

6/6/39
Ans.
National Comm.

1. It is the general opinion among Administration officials and technicians in Washington who are on, or are cooperating with the Fiscal and Monetary Advisory Board, that there is little if any prospect for marked recovery during the next two years.

2. Even with a moderate improvement in business the unemployment situation will still be acute. With no improvement in business the number of unemployed will increase because of the annual accretion to the labor supply of more than half million a year, and because of continued technological change.

3. Some of them also recognize the possibility of a downturn in business activity before the end of 1940.

4. The inability of our economy to reach and maintain the objective of an \$80 billion national income is due to the existence of certain fundamental maladjustments which have been developing.

5. Some of the basic changes which are partly responsible for the lower level of business activity during the 30's are as follows:

(a) For the first prolonged period in our history private enterprise and local governments together have not spent or invested the funds which have become available currently for such spending or investment and which must be invested or spent if the national income is to be maintained or increased.

(b) Certain large industries have now reached a stage of growth relative to their potential markets which eliminates them in the foreseeable future as potential users of large amounts of investment funds. Though we expect a continued growth of most of these industries the rate of expansion and the absolute volume of new investment funds they will absorb will be less than it was in the 20's.

(c) Basic difficulties in certain important industries which for special reasons do not provide nearly so important an outlet for capital as they did in prior decades, e.g., railroads, agriculture, coal.

(d) The rate of population increase has been cut in half as compared with the 20's.

(e) The virtual cessation of foreign investment which in the 20's accounted for about one-half billion a year net.

(f) State and local bodies which in the 20's provided an outlet for investment funds of nearly a billion dollars a year have in recent years actually added to the current volume of funds available for investment through a net reduction in their outstanding debt.

(g) Sharply curtailed expenditure on non-profit private building, i.e., churches, universities, non-governmental schools, charitable institutions, clubs, etc. In some years in the 20's these accounted for as much as 700 million a year, whereas they now are less than 200 million.

(h) The slack created by the over-production of commercial buildings in the late 20's will not have been taken up for several years more.

(i) The Federal, State and local government tax structures now derive a greater proportion of total revenue from taxes that curtail consumption than was true in the 20's.

(j) The serious reduction of certain foreign markets for important export crops, e.g., cotton, wheat, tobacco and hog products, and the failure of foreign trade generally to revive to the level of the 20's. The curtailment of these markets is not due to temporary factors.

(k) The situation is aggravated by the fact that those who have or control the nation's funds for investment appraise the risk of investment as greater now than hitherto and are less willing to assume risks. The increasing uncertainty, both economic, political and social, which has characterized the past decade has made people more conservative in both expenditure on consumer goods and in the investment of their savings. In addition, the tax burden has increased as compared with the 20's, thus reducing the net profits left to the investor or business entrepreneur and thereby in some instances reducing the incentive to undertake risks.

6. The United States is not unique with regard to the changed nature of the economy. The industrially advanced European countries have experienced the same contraction of outlets for their investment funds. Some of them have temporarily solved their problems

by a new industry greater than all the new industries of the past period combined, i.e., armaments and complementary industries. In some of them the problem has been rendered less acute by the fact that their tax program has resulted in a diversion of a larger portion of potential savings back into consumption.

7. As a consequence of these basic changes we are faced with inevitability of a low national income unless either or both of the following happen:

- (a) The development or appearance of sufficient investment outlets to absorb the funds available for investment at a high national income.

- (b) An increased proportion of the national income is spent on consumers goods, thereby reducing the volume of idle funds and increasing the profitable outlets for investment.

8. Turning to the immediate situation there are numerous indications that the prospects for substantially increased national income in 1939 and 1940 are not good.

There are two elements in the picture which are favorable:

- (a) Inventory reduction has been proceeding for some months and a cessation or reversal of this trend would be a temporary stimulus to production.

- (b) Expenditure on consumers goods has been maintained despite the decline in business activity.

Elements in the situation which are either neutral or unfavorable:

- (a) The upturn which began in 1938 reached its peak in December and since that time the level of business activity has been downward.

- (b) No significant increase in the net contribution to buying power by the Federal Government under the existing program will occur this year and a reduction is anticipated in the fourth quarter.

(c) There is little basis for the expectation that our exports in 1939 and 1940 will exceed the 1938 level despite the increased armament programs abroad.

(d) Housing activities appear to have reached a plateau and there seems to be little prospect of a further marked increase of home construction.

(e) No substantial increase in railroad equipment buying can be anticipated in the balance of the year.

(f) There is little prospect of an expansion in public utility investment.

(g) Despite the increase in orders for armaments both domestic and from abroad, the heavy industries are still depressed.

(h) There is nothing in the prospects of the agricultural situation to justify the expectation that it will supply a stimulating influence on business activity.

(i) There will probably develop a strong tendency on the part of certain groups to forego the prospects of immediate profits by postponing any investments or plant expansion until after the election.

9. Even if there is a moderate increase in business activity next year the unemployment situation will remain acute.

In 1937, 35 million persons were employed in non-agricultural pursuits. Today less than 35 million are so employed. During 1940 we shall be doing well if we again reach the volume of employment of 1937, whereas the non-agricultural working population in 1940 will be about 2 million greater than in 1937.

In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.

In view of the fact that there is no expectation for more than a moderate rise in national income for the next fifteen months, and in view of the further fact that a decline in business activity some time during the next fifteen months is a possibility, and, most important, in view of the conviction that sustained full recovery is impossible unless action is taken to correct basic maladjustments:

There is general agreement among the persons referred to above that a comprehensive program of action should be initiated at once, such action to be designed to accomplish two things:

1. Make all effort possible to eliminate the basic maladjustments which stand in the way of a sustained full recovery. Though the full effects of this program will not be felt for several years, it is vitally important that such a program be initiated at once for two reasons:

(a) It will take time before such a program could be worked out and put into effect.

(b) It is important to make clear to the public that this Administration recognizes the existence of basic maladjustments and will take steps to correct them, that it will push toward a further extension of New Deal principles and will adopt measures designed to insure sustained prosperity.

2. A program of immediate action designed to insure a substantially increased national income in 1940 and to protect us against the possibility of a sharp downturn in business during the next fifteen months.

Some of the measures which can be undertaken to correct basic maladjustments can be initiated with sufficient rapidity to raise the national income in 1940.

If to the increase in national income that would result from measures undertaken to correct basic maladjustments there be added the further increases to the national income which would result from measures specifically designed to increase in 1940 investment and expenditures, then a significant increase in the national income can be assured for next year.

There appears to be general agreement in the group mentioned above that Congress should not adjourn until an adequate program has been inaugurated. Or, if Congress is to adjourn, it should do so only with the distinct understanding that after a short recess it would reconvene prepared to deal with these major problems, some of which have been before us for a long time.

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