DIARY

Book 182

$80 Billion National Income

Part I

ANNUAL MESSAGE
OF THE
PRESIDENT OF THE UNITED STATES

DELIVERED BEFORE A
JOINT SESSION OF THE SENATE AND
HOUSE OF REPRESENTATIVES OF THE
UNITED STATES
76th CONGRESS 1st SESSION
JANUARY 4, 1939

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TO THE CONGRESS OF THE UNITED STATES:

In reporting on the state of the nation, I have felt it necessary on previous occasions to advise the Congress of disturbance abroad and of the need of putting our own house in order in the face of storm signals from across the seas. As this Seventy-Sixth Congress opens there is need for further warning.

A war which threatened to envelop the world in flames has been averted: but it has become increasingly clear that peace is not assured.

All about us rage undeclared wars -- military and economic. All about us grow more deadly armaments -- military and economic. All about us are threats of new aggression -- military and economic.

Storms from abroad directly challenge three institutions indispensable to Americans, now as always. The first is religion. It is the source of the other two -- democracy and international good faith.

Religion, by teaching man his relationship to God, gives the individual a sense of his own dignity and teaches him to respect himself by respecting his neighbors.

Democracy, the practice of self-government, is a covenant among free men to respect the rights and liberties of their fellows.

International good faith, a sister of democracy, springs from the will of civilized nations of men to respect the rights and liberties of other nations of men.

In a modern civilization, all three -- religion, democracy and international good faith -- complement each other.

Where freedom of religion has been attacked, the attack has come from sources opposed to democracy. Where democracy has been overthrown, the spirit of free worship has disappeared. And where religion and democracy have vanished, good faith and reason in international affairs have given way to strident ambition and brute force.

An ordering of society which relegates religion, democracy and good faith among nations to the background can find no place within it for the ideals of the Prince of Peace. The United States rejects such an ordering, and retains its ancient faith.

There comes a time in the affairs of men when they must prepare to defend not their homes alone but the tenets of faith and humanity on which their churches, their governments and their very civilization are founded. The defense of religion, of democracy and of good faith among nations is all the same fight. To save one we must now make up our minds to save all.

We know what might happen to us of the United States if the new philosophies of force were to encompass the other continents and invade our own. We, no more than other nations, can afford to be surrounded by the enemies of our faith and our humanity. Fortunate it is, therefore, that in this Western Hemisphere we have, under a common ideal of democratic government, a rich diversity of resources and of peoples functioning together in mutual respect and peace.

That Hemisphere, that peace, and that ideal we propose to do our share in protecting against storms from any quarter. Our people and our resources are pledged to secure that protection. From that determination no American flinches.

This by no means implies that the American Republics disassociate themselves from the nations of other continents -- it does not mean the Americas against the rest of the world. We as one of the Republics reiterate our willingness to help the cause of world peace. We stand on our historic offer to take counsel with all other nations of the world to the end that aggression among them be terminated, that the race of armaments cease and that commerce be renewed.

But the world has grown so small and weapons of attack so swift that no nation can be safe in its will to peace so long as any other single powerful nation refuses to settle its grievances at the council table.

For if any government bristling with implements of war insists on policies of force, weapons of defense give the only safety.

In our foreign relations we have learned from the past what not to do. From new wars we have learned what we must do.

We have learned that effective timing of defense, and the distant points from which attacks may be launched are completely different from what they were twenty years ago.

We have learned that survival cannot be guaranteed by arming after the attack begins -- for there is new range and speed to offense.

We have learned that long before any overt military act, aggression begins with preliminaries of propaganda, subsidized penetration, the loosening of ties of good will, the stirring of prejudice and the incitement to disunion.

We have learned that God-fearing democracies of the world which observe the sanctity of treaties and good faith in their dealings with other nations cannot safely be indifferent to international lawlessness anywhere. They cannot forever let pass, without effective protest, acts of aggression against sister nations -- acts which automatically undermine all of us.

Obviously they must proceed along practical, peaceful lines. But the mere fact that we rightly decline to intervene with arms to prevent acts of aggression does not mean that we must act as if there were no aggression at all. Words may be futile, but war is not the only means of commanding a decent respect for the opinions of mankind. There are many methods short of war, but stronger and more effective than mere words, of bringing home to aggressor governments the aggregate sentiments of our own people.

