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SOME COMMENTS UPON THE RECOVERY PROGRAM

It is more or less futile to seek the "causes" of a depression if in so doing one expects to be able to discover an effective remedy. Regardless of what are the immediate precipitating factors in starting a downswing in business activity and the curtailment of production and employment, it is not long until a large number of forces combine to intensify the difficulties with the result that a period of deflation sets in which tends to cumulatively destroy income, production, and the value of securities and real property. Under these circumstances the former equilibrium soon becomes so far removed that to attempt to correct the initiating causes of dislocation is worse than useless.

While it is difficult to separate all of the forces which enter into the process of deflation and to quantitatively assign to each its part in furthering the process, there can be little doubt but that once a depression is under way monetary factors assume a dominant role in determining the intensity of downswing and the lengths to which the depression will be carried.

This situation is particularly true in the United States where we have a tremendous productive capacity, an efficient labor force, and great natural resources. Our domestic market is large and we are not dependent upon foreign trade for our economic well-being to nearly the extent that certain other important nations are. Thus it is little short of criminal to allow a situation to develop in which millions of our population are unemployed and living on a scale that barely covers

the minimum for existence while the factories and resources, to produce the goods that Americans are so anxious and willing to consume, are closed and unutilized.

Strangely enough under these conditions a naive philosophy has developed among many economists and business men. They tell us that we are paying the penalty for our sins of speculation and recklessness in the years previous to 1929 and it is only by hard work, abstinence and saving that we can pull ourselves out of the current difficulties. Such a philosophy would have been appropriate in an economy of limited productive power. If there was a scarcity of capital with which to convert our natural resources into goods for consumers or if we lacked a skilled labor supply or sufficient natural resources, then the only way to increase national income would be through new inventions, the placing of a larger part of current national income into the production of new capital goods and by greater effort in productive channels by the whole population.

We are in a situation in which certain monetary factors are present that create an impasse of business stagnation from which we can only be lifted by drastic and sustained action. This situation is featured by a low volume of money which is immediately available for expenditure. Bank deposits are greatly shrunken from what they were in the period of business activity prior to 1929. In addition the deposits which are in existence are not being utilized and remain so far as the economic system is concerned sterilized by the unwillingness of their owners to use them either to purchase goods and services or to place the funds into new investments which would indirectly go into the hands of business men to be

spent for materials and labor.

This concentration of deposits into a relatively small number of inactive accounts was rather strikingly brought out in a study made by the Federal Reserve Board for May 13, 1933, in anticipation of the inauguration of the Federal Deposit Insurance Law. This study showed that 45% of all deposits in member banks were held in slightly over 1/46,000 accounts, or 1/10th of 1% of all deposit accounts. These figures include both time and demand deposits and there is no information as to how demand accounts would appear separately. However, it is probably a safe guess to say that demand deposits would show a similar concentration.

Thus the problem at the present time would seem to be chiefly that of getting an increase in the money supply of the country which would be available for spending and of increasing velocity of existing deposit accounts. One possible method of attaining these ends would be to have an increase in the volume of loan expenditures voluntarily made by individuals and banks. It is with this in mind that certain business men and economists direct their attack at the policies of the Federal Government. They maintain that to bring about new investment the Government must re-establish confidence on the part of investors by authoritatively ending uncertainty as to the monetary system of the United States, by relaxing certain restrictions upon business, thereby bringing about greater hope for business profits in the future, and by halting the greater expenditure of public funds and balancing the budget. In other words the Government should retire to its alleged former position of simply protecting the nation from external enemies and being the referee in internal disputes among its citizens in civil and criminal courts.

Above all, however, do they want the Government to use its power in law to protect private property and vested interests.

Unquestionably there exists the possibility for a great boom in so far as the financial set-up is concerned. The banks are loaded with excess reserves and there is the possibility that Governmental and Federal Reserve action can increase these reserves to an appreciable additional amount. Also it is true that once you have a revival of business activity the process tends to become cumulative and that as business profits increase there might be a great increase in the need of working capital by industry and a greater demand for much delayed repairs and improvements. It might be that much of this need would be met by the use of corporation cash balances which tend to increase during a period of depression, and this would mean that there is an actual increase in the effective income velocity of money for the funds have been in effect sterilized before revival came about.

Although it is theoretically conceivable that the process of recovery might well start and work out along these lines there are many indications in the present situation which lead one to believe that the start will be hesitant and that there will be many set-backs and that these delays will cause greater liquidation and losses of confidence before any marked improvement in business will be noticed. It is difficult indeed to know exactly what is meant by "confidence". This is a term that is used continually in conversation and in periodicals and business journals. Certainly different people in the country have different ideas about what the word means. What increases the confidence of one individual might very well decrease the confidence of another. So far as business men are concerned, and they are the ones

who will have to actually take the responsibility of putting funds out into the hands of spenders, they become confident whenever there has developed a substantial volume of business. Certainly such an expansion would have to already take place or at least be definitely in the offing before they would increase their commitments for goods and labor to take care of enlarged production and distribution of goods. Certainly it is necessary to increase spending from one source or another before such an expansion of business activity can take place and business men will regain confidence. What confidence means to bankers is a question which is somewhat difficult to analyze, but it seems to me that fundamentally bankers exhibit confidence when business is making profits and therefore bankers are willing to make commitments if there appears good prospect of loan repayments. Here again it is only after business activity has picked up, that confidence is developed and bankers are willing to put out funds which will increase the loan expenditure of business and therefore increase the amount of funds which go into the hands of individuals who will spend them. Consumers who might increase their indebtedness to purchase goods and services likewise have confidence when there is an increase in either their current incomes or when there is an appreciation in the value of securities and property which they hold. The problem appears to be almost insoluble when you come to consider various individuals who are looking at the situation from what, of necessity, must be a narrow point of view.

