

This covers Mr. Ruml's views concurred in
by other members of the Council.

Business Outlook

All plans should be made with the probability of a definite business recession in mind. This recession might last as much as eighteen months. It might go rather deep, sufficient to bring drastic political measures, such as for example nationalization of the railroads and the reserve banks. There will probably not be a credit crisis.

The outlook is always to be judged in terms of possible federal action. Washington could turn the situation sharply, but it is improbable that Washington will act in time.

The present deflationary policy of the Treasury was adopted early last spring at a time when statistical evidence indicated a sharp revival of home building. This hoped-for revival seemed to warrant drastic efforts to balance the federal budget. The revival did not materialize, but the Treasury policy was not only not changed but it has been reaffirmed again and again.

Efforts are being and will be made to start large-scale operations in housing, railroads, and utilities and to continue the present Treasury policy. These efforts will probably fail. (1) In housing, the necessary concessions from labor will probably not be forthcoming. (2) In railroads, there will not be sufficient traffic to open the capital markets for borrowing and the R. F. C. will not act for federal budgetary reasons. (3) The utilities, feeling themselves in a strong position, will probably make demands that are politically impossible.

Efforts of a psychological character will be made, certain minor changes will be made in taxes, in security regulation, etc. Speeches will be made reaffirming confidence in the capitalist system. These psychological efforts will produce little purchasing power and will fail as Hoover's did.

Costs are higher and more rigid; and with falling volume, profits will disappear at a higher level of volume than formerly. Unemployment will come quicker. The unemployment reserves will prove disappointing.

Agriculture will have less income in 1938 and this will become evident about the time the slackening in business and industry becomes acute.

Labor will demand shorter hours to "share the work". Recently organized labor will become monopolistic as in the building trades and will prevent the employment of persons who have never worked.

The Treasury will finally be forced into deficits, either by a demand for spending or because revenues will disappear. This will upset "confidence." The deficit will finally produce a sufficient net addition to purchasing power, so that the recovery will be resumed. In the meantime, there may be politico-industrial changes depending on the length and duration of the depression.

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