

Chairman
XXXXXXXX

November 12, 1935

Dear Steve:

In accordance with the request that I received several days ago from your assistant, Mr. Hassett, I am transmitting to you herewith a memorandum contrasting present economic conditions with those of two or three years ago, and giving particular consideration to conditions in the South.

You will probably find that there is more material here than you intended that I should send to you, but I have undertaken to supply a fairly comprehensive picture of the recovery of Southern agriculture against the larger background of economic recovery in the country as a whole.

I hope that you yourself will have an opportunity to look this memorandum over, for it is not confined to a recital of statistical changes, but contains, in relation to these, some suggestions in which I think you will be interested.

Please call on me if I can supplement this material in any way or if there are any parts of it that are not altogether clear.

Sincerely yours,

M. S. Eccles
Chairman

Mr. Stephen Early
Assistant Secretary to the President
The White House

Chairman
XXXXXXXX

November 18, 1935.

MEMORANDUM:

TO - Mr. Hassett
FROM - Miss Egbert

In accordance with your telephone request of this afternoon, I am enclosing an extra copy of a memorandum contrasting present economic conditions with those of two or three years ago, and giving particular consideration to conditions in the South.

November 12, 1935

TO: Mr. Stephen Early
FROM: M. S. Eccles

SUBJECT: Notes for use in preparing President's speech for Homecoming Day in Atlanta.

This is a report of progress. It is more particularly a report of progress in Georgia and in some of her sister States of the South; but what has been going on in Georgia and in the South generally reflects, and contributes to, what has been taking place these past two years in the country as a whole, just as what has been taking place in other sections reflects, and contributes to, what has been going on in Southern agriculture, in Southern industry, and in Southern commercial enterprise.

The report, then, is one of progress in our agriculture, industry, and commerce from deflation, depression, devastation—one had almost added despair—to the building of a solid basis for recovery and to the attainment of a large measure of recovery itself.

But it is a report, also, of progress in the restoration of lost hopes and lost opportunities, and in the restoration of

lost values both human and material. For there has been progress in restoring the morale, through restoring the earning power and the income, of millions who had become disheartened; progress in renewing their courage to take up the labors of each new day; progress in renewing people's faith in the worth as well as the dignity of human endeavor and human achievement, in renewing their confidence that this endeavor and achievement would once more be justly compensated.

In other words, the farmer and business man in Georgia and elsewhere in the South can again make a profit, the workers on our Southern farms, in our Southern factories and mercantile establishments, and in our Southern mines can again go out to their labors in the morning without dread as to what the day will bring forth and return to their homes in the evening without fear that tomorrow's employment is insecure. And those for whom the agricultural and business recovery has not yet advanced far enough to give a return to private employment are no longer living in the demoralization of want and insecurity for their families and themselves. For these last, of course, there must be a further report of progress as the South, in common with the rest of the country, continues to add to the gains that have been made in agriculture, industry, and commerce during the past two years; but we have already come a long way, a very long way, from the conditions that prevailed here in the dark months of 1932 and the early part of 1933.

All of our people are aware, of course, that progress has been made in the South during these past two years, but is the extent of

this progress fully comprehended by our people? Here in Atlanta there is published each month by your Federal Reserve Bank a Monthly Review of financial, agricultural, trade, and industrial conditions in the Sixth Federal Reserve District. The States located wholly or partly in this District are Georgia, Alabama, Tennessee, Florida, Mississippi, and Louisiana. The Monthly Review of the Atlanta Bank is a reliable guide to economic conditions in the Sixth District, for the information that it assembles from numerous sources is authoritative, and the comments that it makes on conditions within the District are impartial and uncolored by political or partisan consideration of any kind whatsoever.

If we turn back to the Bank's Review in January 1932 of conditions in the Sixth District in the previous year, we find that crop values in these six States fell in 1931 to \$544,522,000, or less than half the figure of \$1,118,114,000 for 1929; and then a year later we find the Bank reporting crop values in these six States fell still farther in 1932 to \$372,054,000, a third of the figure for 1929. Here in Georgia the fall in crop values was at an even greater rate than for the Sixth District as a whole; they fell from \$228,513,000 in 1929 to \$101,567,000 in 1931, and then to \$67,039,000 in 1932—less than 30 per cent of the figure for 1929.

