

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve banks was held in Washington on Tuesday, June 20, 1939.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczak (part of meeting)
 Mr. McKee (part of meeting)
 Mr. Davis
 Mr. Draper

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Thurston, Special Assistant to the
 Chairman
 Mr. Wyatt, General Counsel
 Mr. Goldenweiser, Director of the Division
 of Research and Statistics
 Mr. Smead, Chief of the Division of Bank
 Operations
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Vest, Assistant General Counsel
 Mr. Myrick, Technical Assistant in the
 Division of Bank Operations

Messrs. Young, Harrison, Sinclair, Fleming,
 Leach, Parker, Schaller, Martin, Peyton,
 Hamilton, Gilbert and Day, Presidents of
 the Federal Reserve Banks of Boston, New
 York, Philadelphia, Cleveland, Richmond,
 Atlanta, Chicago, St. Louis, Minneapolis,
 Kansas City, Dallas and San Francisco,
 respectively

Mr. Sproul, First Vice President of the
 Federal Reserve Bank of New York
 Mr. Williams, Vice President of the
 Federal Reserve Bank of New York
 Mr. Kimball, Secretary of the Presidents'
 Conference

President Harrison reported that, as a result of the consid-
 eration given by the Presidents' Conference to the broad questions

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of policy arising from the situation which had developed from the correspondence of the Manufacturers' National Bank of Detroit with the Federal Reserve Bank of Chicago with respect to the collection of unassorted items and other matters, he had appointed a committee of five (consisting of Messrs. Fleming, Chairman, Sinclair, Leach, Parker and Schaller) to study the matter and that the Conference had voted to recommend to the Board that it take no action on the matter for the time being. President Harrison explained that, since the new subject was closely allied to the subject of free services, he had appointed on the new committee the first three named members, who had served on the committee on free services of the Presidents' Conference.

Chairman Eccles suggested that the Board await the report of the Presidents' Conference before giving further consideration to the matter. This suggestion was concurred in unanimously by the other members of the Board who were present.

The Chairman then asked Mr. Goldenweiser to make a statement to the meeting regarding recent developments in the economic situation and his views as to the outlook for the immediate future.

Mr. Goldenweiser reported that recent developments have been encouraging for the immediate future and that the index of industrial production, which had declined from the high of 104 reached last December to 92 in April of this year, had remained stationary

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in May, and that it would be his guess that it would reach 97 during the current month. He said there had been a definite upturn in steel, some improvement in coal and textiles, and in fact a pretty general upturn. However, the upward movement at most merely offset the sharp decline in March and April and the present level is still considerably below the high of last year.

He said that the prospect for the current year was one of a gradual advance. Production and consumption are approximately even at this time. It was his view that any further advance would probably depend on further increase in consumer demand. He pointed out in this connection that the present indications were that expenditures for public works would decrease in the fourth quarter of the current year, unless something more was done in the meantime to prevent this happening. He said there was nothing new in the field of prices and that the sharp decline in agricultural prices was largely attributable to livestock and products.

As to the foreign situation, he said that politically there was a breathing spell at the moment and as a result there had been a decrease in the inflow of gold, which had dropped to about \$30,000,000 a week since the end of April from about \$115,000,000 a week in the preceding period beginning with German absorption of Czechoslovakia in the middle of March. The flight of capital to the United States has definitely declined. He referred to the fact that there was about

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\$1,100,000,000 of gold under earmark for the account of foreign central banks and governments, and that the Federal Reserve banks hold substantial balances for foreign central banks, so that the total gold and dollars held by foreign authorities here was in excess of \$1,500,000,000. He added that the balance of trade is not as heavily in favor of the United States as previously, because imports had increased considerably. He thought, however, that there was no prospect of the gold movement stopping, to say nothing of being reversed.

Mr. Goldenweiser said that it was expected, on the basis of the recently revised estimate of the Department of Commerce, that the national income would reach \$67,000,000,000 in 1939, which represents something of an advance over last year but falls short of the figure for 1937. In his opinion there was no chance of restoration of the national income to a level sufficient to provide substantially full employment unless there is a much heavier growth of investment in the capital goods industries, of which there is little prospect. Capital flotations were still very low except for refunding purposes. He indicated that on the basis of certain industries which had been studied it appeared unlikely that there would be sufficient capital expenditures to rebuild national income to a level where it ought to be and that, therefore, there was practically no chance of such a restoration in the absence of some important new invention or a substantial upsurge in industry of which there appears to be no present

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prospect. The only other way is for the Government to increase its activities in the investment field by engaging in largely self-supporting, noncompetitive enterprises of a socially desirable nature. In the long run a more effective distribution of income between consumption and investment can be achieved, but that is a slow process, involving revision of our tax, social security, and tariff laws. In the meantime, expansion of Government activity appears to be the only immediate means of restoring adequate employment and national income.

In conclusion Mr. Goldenweiser stated that it was his view that the prospect for the rest of the current year was one of mild recovery and that beyond that things were very uncertain.

At this point Mr. McKee joined the meeting.

In response to a query from President Young as to whether he believed that the depression would last for some time to come, Mr. Goldenweiser replied that he was afraid this would be so.

Chairman Eccles observed that while Mr. Goldenweiser had expressed the view that there was little opportunity for expansion of private industry, as he understood it, this would not preclude a \$5,000,000,000 or \$6,000,000,000 increase in the national income and yet leave the economy in a comparative depression. Mr. Goldenweiser agreed with this observation and stated that in his judgment an increase of at least \$15,000,000,000 or \$20,000,000,000 in the national income, on the basis of the present level of prices, would

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be required in order to provide substantially full employment.

