

October 30, 1937

SUMMARY

1. Business activity, after rising for 2 1/2 years, is now declining, and judging by reports of business programs is likely to go down even faster.

2. This decline is not due to monetary factors, since money is abundant and available at low rates.

3. It is due to a maladjustment between costs and prices. Rapid increases in output and orders occurred in anticipation of price advances. They have now given place to reductions as the orders have been filled. New orders have been on a smaller scale.

4. The present business recession occurring at a time when full recovery has not yet been achieved may turn into a real depression, unless action is taken promptly.

5. It is necessary to encourage building; this can be done by reducing costs of financing and of labor and materials. Financing costs can be reduced by amendments to Housing law proposed last summer. It should be made clear to labor that wage increases for the best paid groups of labor with monopolistic advantages are inconsistent with economic progress. They make enterprise unprofitable and reduce activity with bad consequences for all. Lower hourly wages with larger annual incomes would be advantageous to labor and would reduce costs. Manufacturers of building materials, who have made large profits in 1937, should be induced to reduce prices.

6. The undistributed profits tax should be amended so as to permit deductions for plant and equipment expenditures made in 1938 from taxable incomes in 1938, 1939, and 1940.

7. Government spending should not be reduced, except to the extent that private spending increases. The budget cannot be balanced when national income declines, because tax receipts also decline. Net Government spending is now much smaller than in the fiscal year 1937. Expenditures on PWA projects and relief should now be made on a larger scale than one-twelfth of \$1,500,000,000 a month.