Of wholesale trade we read in the Monthly Review of the Atlanta Bank for January 1932: "The volume of sales during December by 119

reporting wholesale firms . . . averaged 22.7 per cent smaller than in December 1930. . . . For the year 1931, total sales by all reporting wholesale firms have averaged 23.5 per cent smaller than in 1930." A year later the story of wholesale trade as reported by the Bank's Monthly Review (January 1933) was still one of decline. "The total volume of sales during the year 1932 reported by 107 wholesale firms in the Sixth District," the Bank stated, "was 24.7 per cent smaller than during 1931, the decreases ranging from 17.1 per cent in drygoods to 41.0 per cent in electrical supplies."

Turning to retail trade we find the same story of decline in business in the Sixth District. In January 1932, the Bank's Monthly Review states: "December sales this year were 16.5 per cent less than in December a year ago, and for the entire year 1931 department store sales have been 11.8 per cent smaller than in the year 1930." A year later, in January 1933, the Bank reported: "December sales in the Sixth District.. were 24.5 per cent less in dollar value than in December 1931, and for the twelve months of 1932 they were 23.7 per cent less than in 1931. . . . Turnover for the month, and for the year, was less than for those periods a year earlier. Accounts receivable at the end of December were . . . 19 per cent less than a year ago, and December collections . . . were 22.4 per cent smaller than in December 1931."

For the year 1931, the Bank reported 1,698 business failures in the Sixth District and pointed out that this was an increase of 21.3 per cent in the number of failures over 1930. But throughout the year 1932 commercial failures in the Sixth District continued, and notwithstanding the toll already taken in 1930 and 1931 there were 1,679 additional failures in 1932.

So this story of the steady disintegration of agriculture and trade and industry in the Sixth Federal Reserve District might be gleaned at great length and in great detail from the published records of your Atlanta Reserve Bank in its Monthly Review—the decline in crop values, in wholesale and retail trade, in building and construction, in manufacturing and mining activities, in the stocks of merchandise on hand, in commodity prices of all kinds, in the bank debits that reflect the volume of business transactions settled by check, in bank loans and investments, in commercial deposits and savings deposits, and in all such items as reflect in cold statistics the dismal story of economic collapse in this area of the South prior to the closing down of the whole banking and financial system of the country in March 1933.

But contrast the conditions which your Atlanta bank reported at the beginning of 1933 with those which it was able to report for the Sixth District at the beginning of 1935. In its Monthly Review for January of this year, the bank said:

"In December (1934) the volume of retail trade in the Sixth District increased by more than the usual seasonal amount and was at the highest level for any month in four years. . .

"Department store sales, reflected in figures reported confidentially by sixty firms. . . were 19.1 percent greater than in December, 1933. For the year 1934, total sales by these firms were 25.5 percent greater than in 1933, and were also greater than in 1932. . . Wholesale trade . . . for the year was 23.4 percent greater than in 1933, 36.9 percent greater than in 1932.

"Bank debits to individual accounts at twenty-six clearing house centers in the Sixth District, reflecting the amount of business transactions settled by check . . . were 13.1 percent greater than a year ago. The increase of 14.8 percent over the month compares with an average gain of 13.1 percent at the same time for the past seven years. . .

"Loans were slightly less than a year ago, but investment holdings 13.9 millions greater, and demand deposits . . . were 42.4 millions greater than a year ago.

"Building permits issued at twenty reporting cities . . . for the year were 65 percent greater than in 1933, and 30.1 percent greater than in 1932. Contract awards in the District as a whole . . . were 65 percent greater than for 1932. . .

"In the six states located wholly or partly in the Sixth Federal Reserve District, principal crops produced in 1934 were valued at \$740,577,000, a gain of 31.5 percent over the value of 1933 crops, and practically double the value of those produced in 1932."

