

February 15, 1939.

Chairman Eccles  
Lauchlin Currie

Report on Work in the  
Monetary Problems Section

In accordance with your request, I am attaching a statement indicating the nature of the work carried on in the monetary problems section since 1935. I am also appending individual reports of my research staff. I think the nature and significance of some of the work might be more dramatically presented as you suggested, by means of my charts, although they would give an inadequate impression of the wide scope of the work.

LBC:em

February 15, 1939.

THE WORK OF THE "MONETARY PROBLEMS" SECTION

The work of the Monetary Problems Section has been along several lines:

I - Current Work

The section, through its head, has first and foremost sought to be as useful to the Chairman of the Board as possible. Much of the current work of the section, consequently, has been dictated by the changing and widespread interests of the Chairman. Thus, in the first half of 1935, the work was concentrated almost exclusively on banking reform. In 1936 considerable attention was devoted to monetary, business and tax matters. In 1937 work was carried on in the fields of monetary policy, "hot money", and, particularly in the latter part of the year, business conditions and recovery programs. In the first half of 1938 much work was carried on in business analysis and in recovery programs that covered a wide field. During the summer the head of the section was in charge of the Division. In the latter part of the year work was carried on in connection with banking reform and increasing attention was devoted to developing the whole theory of a compensatory fiscal program. At present much of the work is in connection with the Chairman's activities on the Fiscal and Monetary Advisory Board.

Some of the calls on the section are to prepare analyses of memoranda originating outside the section and outside the Division; to answer correspondence; to prepare materials for speeches and statements; to serve on various technical committees; and to be at all times prepared

to contribute to the basis for business forecasts.

## II - Research

The second main interest of the section has been in research of a pioneering nature. This research has gone along parallel with the current calls on the section. In general, the endeavor has been to develop new statistical series that would give quantitative content to important economic concepts, and thus aid in both interpreting past and current trends and in forecasting future trends. Information of this character is vitally needed if the projected timing of fiscal operations and of monetary actions is to be improved. The experience of 1937, when we were in the dark as to some of the most important business developments, comes to mind.

### A. Net Contribution.

One of the most important concepts in recent years in relation to business activity has been the net federal contribution to buying power. The first attempt to express this concept accurately in quantitative terms was developed in the section and the series has been periodically revised and refined. In addition, estimates of monthly net contribution are made to cover more than a year ahead.

### B. Durable Goods.

In giving statistical content to another most important business cycle concept, durable goods expenditures, the section has also pioneered. A continuous series of annual expenditures on durable goods

production for each of the important fields, for every year since 1919, and in current and 1929 dollars (as a measure of physical volume) has been worked out and is the only series in the country that is kept up to date. It is in constant demand by business analysts. Estimates of future expenditures are made on the basis of past experience and under various assumptions as to the level of production, etc. As by-products of the work, estimates of the changes in the total value and volume of producers durable goods, of depreciation and retirements, and of the total stock of residential buildings were derived. This work has proved of great value in assessing the possibility of bottlenecks emerging in productive equipment in various fields, in assessing the volume of needed expenditures in each field to meet certain levels of demand, etc. It has also served as a basis for constructing a current overall index of degree of plant utilization, which appears to be the single most important determinant of new capital investment.

C. Consumption.

One of the most important of all business cycle concepts, consumption, has never had accurate current statistical measurement. In default of a comprehensive current index, recourse has usually been had to department store sales, which cover only a small portion of the field. The section has now developed a comprehensive monthly

index back to 1929 of the value and physical volume of consumers' expenditures which, in practical application, is giving excellent results. This particular index would have been of inestimable value in 1937 as it would have indicated a marked downward trend in the physical volume of consumption during the nine months preceding the downturn in business.

D. Inventories.

This is another immensely important economic concept. Very frequently the role played by variations in inventories has proved decisive in determining movements of business activity. In default of a reliable current series, the section has endeavored to derive a monthly index by developing comparable series of the production and consumption of consumers goods. This has proved to be a difficult and laborious task and has necessitated constructing new production indexes and new price indexes as well as a new consumption index. Preliminary results have been sufficiently promising as to lead to expectations that we may shortly have a comprehensive monthly index of changes in the dollar value and physical volume of inventories.

E. New Orders.

Through the utilization of various outside contacts, it is hoped shortly that access may be made to considerable information on new orders on a weekly basis.

