

This is copy of a program submitted to the
President by Currie, Henderson and Lubin in
conference with the President on November 8th,
1937.

CAUSES OF THE RECESSION

1. The recession, in our opinion, is directly traceable to an upsurge in costs and prices, which led to (a) excessive inventory-buying and forward ordering and (b) reversal of a promising revival in building. (See charts. Note particularly wide wholesale prices disparity after July, 1936.)
2. Purchasing power in the hands of consumers failed to expand sufficiently to maintain the new levels of business activity. Department store dollar sales showed no increase after January, 1937, despite monthly increases in retail prices. Had it not been for instalment sales, the volume of retail trade would have been smaller. There was no increase after May in the monthly index of national income.
3. Among the factors accounting for this failure of national income to increase were
 - a. Decline in building
 - b. Decline in the government's net contribution. (See chart.) For the first time since 1930, the government is now deducting from buying power as much as it is contributing.
4. There is no convincing evidence that the undistributed earnings tax, the capital gains tax, or the various regulatory activities of government played any significant part in bringing about the decline. In important segments of industry, capital expenditure last Winter was limited only by physical capacity of capital goods producing companies. For the first nine months of 1937, new plant and

equipment expenditures of mining and manufacturing companies approximated the level of 1928. In addition to the \$4 billion set aside annually for depreciation, non-financial corporations can retain 40% of their earnings by payment of an average undistributed earnings tax of 13.2%. During the Twenties, only 43% was retained.

POSSIBILITIES OF REVIVAL

There is little reason to expect a "natural" upturn in the near future. The recession could be severe and prolonged if government does not intervene. Neither of the two forces commonly stated as regenerative factors, viz. correction of the inventory situation or accumulated shortages of durable goods, can be depended upon for resumption of recovery. The decline is now gathering momentum, and the longer remedial action is delayed, the less effective will be measures of intervention.

ELEMENTS OF A PROGRAM

The various suggestions that follow are designed first to moderate the decline in consumer buying and later help to bring about a substantial increase in purchasing power.

1. Governmental purchases. It is suggested that the Federal government place orders at the earliest possible date for such materials and supplies as will be required for the operation of the various departments and agencies for the remainder of the fiscal year.

2. Anticipation of some items of expenditures. The possibilities should be explored of transferring certain expenditures from the 1939 budget to 1938.

Note: Neither (1) nor (2) above would increase total government expenditures over the two year period. It might even result in savings.

3. Relief. Unanticipated increases in requirements of W.P.A. this Winter should be promptly met.

4. P.W.A. Existing application for P.W.A. projects which can be started immediately should be approved.

5. Private housing. The one field on which reliance can be placed for a sufficient volume of expenditures to turn the tide, if adequate stimulation is given, is residential building. It has been demonstrated many times, particularly in the recession years 1921 and 1924, that building construction can move upward in the face of a downward trend in business activity. (See chart.)

A building program must be devised, which, above every other consideration, provides houses and apartments on terms which are more attractive than those prevailing on existing structures.

Measures to Reduce Building Costs

One of the fundamentals for securing low building costs is attracting large scale builders into the field of housing. This would make possible lower building material, equipment and labor costs.

a. Building material costs. Experience indicates that multiple building results in savings as high as 20%. This arises from sharing of retail margins and savings in the bulk handling of materials and equipment.

b. Labor costs. Multiple construction would permit regularization of building labor employment, and greater annual income. In return for a guaranteed annual income, concessions in wage rates are possible.

c. Finance charges. Financing charges are relatively as excessive as building equipment, material and labor costs. On October 1, 1936, commercial banks in eighteen states were obtaining 3% and over on the bulk of their individual real estate loans. The median effective rate charged by Federal Building and Loan Associations was over 7% in 21 states in March, 1936. Even mortgages fully guaranteed by the government, are yielding lenders over 5½% and are costing borrowers 6½%. (The bulk of English residential building has been done on 4½% unguaranteed mortgages.)

Financing costs can be reduced by:

1. Waiving F.H.A. Annual insurance premiums amounting to ¾%.
2. Elimination of ½% service charge on insured mortgages.
3. Reduction of down payment to 10% on houses in the lower cost brackets.

Adoption of the above proposals would have the same effect as reducing construction costs by 11%. If the net rate to borrowers could

be cut to $4\frac{1}{2}\%$, the savings would be equivalent to a decline of 13.3% in construction costs. If, in addition, actual construction costs could be cut by even as little as 5%, the total cost of acquiring a new home would be reduced by approximately 20%. Extension of the period of amortization would also result in substantial savings.

Limited Dividend Rental Housing

The construction of apartments and flats can be markedly stimulated by making certain changes, already presented, in the Federal Housing Act. Elimination of the insurance premium would cut financing costs by an amount equal to 6.1% of the construction costs.

In this field, a chief problem is the attraction of capital. Certain amendments to the Federal Housing Act can provide this attraction.

6. Tax revision. It has been suggested that certain changes in the existing laws would stimulate the purchase of durable goods. Revisions in the undistributed earnings tax should be limited to providing:

a. Exemption of all earnings up to \$15,000. (This would exempt about 90% of all corporations and would apply to less than 10% of the earnings of all corporations.)

b. Exemption of earnings in excess of \$15,000 shall be applicable only to such amounts as are actually expended for new construction of plant and equipment. This exemption should not exceed 30% of total

earnings and be applicable to actual expenditures in excess of expenditures equal to current annual depreciation charges. Further, this exemption should be absolutely conditioned upon imposition of a penalty rate of tax on earnings not used for these stated purposes, which will insure their distribution to stockholders.

c. Capital gains tax. Some stimulation to expansion of small enterprises may be provided by applying low flat rates to capital gains up to \$50,000.

d. New taxes. Consideration of new taxes might be delayed until next spring when a clearer view of the business and revenue prospects will be available.

e. Balanced budget. The objective of a balanced budget for 1939 should be retained.

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