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*Current Business
Conditions*

October 19, 1937

As you request, I am putting down on paper some of the points which you and I covered in our telephone conversation this morning.

This country again faces a very serious business and financial crisis. To put it bluntly, we face another major depression. Whether we will avert it or not depends to a large extent upon the policies of government officials during the immediate future.

In its current stages, the business situation is very deceptive. It is especially deceptive in that few people in the country, and apparently even fewer at Washington, realize the retrogression which has already occurred. You can look at any of the well known indexes of business volumes--our's, the Federal Reserve's, or any other good ones,--and observe only a moderate dip in the curve during recent months. On the basis of these indexes today, it is quite possible to say: "Wall Street is crazy; this is only an intermediate reaction, of small size, in a long term cyclical upward movement."

Anyone who says that, or anything like that, and who declines to consider the other side of the case, is either entirely ignorant of what has been going on in this country during the last few weeks, or is trying to deceive himself or someone else.

The truth is that business is declining very rapidly at this very moment. Plants are closing down every day. Thousands and thousands of industrial workers are being laid off every day. Forward orders are being cancelled. Inventories in several lines are

much too heavy, and prices are falling. Undercover prices are materially lower than formally quoted prices. Many important plans for capital improvements are being cancelled. Business men everywhere are thoroughly frightened.

Never in the history of this country has there been a decline in the stock market of the proportions recently experienced, without a drastic decline in business accompanying it or following it. Indeed, the stock market decline just behind us--and no one knows whether all of the decline is behind us--has been one of the most rapid and most devastating in history. The stock market debacle will prove to have been a major disaster, and there's no use trying to talk ourselves out of it.

The second grade bond market has been equally bad. Many bonds in this lower grade category are selling today for 50% or less of their best 1937 prices. Flotation of new issues has, therefore, come to a dead standstill, and it will be many months before investor confidence is reestablished.

Thus a substantial decline in business and commodity prices, all along the line, is now under way. Most people do not realize that this is true. The facts will not show up in the monthly figures emitted by governmental sources until late in November or early December.

Such movements gather their own momentum, and feed upon themselves. Unless several kinds of definite action are taken at once,

by Washington, it will be only a miracle if we escape another major depression in 1938.

What can be done at Washington without any basic change in the broad policies to which this Administration is committed? The following represents not only my own ideas, but the composite ideas of scores of sound, intelligent and politically unbiased people with whom I and my associates have been in contact during the past fortnight.

1. One of the basic causes of the current unsettlement in business is that costs--especially labor costs--have risen so much more rapidly than gross income during the current year. The margin of profit has been steadily decreasing as the year has advanced. Many concerns which, even a few weeks ago, thought they could earn a reasonable profit during the fourth quarter of this year, now realize that they will do well to break even, or to operate slightly in the red.

The proposed Wages and Hours bill has business thoroughly frightened. I presume it would be politically impossible, and perhaps both politically and socially undesirable, to withdraw it or to suspend it indefinitely. But it would be very helpful if its probable scope and terms were defined to the business community immediately, and if it were made clear that that measure is not going to constitute a further contribution to operating deficits. And don't make any mistake about it: the prospect of ANY such bill is contributory to the

present unsettlement, and the passage of ANY such bill, no matter how mild, will, psychologically, push business further in the direction of a major depression. It is bad in every sense. Our Government officials should be racking their brains to find some way of softening its actual and psychological effects.

2. The terms of the Agricultural bill should be publicly defined, at once, and it should be made unmistakably clear that the Government does not intend to step from an acreage control bill on to a price control bill.

3. The railroads again face a financial crisis. Many of their bonds are selling for from 35¢ to 50¢ on the dollar. Their purchases of new equipment and supplies has practically disappeared during recent months. They are laying off hands by the thousands. Are they going to be allowed to go into bankruptcy? If not, those governmental officials charged with responsibility for railroad matters should make it clear at once that such is not the case.

And the increase in passenger and freight rates, upon which the I. C. C. has been sitting for so long, should be announced immediately.

4. Margin requirements should be lowered by the Federal Reserve Board.

5. Bank reserve requirements should be lowered by the Federal Reserve Board.

6. The capital gains tax should be either abolished or set up separately, outside of the personal income tax.

7. The tax on undistributed corporation profits should be either

abolished or greatly modified.

8. There is an important shortage of electric power generating capacity. If the government would compose its difficulties with the privately owned utilities, and if the investing public should know, definitely and once and for all that existing operating utility properties are going to be allowed to earn a fair and decent return--if this were done, several billion dollars of additional public utility construction would probably be under way within 12 months.

9. Over a period of years it will become obvious to all fair minded people that the Securities & Exchange Commission has done basic harm to our American economic system. Its work, rules and ceaseless investigations are in large measure responsible for the thinness of the markets at the present time.

It would be absurd, of course, for the investing public to hope for any actual right-about-face in these matters. But the Commission's proclivities for further harm should be at least temporarily held in abeyance, and it should go over its major premises, one by one, with a responsible committee appointed by the New York Stock Exchange, and WHERE IT IS CLEARLY EVIDENT THAT CERTAIN OF THESE PREMISES ARE ACTUALLY PRICE DEPRESSANTS, PROMPT (EVEN THOUGH TEMPORARY) REVISIONS SHOULD BE MADE.

As you know, I am neither an alarmist nor a pessimist. Up until the last two months, I have viewed the business, financial and

security market situations with reasonable complacency, feeling that nothing more than a temporary recession was called for at this time, and that a reasonably high degree of prosperity might be expected for some years to come. My misgivings as to the longer term prospect had been pushed into the background--overshadowed by relatively good shorter term situation.

And as you and others know, I am not a political partisan. Neither is any other executive of our organization. Our only purpose is to be more or less correct in our gathering of information, and in our interpretation and projection of this information. That is the only way we can hope to stay in business.

It is with much reluctance, therefore, that I say to you again, without any reservation whatsoever, that today this country again faces major economic disturbance; that business has already begun to decline quite rapidly; that the major bear markets which have already occurred in both the stock and bond markets will inevitably have serious future effects upon business; that investors and business executives are again thoroughly frightened; and that both prompt and vigorous action on the part of our Governmental officials is absolutely necessary if we are to escape, or even greatly alleviate, the serious future consequences of what is now occurring.

This is the time for business, labor and Government to establish a public understanding, and to work together for a common end. This is an emergency in the making--rapidly in the making.