F. Demand for Money.

This concept is very old and very important in monetary theory. An attempt has been made in the section to give it quantitative meaning. This has taken the form of breaking down the total of adjusted demand deposits into the holdings of various economic groups. The results were published in the Federal Reserve Bulletin and in a paper read before the American Statistical Association. This constituted the first attempt to answer the question, who holds the money of the country? Movements in the deposit holdings of different economic groups in different phases of the cycle should throw considerable light on the functioning of our monetary mechanism, where stoppages in the flow of payments occur, etc.

G. Closed Bank Study.

This study falls somewhat outside the more recent activities of the section. It has, however, important monetary as well as banking aspects. Little has come out of this study in finished form as yet, with the exception of the analysis of the nature of deposit losses immediately preceding suspension of banks. The decision to publish this in the next issue of the Bulletin is pending. Practically all the spade work has been done for the remainder of the study and now that a research man has been appointed to work solely on this material, rapid progress in working up the material for publication is expected.

The material constitutes a mine of original data, nothing comparable to which has ever before been assembled. It deals primarily with five topics: the nature of the deposit losses experienced by banks before suspension, the liquidity of various types of assets held by banks under the pressure of serious deposit losses, the economic distribution of deposits as between business, financial, personal accounts, etc., and changes in the distribution in the course of a particularly severe economic cycle, the economic distribution of bank loans, and the activity of personal deposit accounts. These topics are of concern to the Board as well as to bankers and to money and banking students in general. They are designed to fill up large gaps in our knowledge concerning the nature of the factors involved in bank suspension, the connections between changes in the volume of deposits and changes in business activity, and many other problems bearing upon the soundness and proper functioning of the banking system.

### III

The head of the section has served, and is serving, on technical committees in the Treasury and the National Resources Committee. Work at the Treasury has been in connection with foreign capital movements, price policies and the preparations of material in connection with the Fiscal and Monetary Advisory Board. At the National Resources Committee he has served on the Industrial Committee, the main function of which is to review the technical work of the Industrial Section of the National Resources Committee.

February 14, 1939

Mr. Currie

Work Report

Mr. Terborgh  
(Senior Economist)

In response to your request for a report on my work at the Board, by years, let me suggest that as I have been engaged from the beginning until very recently (January 1, 1939) on a single continuing project, there is little to be gained by a chronological division. I shall therefore treat the undertaking as a unit.<sup>1/</sup>

The project has consisted, as you know, in an analysis of the fundamental position of the durable goods industries, and of their prospects over the next few years. The principal sources of demand for durable goods have been studied separately, and a report has been written on each, first in extenso and then in summary form for distribution to the Board and others. A list of these reports follows.

1. Introduction
2. Housing
3. Automobiles
4. Railroads
5. Electric Power
6. Telephones
7. Transit
8. Mining and Manufacturing
9. Public Construction
10. Agriculture
11. Household Goods
12. The Durable Goods Backlog
13. Depreciation and Retirement of Durable Goods
14. The Financing of Durable Goods

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<sup>1/</sup> I joined the staff August 15, 1936, and with the exception of two leaves without pay aggregating three months (September-October 1936 and September-November 1938) I have been in continuous employment.



In addition to this series of reports, I have prepared, in response to specific requests, a number of papers and memoranda related to durable goods, an incomplete list of which is given.<sup>1/</sup>

The Present Situation of Inadequate Housing <sup>2/</sup>  
An Analysis of Capital Formation as a Guide to  
Current Policy<sup>2/</sup>  
Potential Inadequacy of the Supply of Freight Cars  
Potential Inadequacy of the Supply of Locomotives  
Current Condition of Railroad Income  
Railroad Equipment Estimates  
Proposal for R.F.C. Loans to Power Companies  
Utility Earnings  
Public Utility Capital Backlogs  
Importance of Security Markets to Capital Investment

In the course of the durable goods study I have developed a considerable array of estimates never before attempted, so far as I am aware, and have improved and made more promptly available a large number of series already being prepared by others. The primary purpose, however, has been the analysis of the outlook for durable goods activity, not the preparation of statistical data for their own sake. The development of this analysis has involved a good deal of pioneer work, and is still far from complete, but I feel sure at least that much solid progress has been made.

As I have already indicated, I have not been working on durable goods since the first of this year. The present assignment, which is the analysis and improvement of Kuznets' inventory estimates, will be the subject of a report in the near future.