Now let us bring this story still more nearly down to date -- to the end of the third quarter of the year 1935. The Monthly Review of the Atlanta Bank for October states:

"The volume of trade at both retail and wholesale in the Sixth Federal Reserve District increased further from August to September and was greater than a year ago. . . Activity at textile mills and production of pig iron in Alabama increased over the month and was greater than a year ago.

"Total building permits issued at twenty reporting cities of the District . . . were 113.7 percent greater than in September last year, and for the nine months of 1955 the total has been 68.9 percent greater than in that part of 1954 and larger than for that part of any year since 1950. Building and construction contracts awarded in the District as a whole increased over August and were greater than a year ago. Notwithstanding the shorter month, consumption of cotton and production at reporting mills increased from August to September and was greater than a year ago. Pig iron production in Alabama was increased 14 percent from August to September and was 57.9 percent greater than a year ago. . .

"Press reports indicate that the Southern pine market continues on a satisfactory basis and is showing improvement. Retail yards have continued to buy only for their current needs, but at present this represents a satisfactory quantity. . .

"In the three states of this District for which separate figures are compiled by the Census Bureau, total consumption of cotton increased further in September by 8.4 percent, and was 65.4 percent greater than a year earlier. . .

"Reporting mills in the District produced more cloth and yarn during September than in August and also had a larger number on payroll than at the end of August. Operations at cotton seed oil mills in this District, during August and September, the first two months of the new cotton season, were substantially above the same period last year, as reflected in the receipts and crushings of seed and in the production of the principal cotton seed products.

...

"Production of electricity for public use in the United States in August was the largest ever produced in that month. In the six states of this District, production increased 4.4 percent from July to August, and increased 9.7 percent compared with August, 1934, and was the largest total for any month in available records."

These accounts of progress and recovery are taken from but two issues, January and October 1935, of the Monthly Review of the Atlanta Reserve Bank. As with the accounts of deflation and depression from the same unbiased and dependable source, they may be read at greater length and in fuller detail in the month-to-month published record. Similar accounts of conditions in the rest of our Southern States over the same period are to be found in the monthly published records of the Fifth Federal Reserve District, with its headquarters in Richmond, and the Eleventh Federal Reserve District, with its headquarters in Dallas. Through-

out the rest of the country, furthermore, the story of progress and recovery in agriculture, trade, industry, and finance, as related each month by the Federal reserve banks, is much the same.

A few examples will illustrate the extent to which agriculture and business generally have recovered from the depth which the depression reached three years ago. Here in Georgia crop values rose from \$67,059,000 in 1932 to \$161,445,000 in 1934. In other words, they multiplied approximately two and a half times in two years. This was somewhat better than for the Atlanta Reserve District as a whole, but even so crop values in these six states doubled between 1932 and 1934, with a rise from \$572,054,000 to \$740,577,000.

Comparable figures on crop values for the year 1935 are not yet available, but we do know that cash income from farm marketings in the country as a whole, exclusive of rental and benefit payments, is already as great for the first nine months this year as for the whole year 1932. In 1932 cash income from farm marketings was \$4,328,000,000 for 12 months; for the first nine months of 1935 it was \$4,504,000,000. Rental and benefit payments during these nine months amounted to \$406,000,000, and brought the total cash income to our farmers for that period up to \$4,710,000,000. For the full year 1935, the total cash income from farm marketings, including approximately \$600,000,000 for rental and benefit payments,

will run to an estimated total of \$6,800,000,000. This will be an increase over 1932 of 43 percent, exclusive of rental and benefit payments, or 57 percent including those payments.

An example of how this recovery of agriculture, which has been particularly marked in the South, provides an outlet for the production of our manufacturing industries, which are more largely concentrated in other areas, is strikingly afforded by the registration of automobiles individually and commercially owned here in the State of Georgia. In 1929 the number of automobiles registered in Georgia was 359,000; in 1932 this had fallen to 286,000. By the end of 1934 the number had increased to 377,000 - that is, the number of registrations increased by 50% in two years, and by 1934 there were more automobiles registered in the State of Georgia than in the so-called boom year of 1929.