At the very least, we can and should avoid any action, or any lack of action, which will encourage, assist or build up an aggressor. We have learned that when we deliberately try to legislate neutrality, our neutrality laws may operate unevenly and unfairly -- may actually give aid to an aggressor and deny it to the victim. The instinct of self-preservation should warn us that we ought not to let that happen any more.

And we have learned something else -- the old, old lesson that probability of attack is mightily decreased by the assurance of an ever ready defense. Since 1931 world events of thunderous import have moved with lightning speed. During these eight years many of our people clung to the hope that the innate decency of mankind would protect the unprepared who showed their innate trust in mankind. Today we are all wiser -- and sadder.

Under modern conditions what we mean by "adequate defense" -- a policy subscribed to by all -- must be divided into three elements. First we must have armed forces and defenses strong enough to ward off sudden attack against strategic positions and key facilities essential to ensure sustained resistance and ultimate victory. Secondly we must have the organization and location of these key facilities so that they may be immediately utilized and rapidly expanded to meet all needs without danger of serious interruption by enemy attack.

In the course of a few days I shall send you a special message making recommendations for those two essentials of defense against danger which we cannot safely assume will not come.

If these first two essentials are reasonably provided for, we must be able confidently to invoke the third element, the underlying strength of citizenship -- the self-confidence, the ability, the imagination and the devotion that give the staying power to see things through.

A strong and united nation may be destroyed if it is unprepared against sudden attack. But even a nation well armed and well organized from a strictly military standpoint, may, after a period of time, meet defeat if it is unnerved by self-distrust, endangered by class prejudice, by dissension between capital and labor, by false economy and by other unsolved social problems at home.

In meeting the troubles of the world we must meet them as one people -- with a unity born of the fact that for generations those who have come to our shores, representing many kindreds and tongues, have been welded by common opportunity into a united patriotism. If another form of government can present a united front in its attack on a democracy, the attack must be met by a united democracy. Such a democracy can and must exist in the United States.

A dictatorship may command the full strength of a regimented nation. But the united strength of a democratic nation can be mustered only when its people, educated by modern standards to know what is going on and where they are going, have conviction that they are receiving as large a share of opportunity for development, as large a share of material success and of human dignity, as they have a right to receive.

Our nation's program of social and economic reform is therefore a part of defense as basic as armaments themselves.

Against the background of events in Europe, in Africa and in Asia during these recent years, the pattern of what we have accomplished since 1933 appears in even clearer focus.

For the first time we have moved upon deep-seated problems affecting our national strength and have forged national instruments adequate to meet them.

Consider what the seemingly piecemeal struggles of these six years add up to in terms of realistic national preparedness.

We are conserving and developing natural resources -- land, water, power, forests.

We are trying to provide necessary food, shelter and medical care for the health of our population.

We are putting agriculture -- our system of food and fibre supply -- on a sounder basis.

We are strengthening the weakest spot in our system of industrial supply -- its long smouldering labor difficulties.

We have cleaned up our credit system so that depositor and investor alike may more readily and willingly make their capital available for peace or war.

We are giving to our youth new opportunities for work and education.

We have sustained the morale of all the population by the dignified recognition of our obligations to the aged, the helpless and the needy.

Above all, we have made the American people conscious of their interrelationship and their interdependence. They sense a common destiny -- and a common need of each other. Differences of occupation, geography, race and religion no longer obscure the nation's fundamental unity in thought and in action.

We have our difficulties, true -- but we are a wiser and a tougher nation than we were in 1929, or 1932.

Never have there been six years of such far-flung internal preparedness in our history. And all this has been done without any dictator's power to command, without conscription of labor or confiscation of capital, without concentration camps, and without a scratch on freedom of speech, freedom of the press or the rest of the Bill of Rights.

We see things now that we could not see along the way. The tools of government which we had in 1933 are outmoded. We have had to forge new tools for a new role of government

Some of these tools had to be roughly shaped and still need some machining down. Many of those who fought bitterly against the forging of these new tools welcome their use today. The American people, as a whole, have accepted them. The Nation looks to the Congress to improve the new machinery which we have permanently installed, provided that in the process the social usefulness of the machinery is not destroyed or impaired.

All of us agree that we should simplify and improve laws if experience and operation clearly demonstrate the need. For instance, all of us want better provision for our older people under our social security legislation. For the medically needy we must provide better care.

Most of us agree that for the sake of employer and employee alike we must find ways to end factional labor strife and employer-employee disputes.