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<sup>1/</sup> This does not include office memoranda relating to studies submitted for criticism by other members of the Division, correspondence handled for the Division, or other miscellaneous material.

<sup>2/</sup> Papers read before the conventions of the American Economic Association in 1936 and 1938, respectively.

February 15, 1939

Mr. Currie

Work Report

Alan R. Sweezy (Senior Economist)

My main activity has been in connection with the analysis and interpretation of data bearing on compensatory fiscal policy. In addition, there have been several topics indirectly related to the problems of fiscal policy that I have covered. The following are the chief problems on which I have been engaged:

1. Social security. In following the developments in the field of social security, I have concentrated chiefly on the old-age insurance system. I have followed and analyzed the estimates of the Social Security Board and the Treasury as to possible maximum and minimum benefit payments in 1940 and as to tax collections in the same year. I have also worked on analysis of the reserve provisions of the law and the amendments in both benefit and tax features which would be desirable from the point of view of fiscal policy.

2. Material and statistics for speeches and letters by the Chairman on fiscal policy and banking.

3. Excess reserves. At the request of Dr. Goldenweiser, I worked out a scheme for sterilizing additional excess reserves, which was later modified somewhat by Mr. Longstreet. I also worked with Mr. Longstreet on the elaboration of the revised scheme.

4. Price behavior and price control. Spent a couple of months last summer working on price behavior and possible methods of price control. This covered undesirable price increases, rigid prices, enforcement of competition, methods of Government regulation, and so forth.

5. The relation between investment and national income. Using Terborgh's and Kuznets' figures, I worked out with Mr. Bassie's help a total investment series, including the net contribution of all governmental agencies, back to 1921, and the relation of investment to national income. In the course

of this work it was necessary to carry the net contribution figures back of 1932. One of the interesting facts that emerged from this study was the increase in the average propensity to consume in the years 1938 and 1939, which led to the further conclusion that spending of stock market profits on consumption played a major role in sustaining prosperity through those last two years.

6. Materials and arguments for a book on fiscal policy. A large part of my time has been spent in collecting and analyzing material and working on methods of presentation for a comprehensive book on fiscal policy. In addition to the work mentioned under other headings, all of which would be useful in writing such a book, I have covered the following general topics:

- a) An analysis of what makes prosperity;
- b) A survey of the forces of expansion sustaining prosperity in the nineteenth century;
- c) An analysis of the prosperity of the Twenties and of the reasons why it came to an end;
- d) An analysis of the English experience since 1930, including a study of national income, Government finances, price movements, wages, interest rates, and housing;
- e) Problems connected with debt, both public and private;
- f) The investment outlook and its bearing on current policy;
- g) The possible relation of the tax structure to consumption and investment, and hence to the current efforts to maintain prosperity.

7. Labor. Study of the Wages and Hours (the Fair Labor Standards) Act and its probable effect on business; analysis of the report of the President's Committee to study industrial relations in Great Britain.

February 15, 1939

Mr. Currie

Work Report

Mr. Bassie

(Senior Economist)

Since joining the Section in the middle of 1937 I have worked on the following subjects:

1937 - Analysis of Proposed Wages and Hours Law - The Fair Labor Standards Act of 1937

Analysis of Proposed Changes in the Fair Labor Standards Act of 1937

Statistical Determination of the Break-Even Point in the Steel Industry - A study of the effects of price and cost increases on earnings

Analysis of Automobile Manufacturers Association Memorandum on Costs and Profits in the Automobile Industry

Estimates of Net Income of All Non-Financial Corporations for 1937

Study of the Economic Effects of the Undistributed Profits Tax on Dividends and National Income

Collection and Analysis of Materials on Undistributed Profits Tax

Analysis of Agriculture Department Memorandum - "Dividends and the Undistributed Profits Tax"

Analysis of Mr. Friedman's memorandum "Factors Checking Recovery"

Special Estimates of Inventory Changes to Determine the Role of Inventories in the Recession

1938 - Analysis of Data on Sears Catalogue Prices - a study of the factors resulting in reduced prices to consumers

Analysis of Mr. Fred H. Sexauer's memorandum and drafting of reply for Governor Davis

Index of Utilization of Productive Resources - A study of monthly changes in the degree of utilization of producers durable goods in manufacturing and mining

Study of the Relationship between Utilization of Producers Durable and New Expenditures for Plant and Equipment.

