

## I.

The setback in national income in 1938 has been attributed by various people to a number of causes. These need to be appraised. Among the more immediate of these are:

- (1) An over-accumulation of inventories
- (2) Excessive speculation in commodities
- (3) Consumer resistance to rising prices
- (4) Deflationary effects of increases in reserve requirements
- (5) The curtailment of government spending
- (6) Labor difficulties, including rapidly increased wage rates and sit-down strikes
- (7) Shortages of skilled labor in key positions
- (8) A too-rapid increase in production costs
- (9) A decline in new construction
- (10) A contraction of the market for new capital issues
- (11) Government tax policies
- (12) Maladjustment of prices, and price rigidities
- (13) Fear of gold price reduction

- (14) Government competition
- (15) Excessive short-term installment buying

## II.

It is proposed that an investigation be made of certain fundamental factors which may have been significant in bringing about the decline in industrial activity in 1937 and 1938, and which may stand in the way of increasing the national income in the future. Specific recommendations based on the findings of these investigations should be made in order that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed.

- (1) What important industries have made less than a proportionate contribution to the increase in the national income in the past five years? What important industries have made more than a proportionate contribution to the increase in the national income in the past five years? What can be done to convert specific industries which have retarded recovery to stimulators of recovery?
- (2) How far is the claim that new investment is being seriously blocked by specific government measures justified?
- (3) To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets? (b) borrowing? (c) sale of equity securities?
- (4) To what extent and why are depreciation charges not being reinvested?

- (5) What elements of our tax structure, Federal, State and local, serve substantially to retard the growth of the national income through their effects on consumption, on new investment, or in other ways? What modifications that would stimulate or encourage the growth of national income could be adopted with respect to:
- (a) Level of upper bracket personal surtax rates
  - (b) Carry-forward of losses and averaging of income
  - (c) Consolidated returns and taxation of intercorporate dividends
  - (d) Undistributed profits tax
  - (e) Capital gains taxation
  - (f) Capital stock tax
  - (g) Excess profits taxation
  - (h) Social Security payroll taxes
  - (i) Sales and other excise taxes
  - (j) Tax exemptions and other specific incentives to encourage employment, investment, etc.
  - (k) Depreciation allowances
  - (l) Other elements of the tax structure
- (6) Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital?
- (7) In what industries should capital be invested during the next two years? How much is likely to be invested in these industries during the next two years?
- (8) What is the volume of savings likely to be available for investment during the next two years?

- (9) How much would substantially lower rates of interest to borrowers of capital for production of capital and durable consumers' goods increase borrowing? What can the Government do to lower such rates of interest?
- (10) How much would a reduction in the cost of borrowing to potential purchasers of durable consumers' goods (e.g., home purchasing) increase the demand for such goods?
- (11) How important would a longer rate of amortization be as a stimulant to the demand for durable goods?
- (12) At what points and what level of increased production will the lack of adequate skilled labor retard expansion?
- (13) To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location, or function -- the field of investment activity to which it proposes to confine itself during the next two years?
- (14) What measures could the Government take, either independently or in cooperation with State and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?
- (15) It has been claimed that private industry by itself cannot profitably absorb current savings. Were this true a continued national income of \$80 billions or more would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?
- (16) What types of Federal Government expenditure operate to increase the national income most, and which least? To what extent is it possible to shift from those that increased income least to those that increase income most?

- (17) Is there any justification for the claim that governmental spending on public works or WPA projects results in a decrease in spending on the part of private enterprise?
- (18) Would a substantial increase in the public debt during the next few years have any important effect on government credit?
- (19) Are there any prospects that (a) inflation or (b) deflation will emerge in the immediate future?
- (20) To what extent are world developments likely to constitute a drag on recovery in the United States during the next two years? What steps, if any, can be taken to protect our economy from possible adverse economic effects coming from abroad?
- (21) For what specific products can we expect a substantial increase in exports during the next two years? What, if any, removable obstacles lie in the path of important increase in our total exports?
- (22) To what extent, in what fields, and with what effects on our national income, has the Government contributed to an uneconomic price structure?
- (23) What will be the net contribution that the Federal Government (and if ascertainable, State and local governments) will make in 1939 and 1940 to the volume of buying power in the hands of the people?
- (24) Would the maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?
- (25) To what extent would a redistribution of our national income contribute to the attainment and maintenance of a high national income?
- (26) How much unemployed would we have were our national income soon to reach \$80 billions? What age distribution and what skill classification will make up the unemployed group at that level of income? How large a volume of unemployed must we expect to make provision for during the next five years?