

FROM: MR. DAIGER'S OFFICE

TO: Mr. Eccles

These are some notes that I made on the train yesterday by way of showing the relative importance of the construction problem in the present and prospective economic picture.

I have several persons at work on some charts and other supporting evidence, and I am myself working on the program that you discussed with me over the telephone on Saturday night.

I hope that you were not inconvenienced by the telephone call; I called you as soon as I received your message, but I did not remember until afterward that the time was then an hour later in Washington than in Chicago.

A handwritten signature in black ink, appearing to be 'J. M. Daiger', written in a cursive style.

10/25/37

SIGNIFICANCE OF THE CONTINUED DEPRESSION IN CONSTRUCTION

At the end of the eight-year period extending from the autumn of 1929 to the autumn of 1937--a period divided more or less equally between depression and recovery--building construction, which is ordinarily regarded as the country's No. 1 industry, remains in a state of severe depression. The failure of this industry to revive in common with other major industries--or, put another way, its long-continued lag far behind most other industries--is the crux of the problem of extending the area of industrial production and employment on the one hand and of capital expenditure and investment on the other.

Except for two other lagging but smaller areas of heavy industry--namely, public-utility plant and equipment and railroad maintenance and equipment--the recovery of the past four years has been all that it might reasonably have been expected to be without the impetus that could have come only from a much larger volume of building construction. Even in the case of the railroads, the lack of revenues ordinarily derived from the movement of raw materials and manufactured products entering into building construction has been a retarding factor in expenditures for labor, materials, and rolling stock.

There is thus a very real element of cause and effect between the prolonged lag in building construction and such other crucial problems as the following:

1. The failure of business generally to expand beyond the limits reached earlier in the present year.
2. The recent slowing down of industrial production and retail trade.
3. The failure of bank deposits to turn over at a more rapid rate and of a larger volume of capital funds to find an outlet in productive enterprise.
4. The lag in national income and in Federal, State, and local revenues.
5. The recurrent Treasury deficits, the unbalanced Federal budget, and Federal, State, and local expenditures for unemployment relief.

It would be an exaggeration even to suggest that the lag in building construction is the only important cause of these several adverse factors. It is not an exaggeration, however, to say that it is the principal cause, the most deep-rooted, and one that must be dealt with in a vigorous and decisive way before an appreciable improvement in business and employment can be forecast for 1938.

Without a much larger volume of construction and employment than is now in prospect during the next building season (say from the

middle of March to the middle of October) the general business outlook for 1938 is unfavorable as compared with the conditions of 1936 and 1937. Given a much larger volume of building construction, the outlook would be appreciably altered for the better.

As a matter of economic and social policy, therefore, the practical question from the point of view of the Administration is whether the Federal Government--by administrative procedure, by legislative action, by informal negotiation and leadership, or by a combination of these functions--can first remedy the conditions which account for the depressed state of the construction industry and then provide more effective means for its stimulation.

JMD--10/25/37