Review of Benjamin Graham's Storage and Stability for transmission to Secretary Wallace

Analysis of Agriculture Department Memorandum on Fire Insurance Companies

Estimates of Changes in Inventories During the First Half of 1938

Analysis of Agriculture Memorandum on Inventory Situation

Analysis of Economic Consultants Indexes.

Estimates of National Income for 1938 and 1939 (with Conklin and Dirks)

Analysis of Treasury's Inventory-Loan Memorandum

Relation Between Unemployment and WPA Employment

Ability of Railroad Equipment Industry to Meet Recovery Needs - Estimated freight car requirements under recovery conditions and the possibility of a bottleneck in supplying cars to meet those requirements.

A New Index of Consumer Expenditures - A study of monthly changes in consumers' purchases of goods and services from 1929 to date comparing changes in expenditures with changes in income.

Correlation between Net Government Contribution, Consumer Expenditures, and National Income

Current  
(1938-1939)

Revision of Index of Consumer Expenditures

Index of Retail Prices - A study of changes in retail prices of goods in the consumption index, to be used in putting that index on a physical volume basis.

Index of Production of Consumer Goods - A study of production of goods in the consumption index, combining agriculture, foreign trade, and the FRB Indexes, as revised.

Index of Inventories of Consumer Goods - A study of all inventories destined for retail trade, derived from indexes of consumer expenditures and production of consumer goods.

Index of Changes in Consumer Credit - An attempt to estimate monthly changes in consumer credit and to determine its role in producing gaps between income and expenditures.

To: MR. CURRIE

February 15, 1939

From: MARTIN KROST  
(Senior Economist)

Work Report

### Activities Since Joining Board Staff

#### 1935

Developed the series now known as the net contribution of the Federal Government to national buying power. This work involved an examination of the nature of 52 principal types of Federal expenditures and 15 principal types of Federal receipts; a study of the functions of the Government corporations and credit agencies and their financial relationships with the Treasury and with each other; and a study of Treasury accounting procedures and the various financial reports released by the Treasury. Have since kept this series current and made the periodic revisions necessitated by the creation of new Governmental functions and sources of revenue. Current work requires familiarity with the principal Appropriation and Revenue Acts passed by successive sessions of Congress and with current changes in Treasury accounting procedure.

Provided much groundwork material utilized during the passage of the Banking Act of 1935 and furnished specific information required during hearings on the Act. Work in this connection included estimates of money supply and income velocity, estimates of interest earned by banks from holdings of Government securities and a statement of the considerations involved in issuing sufficient currency to replace the national debt; an estimate of the Government security holdings of the British banking system; and a study of the real estate loans and real estate holdings of suspended national banks.

Supplied data required for semi-monthly reports to the National Emergency Council during the year 1935 on a wide range of topics, including money supply, movements in bank earning assets, gold and capital movements, interest rates, security margins, Reserve bank loans to industry, prospects for residential construction, and the problem of excess reserves.

Assisted in planning the Closed Bank Study and in drafting the formal application for WPA funds, consisting of over 100 pages of material, including statement of the purposes of the study, collecting and tabulating procedures, instructions

to clerks, supervisors, editors and tabulators, estimates of cost, sample forms and schedules, and skeleton outlines of final tabulations.

Conducted experimental work and developed reporting forms, instructions, editing and tabulating procedures used in Large Deposit Study, an investigation of the distribution between business and personal holders of deposit accounts of \$100,000 and over in the 100 largest member banks.

### 1936

In connection with the Large Deposit Study, supervised transmission of reporting forms, correspondence with Reserve banks and reporting banks, editing and tabulation of reports received. Assisted in drafting report to the Board on this study and in preparation of Bulletin articles summarizing results.

Assisted in administration of Closed Bank Study, including correspondence with fourteen supervisors conducting field projects in twenty states, handling of problems connected with allocation of funds, procurement of personnel, supplies, and equipment, relations with Works Progress Administration, Central Statistical Board, receivers in charge of suspended institutions and other supervisory agencies. Made periodic revisions in tabulating plans as necessitated by information from the field as to the availability and usefulness of data. Prepared a manual of instructions for the conversion of bank daily statements to a uniform basis, containing a classification of over 700 items actually found on bank statements into 25 standard items and specifying procedures to be used in the treatment of interbranch items, trust and insurance department items, and income and expense items. In the concluding stages of tabulation, assisted in the administration of a tabulating headquarters employing about 200 people and in the handling of problems connected with the transfer of personnel to other projects and the disposition of surplus supplies and equipment. Assisted the staff of the Federal Deposit Insurance Corporation in preparing plans for a similar project.

