STRICTLY CONFIDENTIAL
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REGULAR MEETING

of

ACCOUNT MANAGERS

(Held on Monday Afternoon, APR 9 1934

C O N F I D E N T I A L

IMPORTANT NOTICE

The following minutes of our regular Monday Account Managers' Meeting are compiled primarily for office records and for the private use of our staff.

The comments, extempore, are recorded by a stenotypist and are consequently in an informal, conversational vein. Specialists are usually limited to four minutes and in order to facilitate prompt distribution the records are not corrected for errors or style of delivery.

Despite their shortcomings, they are released to you because they do afford a rough and general up-to-date survey of some aspects of the economic situation.

Please treat these minutes in the strictest confidence.

C. WILLARD YOUNG.

MR. INGALLS: When Mr. Helmer asked me on Wednesday or Thursday to speak on the subject of "Money and Credit and Governmental Financing and its bearing on the advance or decline in the Standard of Living" with a "Forecast for 1934, 1935, and 1936." I was, to say the least, delighted to have the opportunity to do so, but as Gladstone once said, I shall have to apologize for making a rather long talk because I have not had time to prepare a short one.

To put your mind at rest, I think the conclusions that I shall be reaching in here are very largely parallel to those which Mr. Helmer has presented. This problem of the advance or decline in the standard of living involves, to my mind, a most interesting study of a very vital problem of humanities. Because it is so human a matter, in attempting to assay the subject from the standpoint of the bearing of money and credit and governmental financing I shall try to speak only in homely terms rather than boring you with the complex and not to say often dry arithmetic of the subject.

You will recognize as I proceed that I have drawn very heavily on Mr. Young's work and studies in arranging and rounding out the thoughts which I present to you. I think you will agree that this is fortunate in view of the breadth of the studies that he has made and his broad and very deep interest in the humanities of the whole problem, including that of investing.

In order that we may more clearly follow the discussion together and arrive together at a mutually better understanding and more concise conclusion, a few definitions at the start seem almost indispensable. If I appear to be dwelling on very elementary economics, I offer my apoligies in advance because I, myself, can only see the simple things.

First, an improvement in the standard of living to all of us means enjoyment of the use of more and more goods and more and more services. I think you will agree that the enjoyment of using goods and commanding services is much enhanced when we have the assurance and feeling of security of being permitted to continue to enjoy the goods and services throughout our lifetime without impairment by the government. I think also that the enjoyment is further enhanced when we have the assurance of being able to look forward to passing on at least a reasonable part of our goods to those who are now dependent on us, or the next generation.

In further defining the standard of living, no explanation of the service element appears necessary but let us keep constantly in mind that physical goods are always products of nature, either natural resources or things grown by nature, plus human sweat or, to be a little more polite, I might say human fatigue, plus a varying but ever-expanding percentage of mechanical fatigue.

Not only must we keep this concept of goods constantly in mind but we must also avoid the error, which is a common, serious error, of thinking of money as goods. It can never be more than the symbol of wealth or the measure of wealth and the measure of value of goods.

To emphasize this point with a rather homely example,-I should say that if you or I were naked in the wilderness with a satchel full of one thousand $1000 bills, our standard of living would be zero except for the doubtful utilitarian or nutritive value of the satchel or paper,-which leads me to attempt to define specifically the subject in hand, namely, money, and its bearing on the standard of living.

I think it will be generally conceded that we have in this country all of the widely diversified natural resources and all of the willingness to sweat and all of the mechanical means necessary to obtain a much higher standard of living than we now have.

I refer for a moment to a study by the National Bureau of Economic Research which indicates that the total number of persons who could have been fully employed in 1932 was 44,500,000 out of our total population of 120,000,000, indicating that about two others were dependent upon each person that could be employed. This study further indicates that of this number (44,500,000), 8,600,000 were out of employment. That would mean that three times this or 25,800,000 people, including the dependents, were, to say the least, suffering a reduction in their standard of living. Furthermore, the study estimated that of the 25,400,000 people who were employed earning salaries and wages, the average annual income of those 25,400,000 was $1,250. I submit to you that such an income for three persons, or an average of $416 per capita, does not provide a standard of living that any of us would feel right in calling adequate.