The automobile industry has had a remarkable recovery from the depth of the depression. The demand of the American people for automobiles is one of the wonders of the age. For years before the depression began we continued to demand more and more automobiles, and we revolutionized the character of our lives, the location of our homes, and the nature of our recreation to adapt ourselves to the new conditions created by the motor car. This change was so fundamental that most people continued to drive their cars during the past few years notwithstanding the severe pressure of hard times;

and therefore, with the cars built in the late 20's largely worn out during the depression, the automobile industry has been the first to show a real sustained recovery. The example of Georgia in increased registration of automobiles was somewhat exceptional, but nevertheless, in the year 1934, automobile registrations in the United States increased by 1,106,000 cars.

It is not to be supposed, though, that all the increased income of our people has gone to buy automobiles, or that all of it has been spent. Savings accounts that during the depression were rapidly depleted are again increasing in our banks. In the November issue of the magazine "Banking", which is the journal of the American Bankers Association, there appears an article which states that savings deposits, including time deposits and postal savings deposited in banks, increased during the year ending June 29, 1935, by \$899,979,000. The article goes on to say that this gain in savings deposits was general throughout the United States and that a most satisfactory development during the year was a gain of 1,753,052 in the number of savings depositors. The article attributes these gains in savings deposits and number of depositors to two factors, namely, "greater confidence in banks and increased earnings by the people".

The index of industrial production in the United States, compiled by the Board of Governors of the Federal Reserve System

on the basis of the average for the years 1923 to 1925 equaling 100, fell to a low point of 58 in July 1932. This low point represented a drop from 125 in June 1929. That is to say, it was cut in half in the course of three years. During the first nine months of the present year, 1935, the index of production averaged 87, an increase of 36 percent over the average for the corresponding period in 1932 and an increase of 50 percent from the low point of that year.

In 1929 electric power production in the United States reached a total of 97,352 millions of kilowatt hours; in 1932 it had fallen to 83,153 millions. This year to the end of the third quarter electric power production had increased 17.3 percent over 1932. In fact, electric power is being produced in greater volume for the year 1935 than it was for the previous peak year 1929. Here in Georgia electric power production during the first nine months of this year was approximately as great as during the full year 1932 and substantially in excess of production for the year 1929.

Another important evidence of the extent of progress and recovery in business generally is the index of corporate earnings. The compilation made by the Standard Statistics Company of the earnings of 161 corporations, including industrials, railroads, and utilities, with the year 1926 taken as a basis of 100, shows that

in the quarter ending March 31, 1935, the index stood at 41.4 as compared with 22.0 for the same quarter in 1932, at 50.8 for a preliminary estimate for the quarter ending June 30, 1935, as compared with 15.6 for the same quarter in 1932, and at 42.4 for a preliminary estimate for the quarter ending September 30, 1935, as compared with 6.0 for the same quarter in 1932.

The extent of the progress made and the recovery attained by the country's manufacturing industries is strikingly shown by the payroll figures. The number of wage earners employed in all our manufacturing industries in 1932 had fallen to an average of 5,374,000 for the year. During the first nine months of 1935 the number of wage earners employed in these manufacturing industries had risen to an average of 6,807,000, an increase of 26.7 percent. The average of the weekly payrolls in these industries in 1932 was \$95,757,000. During the first nine months of 1935 these average weekly payrolls rose to \$159,450,000, an increase in the two years of 48.7 percent.

As we all know, the prosperity of the middle 20's rested primarily on the great activity of two industries, namely, the automobile industry and the construction industry. The extent to which our present industrial recovery has been attained by a vigorous revival of automobile production has already been indicated. In the

construction industry, however, the depression went much deeper and has lasted much longer, and recovery has been much less complete than in the automobile industry. Our greatest lag in business recovery generally is in the field of construction, and it is probable that only when both residential and industrial construction advance to a substantially higher level than they have yet attained will full recovery and prosperity be achieved.

Nevertheless, definite progress in the field of construction, and especially in the field of home-building, has been made during the past year. Compilations made by the F. W. Dodge Corporation, covering residential construction contracts awarded in 37 States, shows a total for the first ten months of 1935 of \$394,000,000. This is an increase of home-building in these 37 States of 95 percent over the corresponding period of 1933. Home-building in the South has increased at an even greater rate than in the country as a whole. Here in the Atlanta Federal Reserve District home-building in the first three quarters of the year was 160 percent greater than at the same period for 1932; in the Richmond Federal Reserve District the increase was 71 percent; in the Dallas Federal Reserve District the increase was 115 percent.