Most of us recognize that none of these tools can be put to maximum effectiveness unless the executive processes of government are revamped -- reorganized, if you will -- into more effective combination. And even after such reorganization it will take time to develop administrative personnel and experience in order to use our new tools with a minimum of mistakes. The Congress, of course, needs no further information on this.

With this exception of legislation to provide greater government efficiency, and with the exception of legislation to ameliorate our railroad and other transportation problems, the past three Congresses have met in part or in whole the pressing needs of the new order of things.

We have now passed the period of internal conflict in the launching of our program of social reform. Our full energies may now be released to invigorate the processes of recovery in order to preserve our reforms, and to give every man and woman who wants to work a real job at a living wage.

But time is of paramount importance. The deadline of danger from within and from without is not within our control. The hour-glass may be in the hands of other nations. Our own hour-glass tells us that we are off on a race to make democracy work, so that we may be efficient in peace and therefore secure in self defense.

This time element forces us to still greater efforts to attain the full employment of our labor and our capital.

The first duty of our statesmanship today is to bring capital and man-power together.

Dictatorships do this by main force. By using main force they apparently succeed at it -- for the moment. However we abhor their methods, we are compelled to admit that they have obtained substantial utilization of all their material and human resources. Like it or not they have solved, for a time at least, the problem of idle men and idle capital. Can we compete with them by boldly seeking methods of putting idle men and idle capital together and, at the same time, remain within our American way of life, within the Bill of Rights, and within the bounds of what is, from our point of view, civilization itself?

We suffer from a great unemployment of capital. Many people have the idea that as a nation we are overburdened with debt and are spending more than we can afford. That is not so. Despite our Federal Government expenditures the entire debt of our national economic system, public and private together, is no larger today than it was in 1929, and the interest thereon is far less than it was in 1929.

The object is to put capital -- private as well as public -- to work.

We want to get enough capital and labor at work to give us a total turnover of business, a total national income, of at least eighty billion dollars a year. At that figure we shall have a substantial reduction of unemployment; and the Federal revenues will be sufficient to balance the current level of cash expenditures on the basis of the existing tax structure. That figure can be attained, working within the framework of our traditional profit system.

The factors in attaining and maintaining that amount of national income are many and complicated.

They include more widespread understanding among business men of many changes which world conditions and technological improvements have brought to our economy over the last twenty years -- changes in the interrelationship of price and volume and employment, for instance -- changes of the kind in which business men are now educating themselves through opportunities like the so-called "monopoly investigation".

They include a perfecting of our farm program to protect farmers' income and consumers' purchasing power from alternate risks of crop gluts and crop shortages.

They include wholehearted acceptance of new standards of honesty in our financial markets.

They include reconcilement of enormous, antagonistic interests -- some of them long in litigation -- in the railroad and general transportation field.

They include the working out of new techniques -- private, state and federal -- to protect the public interest in and to develop wider markets for electric power.

They include a revamping of the tax relationships between federal, state and local units of government, and consideration of relatively small tax increases to adjust inequalities without interfering with the aggregate income of the American people.

They include the perfecting of labor organization and a universal ungrudging attitude by employers toward the labor movement, until there is a minimum of interruption of production and employment because of disputes, and acceptance by labor of the truth that the welfare of labor itself depends on increased balanced out-put of goods.

To be immediately practical, while proceeding with a steady evolution in the solving of these and like problems, we must wisely use instrumentalities, like Federal investment, which are immediately available to us.

Here, as elsewhere, <u>time</u> is the deciding factor in our choice of remedies.

Therefore, it does not seem logical to me, at the moment we seek to increase production and consumption, for the Federal Government to consider a drastic curtailment of its own investments.

The whole subject of government investing and government income is one which may be approached in two different ways.

The first calls for the elimination of enough activities of government to bring the expenses of government immediately into balance with income of government. This school of thought maintains that because our national income this year is only sixty billion dollars, ours is only a sixty billion dollar country; that government must treat it as such; and that without the help of government, it may some day, somehow, happen to become an eighty billion dollar country.

If the Congress decides to accept this point of view, it will logically have to reduce the present functions or activities of government by one-third. The Congress will have to accept the responsibility for such reduction; and the Congress will have to determine which activities are to be reduced.

