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October 26, 1937

Currie

The current situation

Business activity is declining at an alarming rate. The basic cause of this unfortunate development was the great wave of forward buying initiated by the rapid advances in costs and prices last winter. It now appears that the maintenance of productive activity until August was attributable to production in excess of consumer demands. National income failed to increase after May. One factor responsible for this was that the expected growth in incomes and buying power arising from increased expenditures for residential construction failed to materialize, owing to the excessive advances in construction costs. Another is the lower level of the Government's expenditures and the higher level of tax receipts.

We are now entering upon a period in which production is falling short of current sales while efforts are being made to reduce inventories. But as production declines unemployment increases. As unemployment increases, income and consumer demands fall off. As sales decline and profits diminish expenditures for new plant, equipment and maintenance will decline. This is the vicious deflationary circle of 1929-32.

The budget and business

When the Government disburses more to the community than it collects in taxes, it adds to national buying power and the demand for the products of industry. The excess of spending over tax receipts in the years 1933-36 was the primary factor in increasing national income, in increasing Federal revenues, in increasing national demand for goods

and, hence, in finally making it profitable to make additions to plant capacity in 1936.

The Federal contribution to national buying power was particularly heavy in 1936. Even if we assume that only half of the bonus bonds that were cashed resulted in current consumer expenditures, the excess of activity-creating expenditures over activity-decreasing tax receipts amounted to \$4 billion.

There has been a drastic decline in the present calendar year. For the first nine months the excess, calculated on the same basis as in the previous year, amounted to \$822 million. At the present time it is negligible. On the basis of the recently revised budget estimates, it is anticipated that instead of a Federal contribution to the growth in national buying power there will actually be an excess of tax collections over disbursements of an activity-stimulating nature in the second half of the current fiscal year. Although the revised budget estimates for the fiscal year 1938 indicate a technical deficit of \$700 million, they actually anticipate an excess of tax collections over disbursements to the community of nearly \$400 million. This result is attributable to appropriations of over \$1 billion to various trust funds. From the viewpoint of business conditions, it is the economic surplus, rather than the bookkeeping deficit that is significant.

At a time when the national income is shrinking the Government is seeking to raise revenues and cut expenditures. This merely

intensifies the deflationary trend. We are in danger of starting again the hopeless attempt to increase Federal revenues when the national revenue is shrinking. The attempt failed in 1929-32. It will fail again. The only condition under which the Federal budget can be technically balanced in 1939 is a reversal of the present deflationary trend.

Implications of current developments

Unless direct positive action is taken, there is no good reason why the national income should not continue to decline. Durable goods shortages will not lead to increased activity for the sufficient reason that the decline in consumer demands is fast converting shortages into surpluses and deficient capacity into excess capacity. A further decline in production and increase in^{un}employment will check the rise in rents and make the construction outlook even more unfavorable. The present unfavorable rent-building cost relationship will be perpetuated.

The Republican Party was wrecked by relying on wishful thinking that business would turn up, while at the same time pursuing policies that intensified the depression. The Democratic Party can likewise be wrecked if it makes the same mistake. The situation today is too serious for us to rely on wishful thinking. A drastic and long-continued recession at this time would discredit the whole New Deal.

We must take action now to make certain that we do not enter upon another downward spiral. Effective action taken now would be mild

in comparison with that required if the present trends are allowed to gather momentum. Effective action was unduly delayed last winter to check cost and price advances. We are now reaping the consequences. If effective action is again delayed at this time, the repercussions on our whole social, political, and economic structure are difficult to foresee.