



THE SECRETARY OF THE TREASURY
WASHINGTON

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MEMORANDUM TO THE PRESIDENT

FROM JOHN W. SNYDER X 21

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In view of the current pressure for the Government to "do something to stop the business decline," I should like to give you my thoughts on this subject.

The present business decline is not a recession of the usual kind, which might require the creation of additional demand and additional opportunities for employment. On the contrary, consumer demand continues exceptionally strong. Retail sales in physical volume, according to Department of Commerce data, are extremely high and (after seasonal adjustment) have been gradually improving since last January. Even in dollar value, total retail sales in May were slightly higher than in May last year.

The causes of this decline are markedly different from those responsible for most business recessions in the past. One outstanding difference lies in the fact that this decline represents an essential readjustment to normal competitive conditions, involving a writing down of inflated cost structures

and prices, which would be difficult to halt by Government action even if halting it were advisable. It is, in fact, a readjustment that had been sought under the Administration's anti-inflation program.

A second notable difference lies in the fact that unhealthy business developments -- those which have served to prolong recessions in the past -- are now almost entirely absent. Commodity speculation and stock market speculation have both been negligible. Inventories have not reached excessive levels in relation to sales. Neither business credit nor consumer credit has been over-extended. In contrast to past situations, when tight money has prolonged recessions by forcing the liquidation of assets, we now have a very favorable credit situation. In addition we have an unusual degree of public confidence in the banking system and in the securities of the Federal Government.

Much of the readjustment has already been completed. Businessmen have moved very rapidly to curtail new orders, pay off bank loans, and reduce inventories to the minimum, in preparation for a recession. Thus, much of the recession has already occurred -- centered in commodity prices and in factory production and factory employment -- as a result of this protectionary curtailment of buying.

Since consumer purchases have remained high, aided by a record backlog of savings, stocks of some manufactured goods have become depleted, and there is evidence that the decline in certain industries has already run its course. In the cotton textile industry, for example, new orders and market sentiment have recently shown noticeable improvement, and prices of basic cotton fabrics are showing greater firmness. In wool textiles, a marked improvement in new orders recently has been accompanied by increased prices on some wool fabrics, and by a sharp increase in employment at woolen and worsted mills. In the non-ferrous metal markets, lead buying has recently increased sharply, stimulated in part by the Government stock-piling program.

Business forecasters in the past few weeks apparently have become somewhat more optimistic. Since the adjustment to date has been more rapid than many had expected, there is some tendency to expect the bottom to be reached by the end of this year. The National Association of Purchasing Agents -- an important "grass roots" organization of businessmen -- now sees the possibility of an upturn this fall, after a further decline in July and August. A number of the economists whose opinions we solicited for revenue estimating purposes expressed their belief that the bottom would be reached by the end of the current year, and more than half expected the turn by the first

half of next year. It will be noted that the economist for the American Federation of Labor was one of those expecting an early upturn.

Many strong factors, as you are aware, are operating to uphold the current production level, and other factors are coming into play to create an exceptional production outlook for the future. The \$2,800,000,000 payment of National Service Life Insurance dividends, of course, will provide an additional source of consumer demand. These factors will help to make the adjustment both moderate and relatively brief.

In view of this situation, I believe it would be a serious mistake to attempt at this time to bolster the economy by Government spending projects, or by any Government measure directed specifically to this purpose. I feel that such action might have an adverse reaction on business, since it would give the impression that the Administration believed the situation to be really critical. Furthermore, any action directed toward preventing the readjustment to normal competitive conditions might undo much of the adjustment that has already been accomplished, and so postpone our return to a sound economic base.

Instead, it would seem wise to rely on the demonstrated strength of our economic situation to complete the current readjustment, and reserve Government action for some later

emergency.

To correct public misconceptions about the present situation, and help develop general confidence, I believe an objective talk by you giving a statement of facts about the situation today could be very helpful. The talk might also prepare people for the seasonal summer increase in unemployment and the July drop in industrial production, which otherwise might be interpreted unfavorably.

It will need to be kept in mind that the business base used in the forthcoming Budget revision must be consistent with the Administration's viewpoint on the business outlook. If a business upturn is expected by the end of this year, for example, the estimated revenue on such a base will show less reduction and the estimated deficit will be less than if a continued business decline were assumed. In the latter case, the fact that a continued decline was assumed in the Budget estimates would be likely to have an unfavorable reaction on business.

Summing up, the consensus of those appraising business trends is that the worst of the present slump should be over by the end of this year. Some shock may be felt if Britain goes through a financial crisis.

Yet there is agreement that only the most urgent demands

resulting from the war have been satisfied to date. A vast amount of building remains to be done. Credit, now in a healthy state, can be expanded to finance it. Business, the appraisers believe, can be brought back in the next few years to a level above the peaks of 1948. They point out that only such big-scale business can meet the needs of a nation soon to be 150,000,000 strong.

A handwritten signature in dark ink, appearing to be 'JMS' or similar, written in a cursive style.