Certain expenditures we cannot possibly reduce, such as the interest on the public debt. A few million dollars saved here or there in the normal or in curtailed work of the old departments and commissions will make no great saving in the Federal budget. Therefore, the Congress would have to reduce drastically some of certain large items, such as aids to agriculture and soil conservation, veterans' pensions, flood control, highways, waterways and other public works, grants for social and health security, Civilian Conservation Corps activities, relief for the unemployed, or national defense.

The Congress alone has the power to do all this, as it is the appropriating branch of the government.

The other approach to the question of government spending takes the position that this Nation ought not to be and need not be only a sixty billion dollar nation; that at this moment it has the men and the resources sufficient to make it at least an eighty billion dollar nation. This school of thought does not believe that it can become an eighty billion dollar nation in the near future if government cuts its operations by one-third. It is convinced that if we were to try it, we would invite disaster -- that we would not long remain even a sixty billion dollar nation. There are many complicated factors with which we have to deal, but we have learned that it is unsafe to make abrupt reductions at any time in our net expenditure program.

By our common sense action of resuming government activities last Spring, we have reversed a recession and started the new rising tide of prosperity and national income which we are now just beginning to enjoy.

If government activities are fully maintained, there is a good prospect of our becoming an eighty billion dollar country in a very short time. With such a national income, present tax laws will yield enough each year to balance each year's expenses.

It is my conviction that down in their hearts the American public -- industry, agriculture, finance -- wants this Congress to do whatever needs to be done to raise our national income to eighty billion dollars a year.

Investing soundly must preclude spending wastefully. To guard against opportunist appropriations, I have on several occasions addressed the Congress on the importance of permanent long-range planning. I hope, therefore, that following my recommendation of last year, a permanent agency will be set up and authorized to report on the urgency and desirability of the various types of government investment.

Investment for prosperity can be made in a democracy.

I hear some people say "This is all so complicated. There are certain advantages in a dictatorship. It gets rid of labor trouble, of unemployment, of wasted motion and of having to do your own thinking".

My answer is "yes, but it also gets rid of some other things which we Americans intend very definitely to keep -- and we still intend to do our own thinking".

It will cost us taxes and the voluntary risk of capital to attain some of the practical advantages which other forms of government have acquired.

Dictatorship, however, involves costs which the American people will never pay: The cost of our spiritual values. The cost of the blessed right of being able to say what we please. The cost of freedom of religion. The cost of seeing our capital confiscated. The cost of being cast into a concentration camp. The cost of being afraid to walk down the street with the wrong neighbor. The cost of having our children brought up not as free and dignified human beings, but as pawns molded and enslaved by a machine.

If the avoidance of these costs means taxes on my income; if avoiding these costs means taxes on my estate at death, I would bear those taxes willingly as the price of my breathing and my children breathing the free air of a free country, as the price of a living and not a dead world.

Events abroad have made it increasingly clear to the American people that dangers within are less to be feared than dangers from without. If therefore a solution of this problem of idle men and idle capital is the price of preserving our liberty, no formless selfish fears can stand in our way.

Once I prophesied that this generation of Americans had a rendezvous with destiny. That prophesy comes true. To us much is given; more is expected.

This generation will "nobly save or meanly lose the last best hope of earth ..... The way is plain, peaceful, generous, just -- a way which if followed the world will forever applaud and God must forever bless".

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
January 4, 1939.

BUDGET MESSAGE OF THE PRESIDENT

o the Congress of the United States:

Pursuant to provisions of law, I transmit herewith the Budget of ie United States Government for the fiscal year ending June 30, 940, together with this message, which is an integral part thereof. he estimates in this Budget are based upon a continuation of all xes now in force and upon a careful analysis of the existing obligaons and future needs of the Government. I, therefore, recommend ppropriations for the purposes specifically detailed in the tables hich follow.

The Budget and the National Income

Taxation yields almost all of the income of the Government, leaving s than 5 percent to come from miscellaneous sources. Revenue om taxes depends mainly on two factors: The rate of taxation and e total of the national income. This holds true not only of direct xes on personal and corporate income but also of what are known ad valorem taxes or other forms of indirect taxes, for the very good ason that the volume and value of goods produced or articles ported vary with the rise or fall of the Nation's total income.

We can and do fix the rate of taxation definitely by law. We cant by a simple legislative act raise the level of national income, but r experience in the last few years has amply demonstrated that rough wise fiscal policies and other acts of government we can do uch to stimulate it.

Today the Nation's income is in the neighborhood of 60 billion llars a year. A few years ago it was much lower. It is our belief at it ought to be much higher.