Even with this marked increase of residential construction in 1935, however, we are still far below the volume attained in

predepression years and far from meeting the country's need for new housing. This is the field in which the greatest opportunity lies for further industrial recovery and in which the greatest challenge is made to the initiative, the inventiveness, and the resourcefulness of industrial and financial enterprise.

From this recital of some of the evidences of progress and recovery during the past two years--evidences taken from the same statistical sources on which your business men and bankers rely--it should be plain to every one that a radical change in the trend of American business has occurred in two short years. An enormous measure of recovery has been brought about; and it is time we realized this, time our business men and bankers in particular realized it, and overcame the inertia of human thought that causes too many still to think and talk in terms of the depression years.

Just as it was difficult for many to realize in 1929 that things would not keep going up and up and up the way they had been going since 1922, so it has been hard after these recent years of depression to realize that things are not going to stay at low levels forever--in fact, are for the most part no longer at low levels. Even when things begin to turn upward there is a feeling that the upturn may be temporary; and it therefore takes a fairly continuous period of advancement before the skeptical mind of

man accepts the fact that a change has occurred in the fundamental trend. Such a change has occurred here in the South, and in the country at large, during the past two years; but only when this change is fully recognized by the majority of active men can a full measure of prosperity be restored. Now that the deflationary trend of business has for the better part of two years been decisively arrested and reversed, nothing will speed recovery more than a widespread recognition of the fact that recovery is here.

Now, how was this decisive and rapid recovery from a depression of such unparalleled severity brought about? It was not the result of fortuitous circumstance; no element of chance or fate suddenly changed the course of deflation; we did not get out of the vicious spiral of deflation and change the trend of business and agriculture by letting nature take its course. And the trend was not changed by a policy of laissez-faire, such as many of our leading economists and bankers and business men urged; nor was the trend changed by timid, half-hearted, reluctant, and inadequate measures of intervention on the part of Government, such as were belatedly adopted in 1931 and 1932, by the Administration then in power in Washington. The deflation was arrested, the depression was ended, the recovery was begun, because, beginning with the bank holiday in March, 1933, your Federal Government intervened vigorously,

decisively, and on a sufficiently large scale to put an end to deflation and to establish a base from which economic recovery could proceed.

Private enterprise did not do this because private enterprise could not do it. The will to do it was not lacking, the desire to do it was not lacking, the intention to do it was not lacking, the effort to do it was not lacking; but our bankers and our business men found themselves caught in a powerful and self-accelerating liquidation that swept values and incomes lower and lower, and that carried more and more bankers, business men and farmers into inescapable bankruptcy. No one knew where or when the process would stop.

Only the Federal Government had the means to intervene effectively; but the Federal Government did not intervene until after the deflation had been under way more than two years; and it did so then only because its intervention was sought by bankers and business men who had finally come to realize that they were themselves unable to stem the deflationary tide. And so the Reconstruction Finance Corporation was set up, and the Home Loan Bank System was organized. By means of these agencies together with the Farm Land Bank System, which had been established in the Wilson Administration, Governmental intervention was invoked in an effort to shore up our crumbling economic structure.

The effort, as we know all too well, failed. The ruinous collapse of prices and values, with its train of evils evidenced by bankruptcies, foreclosures, bread lines, and widespread human misery and privation, continued. The intervention of government, as then employed, served to cushion somewhat the successive shocks, but it was not carried far enough, it was not pressed vigorously enough, it was not made large enough to cope with a deflation of such magnitude and force as was by that time under way.

Governmental intervention was not, therefore, in 1933, a new phenomenon in this country or in this crisis. The unbalancing of the budget was not a new phenomenon in 1933. It, too, had begun in 1931—reluctantly, to be sure, but nevertheless inevitably as a consequence of ^{both of decreasing Federal revenues and} governmental intervention in the effort to save the country's banks, insurance companies, railroads, farms, and homes. And the unbalancing of the budget was another aspect of governmental intervention that was not then carried far enough to be effective, so that by 1933, when the processes of deflation had been going on unchecked for more than four years, a much greater unbalancing of the budget was inescapable.