Furthermore, I feel safe in assuming that at least one-half and probably two-thirds of the 25,400,000 earning the $1,250 per year had justification in believing themselves and their dependents, totaling 33,800,000, to be living at definitely sub-standard levels. We have, thus, a total of close to 60,000,000, or one-half of our population, eager for and the vocal element of that portion actively demanding an increase in the standard of living. That means an increase in the volume of goods and the number of services which they can command.

Why, then, do we suffer as we have suffered in recent years in the midst of this plenty aforementioned? Mr. Young has ably covered this question from many angles in his various studies.

My further remarks are merely going to be couched in terms of the monetary system and will probably not present many new ideas but I think they are valuable enough to restate in terms of the monetary problem.

Now - more elementary economics. Two people can probably readily exchange their mutual goods and service to advantage on the basis of direct barter. One hundred people would find it very difficult to do so. I think we are safe in saying that 120,000,000 people cannot physically do so. Hence we come to the necessity of recognizing money or the medium of exchange as the indispensable and probably most vital part of our whole economy, its function being to facilitate a wider and wider distribution of more and more things and more and more services amongst the people using the money.

Any commodity would serve as money for a medium of exchange and many have been used in the ages past. We, at the present time, use some metallic coin, a relatively small amount of fancy engraved paper, and a relatively large volume of paper bearing our own names, that is, checks against our bank deposits. We also use open credits like charge accounts at the stores and open lines of credit with the bankers of a promise to put additional deposits to our use when, as, and if we need them, provided we can convince the bankers we are able to repay.

The sum total of these things and nothing else and no one single item in my definition constitute our "Money" and when I refer to money hereafter I shall be covering all of these items.

We deal in this money in units called dollars and these units are generally accepted within our borders in the process of exchanging goods and services and improving our standards commensurately. While these instruments are acceptable to most of us in the United States, long precedent and usage have established gold as the one commodity acceptable as a medium of exchange among other peoples throughout the world. Because this is so and because it has become so, it is easy to see why nations desire to see their own medium of exchange related in some way to the international money for the sake of preserving some stability in trade relations in order to permit trade to be carried on.

So much, then, for definitions. But before leaving them, let me again urge that we clearly avoid the idea of money as wealth and think about it only as a medium of exchange or a measure of wealth. As Sir George Paish very ably said in a recent meeting of the Academy of Political Science:

> "Gold internationally (I might add, money within our own borders) is the servant of trade. If you trade carefully, gold (and money) will take care of itself but if you do not trade, your money will become idle and your standard of living will be destroyed and if it is continued too long, the governments themselves will be destroyed."

Coming back once again to economics and the question of trading and barter. Inasmuch as not over, I shall say, 56/100ths of one per cent of our present trade is conducted on the barter basis, leaving "99-44/100ths" purely based on medium of exchange, is it not apparent that the paramount factor of importance is to have always a supply of money adequate to carry a volume of trade commensurate with the standard of living and the degree of sub-division of labor which we desire or demand? When I say "we" demand, I am thinking of that 50 per cent of our population that is sub-standard and which, to the greatest degree, is the political force at the moment.

Furthermore, if the function of money is to facilitate the wider and wider distribution of more and more goods and services, is it not equally important to have the adequate supply so distributed and so circulating at all times or at any time in such manner that the big demand for goods and services can be turned into an effective demand and therefore result in desired exchanges being consummated?

I believe that any student of logic would agree to these two corollary propositions. I believe that this simple logic is not only the backbone of the present administration's program not only for Recovery but for Reform but also that it should be the constant guide to all thinking and to all attempts to direct and improve the standard of living of the people.