In order that you may know the amount of revenue which the overnment may expect under the existing tax structure as the tional income rises, the following table is submitted. It shows the timated revenues which may be derived when national income aches certain levels between 70 billion and 90 billion dollars.

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Estimated Federal receipts[1] *by principal sources, at certain assumed levels of national income based on December 1938 tax rates*

[In billions of dollars]

National income	70	80	90
Income taxes	2.5	3.9	5.7
Miscellaneous internal revenue	2.2	2.6	3.1
Customs	.4	.5	.7
Miscellaneous receipts	.2	.2	.2
Pay-roll taxes	.7	.8	.9
Total	6.0	8.0	10.6

[1] Tax liabilities excluding trust accounts. Pay-roll taxes at calendar year 1938 rates.

The table is not intended to indicate the national income for any particular year and, of necessity, the estimates are rough and may vary somewhat either way. Since taxes are paid from one month to fifteen months after income is realized, the achievement of a 90 billion dollar national income in one year will not, for instance, mean tax collections of 10 billion dollars in that same year. This table is an indicator and not a gauge.

During the past nine fiscal years—a period which has seen the national income drop from a high of 81 billion dollars in the calendar year 1929 to around 40 billion dollars in 1932 and rise again to about 70 billion dollars in 1937—Federal revenues, even though on a higher tax base, have never completely covered expenditures.

We require continual study of the revenues necessary to carry on the normal functions of the Federal Government and of the role which Federal policy should play in the stabilization of the national economy.

This study includes a consideration of: (a) The practicability of reclassifying expenditures on a functional basis and the most appropriate methods of financing the different classifications; (b) the problem of human security including relief and its costs; and (c) the correlation between national income on the one hand and Government receipts and expenditures on the other.

An analysis of receipts and expenditures by major classes over a ten-year period, as set forth in the following table, indicates the nature of the problems to be studied.

and estimated receipts and expenditures of the Government for the fiscal years 1931–40
(Classifications include expenditures from both general and emergency funds)

[In millions of dollars]

	Total, 1931–40	Estimated 1940	Estimated 1939	Actual 1938	Actual 1937	Actual 1936	Actual 1935	Actual 1934	Actual 1933	Actual 1932	Actual 1931
...IPTS											
	16,780	1,903	2,086	2,635	2,158	1,427	1,099	818	746	1,057	1,860
	24	6	6	6	6						
...enue	16,035	2,333	2,173	2,280	2,181	2,009	1,657	1,470	858	504	570
...y Act	2,152	686	611	604	252						
...ir employees	383	124	109	150							
...ducts	951					77	521	353			
...vance Act	5	5									
	3,582	404	335	309	456	387	343	312	261	328	377
	2,110	208	200	208	211	216	180	162	225	117	383
	41,033	5,669	5,520	6,242	5,294	4,116	3,800	3,116	2,080	2,006	3,190
...ITURES											
...vil establishments:											
...nt	197	22	21	21	21	22	18	16	16	19	21
...ture	1,050	136	162	134	149	119	71	63	66	94	60
...rce	388	49	31	30	33	37	33	25	33	39	48
...rior	694	92	95	93	73	62	65	45	54	61	55
	405	50	42	41	37	38	33	31	42	48	43
	197	22	20	26	31	27	18	12	14	15	12
... (deficiency)	876	53	57	47	39	80	64	64	117	203	146
	159	17	17	17	17	17	16	11	15	17	15
	1,452	170	165	156	155	145	123	111	132	159	136
...ilitary)	490	51	54	52	54	47	50	44	43	47	48
...nited States share)	64	5	5	5	5	6	5	6	8	10	9
... commissions	735	148	120	91	75	69	66	30	44	44	48
	70	50	20								
...icial, and civil	6,747	865	799	712	689	675	502	458	584	750	647
	8,019	1,126	1,017	980	895	880	663	494	633	684	667
...efits	9,050	539	840	572	1,128	2,348	604	554	849	973	943
	6,045	1,050	976	926	806	740	821	757	699	599	612
	750	71	66	100	56	54	77	64	70	101	91
...rogram	3,820	694	703	382	527	433	712	289			
	2,915	928	833	678	448	28					
	390	127	112	146	6						
...irement funds	428	87	73	73	47	41	21	21	21	21	21
...lt losses, settlement of war	171			98	1	1	a 2	14	5	49	6
	180	50	130								
...le	33,768	4,672	4,452	3,934	3,974	4,634	2,895	2,193	2,267	2,407	2,340
...ures	40,515	5,537	5,251	4,646	4,663	5,309	3,457	2,651	2,851	3,153	2,987
...program	210	210									
	2,424	213	232	227	251	244	217	268	178	210	174
...ority	263	40	42	42	42	40	36	11			
	459	68	53	65	52	50	41	25	25	26	14
...provement	905	60	83	96	148	150	133	76	51	55	51
	510	101	98	61	45	38	31	41	34	28	35
	740	83	60	77	76	68	58	79	106	88	65
...s, including administration	1,523	366	392	190	273	234	49	19			
	1,128	134	228	110	115	82	101	106	78	94	79
	7,952	1,044	1,229	880	1,102	914	786	625	472	499	421
	4,048	42	97	154	184	586	1,916	716	351		
... etc.)	7,196	7	1,604	1,516	2,957	1,298	11	808			
... Corps	2,550	285	290	326	386	486	426	332	9		
	2,435	1,685	750								
	16,231	2,019	2,741	1,996	2,527	2,372	2,353	1,856	360		
...ck, etc. (net)	3,320	130	271	104	150	71	424	862	161	573	363
	65	65									
...enditures	27,797	3,458	4,241	2,980	3,779	3,357	3,553	3,360	1,013	1,372	884
...usive of debt retirement	68,312	8,995	9,492	7,626	8,442	8,666	7,010	6,011	3,864	4,525	3,671
	27,279	3,326	3,972	1,384	3,148	4,550	3,210	2,895	1,784	2,529	481
	28,273	3,326	3,967	740	2,647	5,077	1,648	4,514	3,052	2,686	616
...of each fiscal year		44,458	41,132	37,165	36,425	33,779	28,701	27,053	22,539	19,487	16,801

