

Office Correspondence

FEDERAL RESERVE
BOARD

Edmund
Date April 20, 1935.

To Governor EcclesSubject: Report of the Committee forFrom Lauchlin CurrieEconomic Recovery.*L.C.*

... 16-852

This document is another illustration of the intellectual bankruptcy and the poverty in constructive suggestions of the business leaders. What seven-eighths of this report says in effect is that since 1929 there has been an enormous shrinkage in the output of goods of all kinds and in employment. The authors apparently believe that all that is necessary to achieve recovery is to make corporate and mortgage financing easier. They belittle Governmental spending and even imply that it is deflationary in its effect.

MEMORANDUM

To: Governor Eccles

April 13, 1935.

From: Mr. Edmiston

"RECOVERY OR RADICALISM"— A Report by the
Committee for Economic Recovery

This is an elaborately prepared report discussing the problems involved in business recovery. Apparently a great deal of careful work was involved in compiling the data and in analyzing the major factors in the present depressed business situation.

General Thesis of Report

1. Real danger of radicals taking over the government as long as depression persists and introducing policies that will eventually lead to destruction.
2. Business recovery alone can kill effectively this threat of radicalism.
3. Therefore recovery should be the paramount objective of the government and all policies and measures should be formulated and executed with primary regard to their effect upon recovery.

The Problem of Recovery

1. Reemployment and increase in production must come in the durable goods and service industries.
2. Public relief will not revive these industries. Revival depends upon restoring balance and reopening the capital markets.

Statistical Analysis

1. Great volume of statistics (industry by industry) analyzing the large deferred demand for new construction of plant and equipment, and showing

Memorandum to Governor Eccles - 2.

the large potential demand for durable consumer's goods and housing.

2. Large volume of statistics on capital issues in the past.

My Appraisal of Report

On the whole, the fundamental conclusions of the report seem to be quite sound. Certainly recovery depends largely upon revival of the heavy goods and construction industries. The great weakness is that the report is mainly only a diagnosis of the difficulties confronting a revival of business activity. When the report comes to specific recommendations to promote recovery, it is not very helpful. For instance, the suggestions designed to promote an increase in new capital flotations are confined mainly to modifying the Securities Act, whereas the real difficulty is the lack of incentive for business borrowing in view of the large volume of unutilized capacity and the small prospect of profitable operation of new equipment and plant capacity. The suggestions with regard to reopening the mortgage market are not clear. The report states that the authors have some specific proposals in this regard that they would be glad to discuss with you later. It may be, however, that the authors purposely have avoided specific recommendations. Mr. Freed, in his letter transmitting the report, stated that he would call upon the persons to whom the report was addressed and it may be that he is prepared to offer more concrete proposals as to how revival in the durable goods and construction industries may be furthered by governmental policies.

HA

Office Correspondence

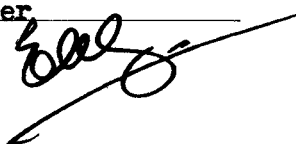
FEDERAL RESERVE
BOARD

Date April 22, 1935

To Governor Eccles

Subject: _____

From Mr. Goldenweiser



• • • 16-852

I return herewith the pamphlet on "Recovery or Radicalism?" by the Committee for Economic Recovery, together with a memorandum from Mr. Garfield on the subject.

Office CorrespondenceDate April 18, 1935To Mr. GoldsweiserSubject: "Recovery or Radicalism?"From Mr. Garfield "A New Civilization in the Making,"
by The Committee for Economic Recovery

o r o 16-852

Sponsors

The directors of the Committee for Economic Recovery include representatives of a wide variety of industries, of the Standard Statistics Company, and of the Harvard School of Business Administration. An editorial by Raymond Moley is quoted on the first page but he is not listed as a sponsor of this report. The application for membership indicates "The Committee is entirely non-political, open-minded and unbiased. It is interested solely in the sound Economic Recovery of the Nation."

Summary of the report

The general drift of the argument is that maintenance of the entire economic, political, and social structure of the nation depends upon recovery in the durable goods industries, that this should be accomplished through private enterprise, that the principal obstacles to such recovery are too much Government regulation of security issues and too little Government beneficence in opening up the mortgage market, as well as too great governmental expenditures.

Discussion

The first part of the section labelled "Discussion" relates to Father Coughlin, Upton Sinclair, Dr. Townsend, and Huey Long and to the political set-up in 1936. "Let us not fiddle while Rome is burning."

The second part of this section is devoted to the discussion of the "Opening of Capital Markets and the Release of Deferred

Purchasing Power." The basic method used to estimate the total volume of deferred purchasing power is to compute the average for the years 1925-1929 or 1926-1930 and then to subtract actual performance in recent years from the total that might have been expected on the basis of these new era averages. The annual fiscal requirements, projected in a plan for the next ten years, are figured in a variety of ways. The total deferred demand for locomotives is to be met in one year-- how this is possible in view of the technical requirements of industry I don't understand--while the requirements for housing are to be met over a ten-year period. The final table in this plan is as follows:

Summary of Deferred Purchasing Power and Annual Fiscal Requirements

(In millions of dollars)

	Total	Housing	Miscellaneous --grade crossings, highways, sewers	Obsolescence in industrial plants	Electrical energy on farms and homes	Auto- mobiles	Electrical equipment	Railroad equipment	Agricul- tural ma- chinery
10-year program	49,275	24,350	6,400	5,000	4,375	4,000	2,500	1,950	700
1935	8,148	2,870	640	1,000	438	1,333	500	1,017	350
1936	7,597	2,870	640	1,000	438	1,333	500	467	350
1937	7,248	2,870	640	1,000	438	1,333	500	467	--
1938	5,447	2,870	640	1,000	438	--	500	--	--
1939	5,448	2,870	640	1,000	438	--	500	--	--
1940-1944	15,387	10,000	3,200	--	2,188	--	--	--	--

The third part of this section is a discussion of the extent to which the Securities Exchange Act of 1934 and the Banking Act of 1933 have interfered with new flotations, and also of some of the factors affecting the mortgage situation. Their recommendations with respect to the mortgage situation are as follows:

"1 - The establishment of a national mortgage discount system that would not depend upon either the formation of the mortgage associations by private capital or the flotation of debentures of doubtful investor acceptance.

We have some very definite thoughts in this direction which we will be glad to discuss at the earliest possible moment.

"2 - Some provision should be made so that there will be an established procedure whenever interest rates are to be changed. Arrangements should be made so that this would not be done by executive order without proper hearings and argument.

"3 - Study should be made of interest rates in the various areas. If it should be determined that it is impossible to loosen capital in certain zones on the present rate of interest, provision should be made for proper variance.

"4 - A statement should be issued by the President that would thoroughly clarify the separation between the various housing programs. At no point should there be any competition between governmental projects and the type which the government is trying to encourage on the part of private capital."

Flow of funds

The general story in this section is that there has been a decline since 1929 in the number of underwriters, as well as in the volume of new security issues, while the gross debt of the Federal Government has increased.

Unemployment

The chart on the first page of this section shows unemployment in the building industries, other durable industries, consumption goods industries, and services industries, as reported by the Cleveland Trust Company.

Purchasing power

This section shows in chart form the tables presented in the section on "Discussion"; certain charts from the Real Property Inventory; a chart of building construction in England and the United States, attributed to the Federal Reserve Bank of New York; a chart based on the Federal Reserve Board's indexes of industrial production and construction contracts awarded; and a chart showing the course of rents, construction costs, and residential construction.