implemented immediately.

I - Business Prospects

1. Deflationary forces are gathering momentum. After a temporary flattening out various adjusted series have again turned downward. (Production, retail sales, monthly income payments, building).

2. Inventories. Inventories at the year end were $5 billion higher than at the end of 1935. On the basis of a sample of corporations having one-half billion of inventories, it appears that the liquidation in all manufacturing may have amounted to $1 billion in the first quarter. Merchandising concerns, however, increased inventories. In short, the contraction of the monetary circulation due to inventory liquidation may be expected to continue throughout the balance of the year.

3. Consumer debt. We entered this recession with an outstanding volume of consumer credit equal to that of 1929. (Russell Sage Foundation). Liquidation is probably proceeding at the rate of $100 million a month and will continue until some time after consumer income turns up. This means that part of current income is not available for current purchases.

4. Unfilled orders. In heavy industry, orders are being filled more rapidly than new ones are being received, so that the backlog is shrinking. This foreshadows lower production.

5. Exports. The foreign outlook is worsening, the downturn in England in particular becoming perceptible. This foreshadows further declines in our industrial exports.

6. Agriculture. Further declines in agricultural prices will lead to reduced farmer buying. This will be particularly felt in agricultural implements, whose production up to recently has held up very well.

7. Residential building. Contracts in April ran below March and 31 percent below last April. Rents are continuing to fall and building costs are declining very slowly.

8. Automobiles. The prospects are for protracted shutdowns in the summer and a less than seasonal pick up in the fall.

9. Industrial profits in the first quarter were off 66 percent. Business men are now striving to get "better control over their expenses" which means reduced expenditures, incomes and consumer buying power.

10. The unbalance in prices is getting worse. Raw material prices continue to fall and durable goods prices remain at their 1937 peaks.

11. Fiscal operations of the Federal Government will not provide a real stimulus until the first half of next year. Expenditures will not be appreciably increased in the next six months and revenues will not slump much further until next year.

II - Political Implications

If there is no upturn by October, the New Deal will lose ground at the polls, if well-established historical precedents in this and other countries are any guide. An unmistakeable reaffirmation of popular confidence in your leadership must be secured if the New Deal is to go ahead in the next two years and a fatal impasse is not to develop between the Executive and legislative branches of the Government. If business turns up after an election in which many seats are lost, the credit will be claimed by the opposition.

III - What Can Be Done?

In a previous memorandum I urged that-

(a) a bargain year for low-cost residential building be inaugurated through a subsidy in the form of W. P. A. labor of 15 percent of the appraised costs of new building.

(b) ordinary Government expenditures be speeded up and that the full fiscal year's requirements be crowded as far as possible into the first half of the fiscal year. If this is to be effective, plans should be gotten under way immediately.

(c) expenditures on heavy equipment in the railroad and utility fields be secured through R. F. C. loans on far more favorable terms and conditions than have yet been offered, provided the loans are taken up within a limited period.

Now that (a) - a W. P. A. subsidy for building - is apparently out it becomes even more imperative that (b) and (c) be pushed.

I note that the sub-committee of the Senate Appropriations Committee has recommended that no Federal funds be lent or granted to build public utilities competing with private plants. I most respectfully urge that this proposed amendment be not opposed by the Administration. The dollar amounts involved are small, but the psychological implications are far-reaching. This is a case, I suggest, where certain aims of the Administration conflict and the broader and immediate paramount aim of recovery should take precedence.

If the utilities receive assurance of the absence of public competition the way will be cleared for a large utility expansion program provided new money is made available by the R. F. C. on favorable terms for a limited period.

In view, therefore, of the gravity of the emergency, I renew my suggestion that the R. F. C. be directed-

(a) to offer to buy equipment trust certificates up to 100% of the cost of new equipment at a 2 percent rate for as long maturities as the type of equipment will allow. This offer should be limited to orders placed this year.

(b) to offer to make loans and to purchase preferred stock and/or income debentures of utilities at a 3 percent interest rate for the purpose of plant renewals and expansions. This offer should likewise be limited to orders placed in the remainder of this calendar year.

In dealing with specific objections that may be raised sight must not be lost of the main point, and that is, as the present program shapes up, the main hope for any additional spending that is so urgently needed this summer lies with the R. F. C. The R. F. C. has ample powers and funds to induce hundreds of millions of dollars of expenditures in the railroad equipment and utility fields. It is solely a question of whether these powers and funds will be used.