Supplied much statistical material for use by Chairman Eccles in speeches and statements, including a handbook of figures tracing the progress of recovery since 1932.



1937

Supervised transfer to Washington of statistical records produced by Closed Bank Study and completion of certain unfinished tabulations. Drafted outline of report on the project as a whole and made preliminary drafts of reports on certain sections of the study.

Prepared a memorandum on the reduction of net Federal expenditures then in progress, attempting to forecast the particular types of expenditures which would be reduced and stressing the magnitude and economic effects of the reduction in consumption-stimulating expenditures.

Prepared estimates of the movements of foreign bank deposits in the United States since 1922, requiring the use of several estimating techniques over part of the period for which there were no reported figures.

Made estimates of the effect on total construction costs of various changes in FHA provisions as to interest rates, required down payment, and period of amortization for insured mortgages. Some of these changes were later embodied in amendments to the Federal Housing Act.

Carried through an extensive revision of the net contribution series improving the procedures used in the treatment of bonus payments and social security transactions. Prepared much material used in discussion with members of the Treasury staff and with others as to the value of the net contribution series as compared with other methods of measuring Federal net expenditures.

Prepared estimates of the distribution of deposits and currency in circulation between business and personal holders and between various types of business holders, requiring the preparation of various subsidiary estimates on which no previous published work existed.

1938

Prepared the first formal report on the Closed Bank Study on the subject of deposit losses experienced by banks immediately preceding suspension.

Prepared a memorandum on fixed and flexible elements in the Federal budget, with special reference to the question of compensatory or non-compensatory behavior in future periods of prosperity and depression.

Developed techniques and procedures for forecasting Federal receipts and expenditures and for assessing the probable accuracy of official Budget estimates. Revisions of estimates for the principal items of receipts and expenditures are now carried through quarterly. Prepared a forecast of the movements of the net contribution to the end of the fiscal year 1940.

Furnished a considerable volume of material on problems arising out of the Social Security Act, including tables showing the deflationary effects of accumulation of old-age and unemployment reserves to date and estimates of these effects in future years. . . . Provided memoranda on the recommendations of the Social Security Advisory Council and the recommendations of the Security Board itself. This work involves keeping informed of current movements in payroll tax collections, unemployment benefit payments, and benefit payments under the provisions of the Act relating to old-age assistance, aid to the blind, and aid to dependent children. It also involves familiarity with data bearing on the probable amount of payments under the old-age insurance provisions of the Act.

Prepared a memorandum giving a detailed description of the method of deriving the net contribution figures.

Prepared a memorandum on possible methods of raising additional Federal revenue without restricting consumption.

Provided material, primarily on State, local and Federal expenditures and taxation, for use in connection with the exchange of letters between Chairman Eccles and Senator Byrd.

February 15, 1939.

Mr. Currie

Work Report

Joseph Silverman  
(Economic Assistant)

I have worked on the following subjects:

1. Stock Prices and Corporate Earnings. A study illustrating the relationship between fundamental business factors embodied in earnings and security prices. Original data compiled and adjusted to comparable relationship.
2. Analysis of the different weekly business indexes. This study described the series that composed the indexes; showed how they were constructed; compared one weekly index with the Federal Reserve Index of Production to illustrate similarities and differences in trend over a number of years.
3. Preparation of data for the index of consumer expenditures. Worked on seasonal adjustments, experimenting with monthly figures to obtain proper seasonals. Available consumer data analyzed, each series studied separately to determine its usefulness for the purpose intended.  

Compilation of original data for index of consumer expenditures in the amusement industry.

Estimates prepared on the several series in the consumers index. Material gathered from various sources and then interpreted in compiling estimates which are used until the actual statistics are released. Sources of material are constantly searched to improve methods of estimating. Retail trade series are studied to decide if they should be added to the new index of consumer expenditures. Revisions in the series are made in accordance with new census figures.
4. Assigned work - such as chart and report illustrating and describing relationship between consumer index and other series; reports on the usefulness and accuracy of various business statistical series.
5. A study of monthly and weekly business statistics - collecting and keeping up to date the more important series.

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