... on the basis of the daily Treasury statement as revised on July 1, 1938.

ORDINARY EXPENDITURES

The expenditure side of a budget may be divided into two major classes, namely—ordinary, which includes the operating expenditures for the normal and continuing functions of government, and extraordinary, which includes those expenditures required to meet the nonoperating or the unusual costs of government.

General public works of an annual recurring nature may fall in either class, but in view of their flexibility they have been classed as extraordinary for the purpose of this statement.

The foregoing table shows that the excess of expenditures over revenues in the ordinary classification is attributable to various causes: New functions undertaken; more carrying charges on the national debt, though at lower interest rates; and the inauguration of the social security and agricultural programs. Under all of these classifications, new expenditures have been added without corresponding increases in taxes.

Fixed costs have also increased because of numerous new appropriations for grants and subsidies.

Another type of expenditure has been forced upon us in increasing volume by the real necessity for expanding our national defense. We are all aware of the grave and unsettling developments in the field of international relations during the past few years. Because of the conditions of modern warfare, we must now perform in advance tasks that formerly could be postponed until war had become imminent. A large part of additional national defense expenditures should, I think, be put in a special category on a temporary basis.

The operating expenses of the Government have also increased because of reductions in the hours of work of certain classes of Federal employees, and because of expansion of the normal functions of the Government with the growth of the country.

Among the new governmental functions which have added to the costs of the ordinary budget, the farm program is outstanding. Soil conservation expenditures and other outlays for the crop adjustment program which are of a continuing nature and produce no direct return to the Federal Government have been only partially covered by new revenues.

A new, and partly self-financing, addition was made to the ordinary expenditures when the Social Security Act was passed to safeguard the economic security of a large portion of our population. However, no provision was made for revenues which would pay for grants to States for old-age assistance, for maternal and child welfare, for public health work, and for aid to dependent children and the blind, which expenditures in 1940 will approximate $286,000,000. Furthermore, consideration is now being given to plans for spreading the erage of, and for revising the benefits under, the Social Security , and for improving public health facilities. These plans present or questions of future national policy and directly affect the get.