Mr. Goldenweiser stated in response to a question by President Harrison as to how many were unemployed that he thought 10,000,000 was a fair estimate and, omitting seasonal employees, 8,000,000 would be approximately correct. He stated that there were something less than 3,000,000 on the W. P. A. rolls. He added that in his opinion it would be necessary for the index of industrial production to reach 140 or 145 before we would have substantially full employment.

Mr. Szymczak joined the meeting at this point.

Mr. McKee inquired of Mr. Goldenweiser whether in his judgment we had passed the low point for 1939. Mr. Goldenweiser stated that he believed that we had and that he did not expect the level of the index of industrial production to go below the present figure. He thought that the average for the current year would be less than the 105 which had been anticipated and would be 100 or less, which would mean a rise to around 110 before the end of the year.

Chairman Eccles then suggested that Mr. Williams state his views as to the existing and prospective economic situation.

Mr. Williams stated that he agreed with what Mr. Goldenweiser had said about the immediate outlook, that we had passed the low point for 1939 in both industrial production and national income, and that the trend would be upward but probably not at a rapid rate.

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He said that he did not think that we ought to put too much emphasis on unemployment because he felt that the substitution of machines and new methods is bringing about a general change in the economic situation. The task of sustaining the economy rests more and more upon the replacement and improvement of capital equipment and less upon new investment. In England history shows that capital has been growing but at a declining rate for the past fifty years, and at the same time they have been making progress in output and real income, while they have what amounts to chronic unemployment. He felt that it was necessary to count on such a condition in this country in looking to the future. He did not know what the minimum unemployment might be but felt that we should think in terms of output and that the emphasis should be placed on production, provided we take care of the unemployed. He had concluded that we should not over-emphasize the need for new investment but rather consideration should be given to the need for improvement and replacement of the enormous amount of existing equipment. As the country gets older there should be an increase in consumption relative to investment. He pointed out that in the "twenties" there was an increase in consumption of durable consumption goods such as electric refrigeration, radios, automobiles, etc., which had continued in the "thirties", with automobiles in the forefront.

Mr. Williams pointed out that we have had some recovery from

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the depression and that we are again finding upward impulses. The fact is, he said, that, notwithstanding the recession of 1937-1938, we are still in a broad phase of recovery.

Mr. Williams felt that the easy money policy has been carried too far and that there has been too much public spending; that we could have achieved as much with less expenditure. He stated that if in 1934, 1935 and 1936 the Government had tapered off its budgetary deficit and taken the view that the country could come back without further public spending we would be in a much better position today. He said that small banks and small savers universally were being injured and that the easy money situation had reached a point where it was tearing down rather than building up. He thought that if Government authorities would change their point of view and turn their attention to the building industry much might be accomplished in that direction. He pointed out, for example, that there had been comparative absence of building in the "thirties" and that if the Government had stimulated building the recovery might have been further along. He said that something was wrong with the cost of labor and materials and that he thought a national investigation of the building industry would be a good thing. If that industry could be restored to something like what it was in the "twenties" with all the collateral effects on other industries, he said, we would enjoy full prosperity.

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Mr. Williams stated that if the building industry has a good year and there is a spurt in automobiles he would not be surprised to see a recovery at an earlier date than presently anticipated. He mentioned that the upward surge in 1935 came after a period of ups and downs. Mr. Goldenweiser pointed out, however, that in 1935 there was a better adjustment between prices of various commodities than prevails at present.

Mr. Ransom inquired of Mr. Williams whether his outlook was not optimistic in the light of the large number of unemployed and the maladjustment in farm prices. Mr. Williams stated, however, that a sharp decline in farm prices is to be expected in a depression and that in agriculture the fluctuations come in prices rather than in output whereas in industry it is frequently just the opposite. He added that a fall in agricultural prices is in itself a familiar phenomenon in a depression.

Mr. Ransom then asked Mr. Williams if he could compare our easy money policy with that of England and Mr. Williams stated that while England has an easy money policy it has not been carried as far as has been done in the United States. He said that in England banking is confined to a few large banks and that there was also to be considered the difference in temperament between the British and the Americans. Mr. Goldenweiser interposed with the observation that England has the machinery to curtail the effect of an inflow of capital on the economy. He said that, while he was not pessimistic

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in looking forward ten or twenty years, he thinks that the developments referred to by Mr. Williams are going to be slow due to our archaic tax and tariff systems. Mr. Goldenweiser said that these would have to be corrected promptly if we are to expect a marked improvement within the next five years.

Chairman Eccles referred to Mr. Williams' observations regarding the trend in England during the past fifty years and pointed out that Government spending in this country is temporary in an emergency situation pending a long range program, whereas in England when new investment capital is needed saving is stimulated. He stated that the social security and tax program of our Government is most contradictory of the needs of our economy. He pointed out that in this country the Government is collecting unemployment and social security taxes in excess of the amount which it pays out for such purposes, while in England all funds taken in for this purpose would be paid out and additional expenditures would be made for this purpose by the Government. He said that last year this country added \$400,000,000 to enforced savings and that \$500,000,000 to \$600,000,000 more will be collected this year than the Government pays out. He observed that until the Government does something along the line of reducing taxes that fall, directly or indirectly, on consumption and of increasing taxes which fall on funds that would otherwise remain idle this country will not be on a basis comparable with England.

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Mr. Williams observed that England had gone through its depression without having an unbalanced budget and that he felt that one reason why England found it possible to keep its budget in balance was that it already had such a large public expenditure that it had to look to other means of meeting the problem. He added that England had more adequate fiscal and banking machinery to work with than did the United States which, of course, was an important factor.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. C. C. C.
Chairman.