Likewise, from the pages of logic, if we admit that it is impossible for any large number of people to maintain the standard of living by barter, do we not also have to admit that the same people as a mass of individuals would be incapable of managing the medium of exchange in their own best interests? Yet the importance of the medium of exchange is so great that if it is not controlled, it is likely to be the Frankenstein and turn against us, as it did after 1929. Here again I believe that this is the second great conviction of the administration and one that has some justification in facts and figures and logic. In other words, if the Administration believes that, it is definitely the antithesis of the laissez faire economy to which we have been accustomed under previous administration

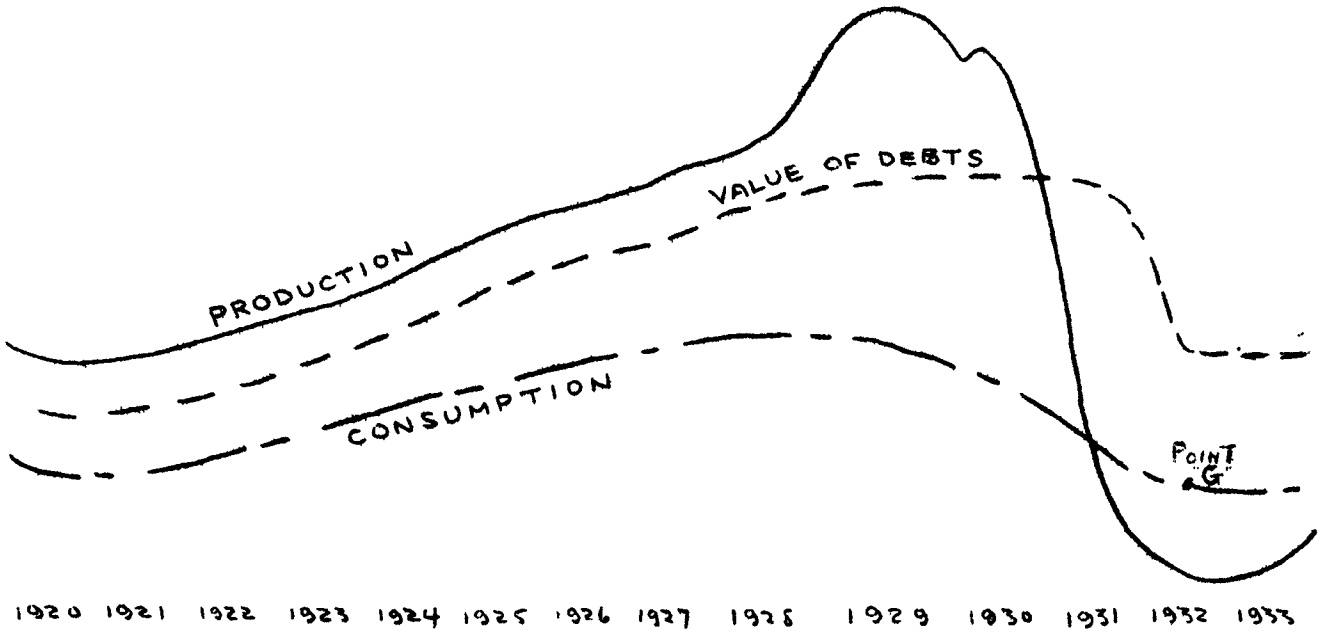
from time to time.

I speak with emphasis and feeling, born of a conviction which may perhaps be biased because of my constant studies of monetary matters, but others will have to correct my own judgment and correct the logic for any bias that may be inherent in it.

If I, therefore, have leave to proceed under the premise that maintenance of adequate supply and wholesome distribution of money are the dominant factors of importance to us all, I shall be pleased to submit my ideas to your criticism.