The Administration that in March 1933 replaced the Administration which had failed in its belated and fearful and ir-

resolute efforts at intervention, adopted and carried on many of the policies of its predecessor; but by no means timidly or by halfway measures barren of results. The tie to gold, and with it the tie to the demoralized gold price level for commodities throughout the world, was boldly broken. No longer could our recovery efforts be sabotaged and nullified by panic drains of gold. The entire banking system was closed to halt the panic withdrawals, to weed out the weak units, and to re-establish a banking system in which public confidence could be sustained. Through the Reconstruction Finance Corporation capital was liberally poured into banks that had been weakened by the deflation.

In all, the Reconstruction Finance Corporation has loaned some \$6,000,000,000, and in that process has saved from failure thousands of banks and other financial, industrial, commercial, and agricultural enterprises; and already, it is to be noted, more than \$3,000,000,000 of these loans have been repaid. Through the Farm Credit Administration more than \$5,000,000,000 has been put out in long-term loans to farmers, and through this process thousands of farms have been saved from foreclosure. Through the Home Owners' Loan Corporation, which has loaned nearly \$5,000,000,000 on long-term credit, a similar service has been provided for urban homeowners. In short, through the aggregate lending of these three

great governmental credit agencies the nation-wide pressure for liquidation was definitely removed, the vicious spiral of deflation was ended, and the building of a base for recovery was begun.

But it was not enough alone to pour credit into our crumbling financial structure. In the course of the deflation, some \$17,000,000,000 of the country's bank deposits had been wiped out. Our national income, as represented by the country's production, had fallen from \$61,000,000,000 in 1929 to \$39,500,000,000 in 1932. Not only was it necessary, therefore, to use the government's credit and unbalance the budget in order to supply credit that private agencies were unable or unwilling to supply, but it was also necessary for the government to use its credit and further unbalance the budget in order to inject new purchasing power into hands that would use it to increase the demand for goods, to employ more people to make these goods, and thus in turn create a further increase in demand. In furtherance, therefore, of this next step in the process of recovery, as well as in the interest of great humanitarian considerations, more than \$2,500,000,000 of Federal funds were put into our economic system by the Federal Emergency Relief Administration and nearly \$2,000,000,000 by the Public Works Administration.

Of course we have recovery. We have it because we have planned for it, provided for it, and paid, through an unbalanced

budget, the price that it was necessary to pay, first to stop the deflation, and then to bring recovery about. The country's money supply, as a result of governmental loans and expenditures, was brought back to its predepression level in our banks. The country's income, as a result of the impetus given to production by governmental spending, was increased from \$39,500,000,000 in 1932 to \$41,900,000,000 in 1933, and to \$48,500,000,000 in 1934. We do not yet know what the national income will be for 1935, but we can say quite positively from the evidences which have been related here that it will be greatly in excess of the \$48,500,000,000 reached in 1934.

Just as the decrease in the national income resulted in a decrease in Federal revenues, and at the same time created the need for extraordinary Federal outlays, so the increase in the national income will automatically increase the Federal revenues and diminish the need for extraordinary Federal outlays. This has already been evidenced in the growing receipts of the Treasury, even apart from any changes in the tax laws, and in the smaller demands that are now being made on Federal lending agencies. Increasing incomes, increasing profits, and increasing sales all contribute to these increased tax yields. Furthermore, repayments to the governmental lending agencies should henceforth exceed new loans, thereby contributing toward the reduction of both the deficit

and the contingent liabilities of the government. Finally, the progress of recovery will result in greater employment in private industry and in reduced demands on the Federal Government to provide employment.

Thus the budget will be balanced when the need for expenditures decrease and the ability to pay taxes increases. This is the proper way to balance the budget rather than to attempt to balance it by curtailing expenditures in the depths of depression and raising tax rates when the ability to pay taxes is almost nonexistent.