However, the situation appears quite different when the Government looks at it. The Government can realize that it is the economic process as a whole which is important and that the only way to increase the gen-

eral income of the country as a whole is to increase spending. One man's expenditure becomes another's income and for the community as a whole to curtail expenditure is fatal from the standpoint of developing economic prosperity. The Government may have many choices as to how their funds shall be spent, but certainly there appears to be no choice at all as to whether or not the Government should spend money in one way or another which will increase the income velocity of money for society as a whole. This money put out by the Government will be actually new money if the financing operations are handled properly and an expenditure of a given amount will tend to turnover two to three times in the course of a year in working through the economic system and thus national income will be increased to that extent. If such an increase takes place then it seems to me there is a possibility that private business profits will be increased and that there will be an increasing demand for loans on the part of business enterprises or at least business enterprises will start spending part of their cash balances to increase their volume of sales. In other words, it is at the later stages of a period of revival that private business will come forward with large demands for accommodations and only in such periods will there be any pressure against the loaning limits of the banking system and hence a general tightening of money rates in lieu of possible Federal Reserve action or other developments which would lead to a contraction of member bank reserves.

If it is agreed upon that a spending program is both desirable and necessary it should be embarked on on a large enough scale so that there will be a rapid and cumulative effect felt by the economic system. Thus

with initial expenditures of say 5 or 6 hundred million dollars a month if sustained long enough, the secondary movement of these funds into business channels would raise the general level of income for the nation as a whole by 3 or 4 times/ ^{the expenditures,} and as the process becomes cumulative the necessity of large expenditures would be decreased as labor would be drawn into private business fields. However, as this happens the Government should not withdraw entirely but should keep up expenditures so long as there are an appreciable number of unemployed. Of course there are quite obvious difficulties in such a spending program especially when you attempt to get useful types of public work done. However, it seems to me to be more essential that the money be spent in large volumes than to worry about how the spending is done for if it is hesitant and in small volumes the effect upon bringing in private business will be lost and the money ^{almost} might/as well be thrown away.

The problem immediately arises as to where the funds are coming from. Particularly is this point brought up in the present situation, and when the Government bond market is looked at the orthodox will tell us that it is impossible to push more securities out into the hands of unwilling investors. This problem seems to me to be of little importance. We have powers at our disposal to support the Government securities market, and more important is the fact that if such a spending program is carried out we can expect that the Government security market will improve. This has certainly been the history in the immediate past in the United States for it is when spending is going forward and business activity is consequently improving that the Government bond market becomes stronger. Likewise, it has been the experience of Australia and England that it is

increasing business activity that gives strength to the Government bond market. Thus we could gamble upon this developing again in view of the large holdings of excess reserves and additional funds by banks. Certainly if business were improving, banks would feel more willing to place these funds into the Government bond market. Thus if we start out using existing Treasury balances to meet the demands of the program and do some immediate financing in short term obligations the expected improvement in business would probably assure a revival of the Government bond market generally so that later financing would almost take care of itself.

As a long run proposition there need be no particular worry about the meeting of the debt which would be incurred because as national income is increased as a result of these national spendings the budget could be brought into balance and the debt in part retired by the revenue which would accrue the Government from the existence of a very much increased national income.

It seems to me that in order for a program of this type to be put over it must be sold to the country by appropriate publicity. With this in view the President might announce that the Administration has been making a survey of the results of its program, which admittedly was one of experiment, and has decided in view of experience that the program has lead to the halting of the downward trend of business activity and national income. However, the gains have not been as large as had been expected, mainly because an offset has occurred in private loans and investments thus curtailing a large enough increase in the monetary supply, and because business activity has not increased rapidly enough to bring in the unutilized funds which are held by corporations and private individuals.

The Government is intent upon increasing money incomes of the country as a whole and it proposes to do this by guaranteeing employment to those who are capable and willing to work. He could then point out the effects which are to be expected from governmental spending, along the lines which Keynes discusses in the pamphlet entitled "The Means to Prosperity" published in 1933 and pointing out as Keynes' does that as national income increases the necessities of further Governmental expenditures can be expected to decrease, while governmental revenue will increase with an enlarged national income. This promises a balanced budget in the not distant future and this prospect should allay the apparent fears that the government will be unable to meet its obligations, a view which is given such wide publicity in conservative journals.

In analysing how the necessary funds are to be obtained the President can point out the nature of money creation by the commercial banks of the country, and state that Government bonds purchased by commercial banks provide a sound type of asset upon which to increase deposit liability and hence effective money supply. He might also point out that the banks have nothing to fear by such purchases inasmuch as they can obtain funds on such securities from the Federal Reserve Banks at par and that therefore Government bonds have in effect the same value as currency which is at par.

I see no reason why he might not pay lip-service to the effect that there is no intention to destroy legitimate profits and in addition to say as a matter of policy that if the banks cooperate in this program there will be no so-called currency inflation, nor is it the intention of the Government to further devalue the dollar in terms of gold. How-

ever, he should say that if there develops attacks upon Government credit in the future or if certain bankers and other individuals attempt to hamper the Government program by adverse operations in the Government security market, furtive or otherwise, the Government is not going to permit its program to be obstructed or be dictated to by private financial interests. If it appears that such is the case there is but one course which the Government can take in the interest of the public as a whole and that is to fully utilize what has always been recognized as a primary prerogative of Government namely to control the issuance and value of money. It is only a historical accident that the money supply of the country has become concentrated in the hands of private interests through the development of deposit banking, and the Government is going to see to it that private interests operate this money system in a fashion which is in the public interest or else take it out of their control.

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