As I go on, I shall try and make clear, first, how, by failing to control these two factors and manage this monetary problem we (1) arrived at the boom times in 1929 and (2) found ourselves in the lamentable conditions culminating in March of 1933. Then I should like to tie the subject in with the explanation of how the administration is trying to correct the maladjustments by seizing the control of these two factors. An attempt will be made further to classify the Government agencies and their functions in carrying out the various parts of the readjustment program. Further, an effort will be made to submit an appraisal of the administration's success to date and their probable success in the near future, particularly within the period ending in 1936 which we have under surveillance at the moment. In conclusion, I hope to present an estimate of the time factor and the cost factor involved in carrying the readjustments through to a necessary conclusion.

In order to clarify the subject of maldistribution, I turn to a familiar chart, reproduced herewith, which you will recognize as a section of the C. W. Young & Co. Weather Map, which you have often seen and heard explained by Mr. Young, as representative of typical movements of all business cycles. I have merely added dates and made slight modifications to illustrate the period under review.



The top line, as shown, represents production and the bottom line consumption. Converting those into monetary terms, I should say that the sum of the two lines represents the total volume of money in use adjusted for velocity of turnover, while the bottom line represents the money flowing into channels of consumption, as Mr. Young has it, and the top line represents money flowing into channels of production. We are trying to show that because of the fact that so much business is done on the basis of a medium of exchange that the Government may have some justification in trying to manage and control the medium of exchange and its distribution so as to avoid these swings in the future.

In the first place, recovering from the depression ending in 1920, we went along at a pretty even keel on recovery. I have not tried to put in the details of the movements. Let us assume that a reasonable balance of funds was flowing into consumption and into production. Beginning in 1924, however, the supply of money began to go up at a more rapid rate; production started to go up faster than consumption. I have maintained that that movement was due to the fact that the money supply was being increased largely by the supply of foreign loans created in this market and that the foreigners receiving the money re-entered our market as buyers of capital goods and that the consumers in this country had no share in the benefits of that increased money supply because while the trend was kept up and stimulated by loans, the proportionate amount going into domestic consumption fell off.

When foreign loans were stopped in 1928, it would have been reasonable to expect a contraction in the whole supply of money. However, the speculative boom that had been generated by this activity in the heavy goods industries up to 1928 carried on so that the money supply was further and further increased by the pyramiding of capital assets back into banks and the expansion of bank loans and deposits, which, as pointed out, is the most important element of our economy.

You will all recall the phenomenon of 1929 when people were putting cash into the market rather than going out and spending it for automobiles or houses which they might have been fully justified in buying; in other words, they were not consuming and the proportionate amount going into consumption fell off very drastically, more drastically after the crash than before, but indices show that as early as August or September, 1929, the consumption trend turned down.

If the amount of money in the hands of the people willing to spend it is less than the value of goods the producers are anxious to sell, either the prices of those goods will be lowered in order to move the goods at sacrifice sale prices or the volume of production will be curtailed, which would, in turn, accelerate the rate of decline in the spendable money in the hands of the wage earners. Usually both things happen when such overproduction has taken place. That is exactly what happened at this phase (1930-1932).

Likewise, in respect to capital goods as well also as real properties such as homes and fixed assets which we use in our standard of living, when the supply of money in the hands of people willing to invest it ceases to increase - I do not say falls off but ceases to increase - the value of capital goods, homes, etc., also ceases to increase. If, at the same time, the supply of capital goods keeps on increasing, it must be priced lower than immediately theretofore and sell at lower levels, thus reducing the market value of comparable capital goods already in existence. You recall that that took place. There was an attempt to stimulate production but no bold attempt to level off the supply of money at the time of the Hoover "boom" in 1930.

Therefore, when you get a disproportionate amount, as in this phase (1928-1929) of the total increase of money going into capital goods to the detriment of consumer activity and trade, you will get a leveling off of the standard of living, which is bad enough in itself. But when you have suffered such a situation to be created by failure to control a more balanced distribution of the increasing volume of money and then permit a sudden sharp contraction to occur in the absolute supply or volume of money, the result to be expected can be nothing but the chaos which we have been through in 1929 to 1933, which, incidentally, as Mr. Young pointed out, leaves a level of debt behind it something like that shown by the dotted line.

So much for the review of the maldistribution of money.

On the question of the contraction of supply, I speak advisedly having in mind the definition proposed for "Money" itself. This contraction was measured by the extreme drop in bank deposits which was caused by a liquidation of loans which, in turn, was accentuated no less than three times by very sharp and sudden and voluminous withdrawals of short term balances by foreigners. A third factor of the subject, which is a sub-factor of volume of money or supply, is the matter of the decline in velocity or the decline in the effective amount of money in use. This decline in the volume of effective money largely is due, sociologically speaking, to the fact that people do persist in thinking of money as the actual wealth rather than as the symbol of it; that is, when fears arise, people hoard the physical money rather than trying to convert it into goods. This naturally restricts the outstanding supply of effective money. This was first evident in the lower turnover of bank deposits immediately following the collapse in 1929. People, beginning then and more particularly after the crash of the Bank of the United States in 1930, were more careful about spending their deposits; they were trying then to conserve their surpluses; later it took the form of actual hoarding of currency and in the last stages the demand arose for metallic gold for hoarding purposes. When you try to hoard metallic gold, naturally it forces the rate of decline to become steeper because of the fact that gold is the base of the pyramid of our credit structure as we know it.

It is unnecessary, for the purpose of this discussion, to review the activities of previous administrations which caused the above mentioned forces to operate in the direction indicated nor is it feasible to review the futile attempts of the Hoover Administration to counteract their action. Looking, however, at the Roosevelt program from the standpoint of the money and credit problem, he appears to be attempting correction of the above conditions along these lines:

First, redistribution of the money so that the flow will be more into the consumer's pocketbook and less into the investment channels. You may quarrel with this inasmuch as, at the present moment, according to Mr. Young's diagram, the rate of production has fallen materially below the rate of consumption.

I might go back here to point out that, in my opinion, some time in 1932 or at least by March of 1933, as the standard of living dropped so low, people at that time started to spend their savings in order to maintain their decent standard of living (at a very low level). This again is the redistribution and the correction of the maldistribution which I am pointing out.

The methods of effecting the redistribution include primarily the measures of granting direct relief and direct employment and loans to industries, not because the Government has any love for the industries but in order that the industries may

be kept alive to maintain employment and hence maintain consumption. Many other measures fall in this category of attack, including the whole NRA program, the Wagner labor bills, which may be ill conceived, and various other drastic measures which cannot have full approval or approbation.

So directing the flow of funds to wage earners, small home owners, is, in my opinion, doing a very constructive and necessary thing particularly in view of the political pressure for a start towards the reflation or expansion of the supply of money represented by that 50 per cent of our population mentioned before.

In looking for sources of funds to be redistributed, the major source and fountainhead naturally and logically would be the wealthy or people who accumulated capital in this era on down the scale and have more money lying idle than they need at the present. This is done by increasing the rates of income tax. I might say here that it offers at this time a very valid explanation of why the sales tax has been disallowed as a matter of federal policy because the sales tax applies to all people, that is, the wage earners and you and me and everybody else, and would effect no redistribution, which is what appears necessary if they are to follow the direct track of attack at all.

The second source of funds is taxing the next generation: i.e. borrowing now, taking the inactive money out of the hands of people who have nothing to do with it by forcing them to buy Government bonds, taking the unemployed money out of the banks by forcing the banks to buy Government bonds.

The facts and figures tend to substantiate these general statements which I make. In appraising the results to date as to the correction of this maldistribution, I think we can concede that a study of the banking and monetary figures shows that maldistribution has been, to a very, very large degree, corrected.

First, total bank customers' loans, the individual's loans, are down a terrific amount. Not only in the absolute volume but in ratio or relationship to the total individual customer's deposits. The individual customer has a much greater spendable balance now than at any time since 1929.

Second, the creation of new productive capacity practically ceased at the end of the Hoover drive in 1930 and in the interval the flow of money into productive channels has been so curtailed that it seems reasonable to expect that in the relatively near future a new flow of money into the capital goods producing industries will be necessary if we are to supply the goods demanded by those 60,000,000 individuals who doubtless will be seeking a higher standard of living.

Third, a more realistic attitude towards tariffs and rejuvenation of foreign trade is apparent with the creation of the import-export banks and the attempts of the President to get into his own hands the deal-making power to rejuvenate such trade.

In the matter of enlargement of the supply of money and the methods to control such supply, we should include the well known attempts to get bank credit to expand. Under this heading we have the whole series of moves creating very cheap money through the medium of expanding excess reserves by the Federal Reserve open market operations, revaluation of monetary gold stocks, that is, giving our base a much larger value; but more directly, however, the efforts to increase the supply include payments to depositors of closed banks, threats of direct payments to war veterans, purchases of silver, gold and other commodities. Provisions aimed at controlling

the supply of money in the future include the various gold embargoes, anti-hoarding edicts, foreign exchange control, stabilization fund, etc. I think it is useless at this time to try to go into the problem of effective controls or braking power against the increased supply of money that is so widely demanded. When we get the present supplies back to the 1926 point, six months beforehand will be time to then review the powers which the Administration will have to prevent it getting out of hand.

As far as success in enlarging the supply of money is concerned, I cannot be so enthusiastic. My preliminary studies based on adding up the total coin and currency bank deposits and weighting the bank deposits for the factor of increased or diminished turnover appear to indicate that there has been little or no absolute increase in the amount of effective money in use.

The fact that the Government debt has increased by some $10,000,000,000 since the end of 1931 has to be explained. The explanation, I think, is relatively simple. In the last analysis, the increase in debt has merely served to assist individuals in reducing their own indebtedness to banks, to mortgagees, and other creditors, and has permitted the banks to decrease their indebtedness to other banks, including the Federal Reserve, and more recently to permit the banks and other corporations to reduce their indebtedness to the Reconstruction Finance Corporation, the Government's own agency. You will recall that the early operations of the RFC were largely to prevent old loans from being closed down and forcing corporations into receivership.

The actual decline in volume of deposits very closely approaches, if it does not exceed, the $10,000,000,000 increase in the Government debt. The decline in deposits started, as you recall, in November of 1930 but did not become critical until June of 1931. The Government debt started its increase at the end of 1931.

The actual money in hand-to-hand circulation does continue somewhat above the low level of 1930 and much above the level which we consider reasonable for the present state of trade. I am talking about actual coin and bills rather than checks. A large part of this increase, which is not over three-quarters of a billion dollars, may be explained by the fact that such circulation is necessary in communities where banking facilities have been destroyed.

I feel here that I shall have to insert something which I do not have in my notes and that is to just re-emphasize the fact that Mr. Helmer has brought out, that the power to expand .. the excess reserves on which this monetary supply will be built are present and present to a degree which, if restraint is not exercised, once the movements gets under way, will shoot so far beyond the 1926 and 1929 levels that I should hate to be here. That is, there are grounds for being very much concerned about inflation or reflation getting out of hand in its early stages to such a degree that control later might be difficult.

Efforts to increase the velocity of money have been moderately successful as evidenced by the fact that hoarding tendencies have been largely dissipated. A more general feeling of confidence and courage has accompanied the Administration's activities. I shall have to further qualify that later but I think it was certainly admitted to be the case soon after the banks began to reopen in the spring of 1933.

Of greatest importance in this connection is, of course, the higher turnover brought about by direct Government spending, particularly in respect to the moneys paid for

direct relief and employment. The rate of turnover of bank deposits, even including Government bank deposits, however, does remain substantially below the 1926 level by about 20 per cent on an index basis and only about 30 per cent over the low levels of March, 1933.

There is much room for improvement and it is to be hoped that confidence will be further restored in order to accelerate the turnover of money in trade uses and hence to hasten the expansion of trade and improvement in the standard of living. Efforts to further increase the velocity of turnover will doubtless be pursued by reopening more banks and liberalizing the Security Act to permit more active refunding of capital issues as well as to stimulate new capital enterprises. Increases in wage payments cannot help but tend to accelerate the turnover of deposits and currency. This is important, I think. The Administration always has the recourse to stimulate inflation psychology which operates very forcibly and rapidly to increase the rate of turnover. The means by which the Treasury can exercise this threat are four:

First, spending part of the gold profit by issuing gold certificates to the Federal Reserve Banks. (As Mr. Helmer pointed out, that has been done to the extent of about $150,000,000 since February 1st. It is too early for me to conclude that the immediate day-by-day or week-by-week trend will continue in that direction. But for what purpose did they revalue gold? If they do not spend the money in some form or other it will not do the Government any good to keep it idle in the vaults underground.)

The second means of exercising this threat of inflation is, as Mr. Helmer pointed out, by calling in Government bond issues and stating that the Government will pay therefor in cash. This would be another disguised operation similar to the issuing of irredeemable gold certificates.

Third, a further upward revaluation of gold or threat of upward revaluation.

Fourth, promising to do something for silver.

In so far as any one of those threats would tend to force you or me or this firm or anybody else to expatriate capital, it would operate to contract the supply of money which we are so anxious to expand. However, the type of funds which respond to that threat are, by and large, the inactive hoards or idle capital which the Government recognizes have no particular active value in stimulating consumption and if it left the country, I doubt if we should be much worse off than we are now. I think there is a flaw in my economics there but I shall have to reason it out a little further later.

The Administration's efforts to relieve the sources of economic pressure due to this decline in velocity of turnover take in the guarantee of bank deposits, the threats of inflation, forced lowering of interest rates on savings deposits and on highest grade bonds, offering of anti-hoarding baby bonds, "Buy Now" campaigns, NRA campaigns, and so on. All of the above, however, have followed a series of legislation, particularly the Glass-Steagall Act, which provided that an unlimited supply of currency could be handed out to people if they wanted to persist in the hoarding tendency or if the hoarding tendency should ever recur. That factor of elasticity has been greatly expanded. So far very little use has had to be made of it since February and March of 1933, and Federal Reserve Bank Notes are being retired

I have a word to say on the unfavorable aspects. It may be generally conceded

that many of the efforts to effect temporary and permanent reforms of our economic structure have tended to slow down the rate of redistribution of money and the rate of expansion in the absolute amount of money. Threats to the profit system have certainly deterred business men from expanding their activities and in other ways have prevented the expansion of the supply of money. Likewise, too rapid rises in prices have from time to time restricted the tendency of money to turn over in larger volume, making it necessary for the Government to rely more and more on itself to effect the redistribution of money rather than letting business in its normal course of expansion provide the stimulus for increased consumption.

On the matter of forecast, it appears likely to me that the Administration will continue on its course of attempting to relieve these two or three major monetary causes of economic pressure along the lines of the foregoing. It is to be hoped and appears to be a reasonable expectancy that more emphasis will be put on the recovery phases and less on the depressing reform phases over the very near future.

Direct stimulus of consumption doubtless will be continued, aided primarily by increasing public works activity, payments to depositors of closed banks, increased payments to government employes, veterans, etc.

It would further seem logical to expect that the Government will concentrate its efforts to bring about an increase in the supply of money by organizing the "capital banks for industry" and getting them to function in the hope that such credit will put industry in a sound commercial position so that the commercial banks will then expand loans greatly and very much more greatly. It would appear unlikely that further steps will be taken to revalue gold upwards inasmuch as the Administration has not yet spent any substantial part of the profit arising from the first revaluation. There again I go back to my remarks of two weeks ago and Mr. Ross's remarks for some time that the balance of payments continues in our favor and, generally speaking, gold should flow here as long as the internal purchasing power of the dollar remains above its external value.

In estimating the cost of this whole program, I have broken the period down into the balance of this fiscal year, which ends this June, an estimate for the fiscal year ending a year from June, and a dim and distant forecast in 1936.

To accomplish the purposes as outlined and continue along with the methods as outlined, it is this Department's estimate that the Government will require not over $1,800,000,000 over the next three months, or an average rate of $600,000,000 per month for emergency expenditures over and above the ordinary budget. I have purposely made this estimate very liberal - $600,000,000 per month is greater than the rate of emergency expenditures of any month so far. I can hardly say it will be necessary to spend at that rate but it is my guess that it will be the Government's will and intention to increase the supply of money and turnover by that amount if it is possible. I base this estimate on totals of the various spending agencies of the Government as follows:-

I should estimate for the RFC (this is all over the next three months) $850,000,000; PWA, $500,000,000; CWA (second series authorization), $300,000,000; Conservation Corps, $100,000,000; AAA, $40,000,000; all other agencies, $10,000,000; with a total of $1,800,000,000.

The above mentioned estimate for the balance of the 1934 fiscal year brings the total substantially $2,100,000,000 below the total emergency expenditures estimated

by the President in his budget message for the year ended this June. Inasmuch as the expenditures under the recovery program should be well under way by the end of June, 1934, it seems probable that the Administration will not see fit to start tapering off at least until the spring of 1935. In estimating total expenditures for the fiscal year 1935, it therefore seems reasonable to assume that the funds not spent according to the 1934 program should be carried forward and lumped with the original estimate for the 1935 fiscal year. If this is done and if we also add the $2,000,000,000 extra allowance which the President said he would request of Congress, we arrive at a total expenditure for 1935 of $4,865,000,000, or slightly in excess of the total emergency expenditures estimated by this Department for the whole fiscal year 1934, which, incidentally, was $4,700,000,000.

The 1935 estimate is broken down as follows: RFC, $1,295,000,000; PWA, $1,925,000,00 CWA, $1,000,000,000 (which is 25 per cent over the total allowance for this year); Conservation Corps, $565,000,000; AAA, $5,000,000; all other agencies, $75,000,000; making a total of $4,865,000,000 above mentioned.

If the expenditure campaign is successful in getting credit to expand and the velocity of turnover accelerated, I see no reason why we should not expect to find industrial activity picking up very sharply through the fall of 1934, this year, and the spring of 1935. If this actually happens, it seems reasonable to expect that the need for continued Government stimulation would be passing and that tax revenues would be increasing very rapidly. Under this outlook, the Department feels justified in estimating that in 1935 expenditures will be spread out so that $3,000,000,000 would be called for during the first half and $1,800,000,000 during the second half ending June 30, 1935.

In respect to 1936, attempts to forecast involve too many unknowns to produce any reasonable result. However, projecting the trend of events that is forecast for 1935, it would indicate that the Government's emergency operations might be negligibl by the spring of 1936 with a balanced budget in prospect at that time, compared with the President's statement that the full fiscal year 1936 would show a balanced budget

The estimated requirements for new money to finance recovery will, of course, put a strain on the government credit, but when we realize the resources of the Government, its present cash position, its control over the Central Banking System, we need have no apprehensions about the Government's ability to handle the flotation of securities in the amounts called for. If our estimates prove to be correct - and again I say I feel they have been liberal rather than niggardly - the Government debt at the end of the 1935 fiscal year should approximate $32,800,000,000, less the amount now in the general fund balance which now stands at $4,800,000,000, indicating a net debt of not over $28,000,000,000.