EXTRAORDINARY EXPENDITURES

eyond these questions of ordinary expenditures are those which e to the nonoperating or unusual costs of Government and involve aordinary expenditures that deal more particularly with the relahip between fiscal policy and the economic welfare of the country. e questions concern Government loans, capital outlays, and relief ed. Expenditures made under these heads are of such a flexible acter as to provide, through their contraction or expansion, a al offset for the rise or fall in the national income.

e public has been showing an increased interest in the adoption he Government of a form of budget which would conform more y to the practice followed in commercial business. There has some criticism of the Government's practice of including in its etary expenditures, amounts disbursed for loans, or for selfdating projects, or for other extraordinary capital outlays which ase the wealth of the Nation.

ecognized the merit of constructive suggestions of this nature by nmending in my last Budget Message a change in the method of cing the requirements of the Commodity Credit Corporation. recommendation provided for an annual appraisal of the assets liabilities of the Corporation, and contemplated that any surplus operations or any impairment of capital resulting from losses be cted as receipts or expenditures in the annual Budget. Under method the Budget would be affected, not when the investment an is made, but in the fiscal year when the surplus or loss occurs. gress approved this recommendation in the act of March 8, 1938, it might well give consideration to an extension of this principle her governmental corporations and credit agencies, such as:

Agencies under the Farm Credit Administration
Electric Home and Farm Authority
Export-Import Bank of Washington
Farm Security Administration
Federal Crop Insurance Corporation
Federal Savings and Loan Insurance Corporation
Home Owners' Loan Corporation
Inland Waterways Corporation
Panama Railroad
Reconstruction Finance Corporation
Rural Electrification Administration
U. S. Maritime Commission

Public projects of a self-liquidating character represent another class of expenditures appearing in the annual Budget as current outlays, to which this principle might also be applied. For example, outlays for the Boulder Çanyon project amounting to more than 120 million dollars have been included in annual budgetary expenditures of the Government, notwithstanding that the total cost of the project, including capitalized interest during the period of construction, will be returned to the Government within 50 years, with interest.

While I do not advocate that the Government capitalize all of its expenditures for physical improvements, it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting. Our financial statements, of course, should clearly reflect, in appropriate classifications, the amount of Government outlays for physical improvements that are not self-liquidating in character. We must take into account the necessity for making such of these and other changes as will permit the presentation to the Congress and to the public of more accurate and intelligible statements of the financial operations of the Government.

I should like to call your attention to the following table comparing for the 10-year period the amount of the Federal deficit and the increase in the public debt, with the amount included therein for capital outlays. It should be understood that this table is not intended to represent values on an earning basis. Nevertheless, under our policy of expanding capital outlays to compensate for variation in private capital expenditures and of making loans to meet emergency needs of our people, the table clearly shows that the greater part of the deficits and the larger part of the increase in the public debt have gone for permanent additions to our national wealth.

Let us all fix that fact in our minds so that there shall be no doubt about it and so that we may have a clear and intelligent idea of what we have been doing. We have not been throwing the taxpayers' money out of the window or into the sea. We have been buying real values with it. Let me repeat: The greater part of the budgetary deficits that have been incurred have gone for permanent, tangible additions to our national wealth. The balance has been an investment in the conservation of our human resources, and I do not regard a penny of it as wasted.

…n of Federal outlays for durable improvements and recoverable loans and investments with …deficit and increase in gross public debt for the period July 1, 1930, to June 30, 1940

[In millions of dollars]

	Actual								Estimated		Total
	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	
…ing debt retirement [1]	461	2,529	1,784	2,895	3,210	4,550	3,148	1,384	3,972	3,326	27,279
…n public debt	616	2,686	3,052	4,514	1,648	5,077	2,647	740	3,967	3,326	28,273
…s for durable improve… recoverable loans and											
…eral public works	247	289	294	338	400	436	475	453	608	465	4,013
…e loans and investments [1]	263	873	181	881	423	69	115	72	234	123	[2] 3,234
…s	174	210	178	268	317	244	351	237	232	213	2,424
…on work through Civilian …tion Corps			9	332	436	486	386	326	290	285	2,550
…uction projects of Works …Administration [3]						406	595	464	734	488	2,687
…public bodies for public …cluding administration)				19	49	234	273	190	392	366	1,523
…outlays	684	1,372	662	1,838	1,625	1,875	2,198	1,742	2,487	1,940	16,431
…und [4]											2,000
											18,431

…ement is on the basis of the daily Treasury statement as revised on July 1, 1938.
…ount excludes $170,000,000 of repayments covered into miscellaneous receipts of the Treasury.
…rks Progress Administration has estimated that between 30 percent and 40 percent of the expenditures of that …n represent outlays for new construction. This does not represent the entire amount of durable improvements …orks Progress Administration funds, since additions to existing structures are not classed as new construction. …the purposes of this statement a figure has been used representing only new construction, namely, 34 ½ percent …Progress Administration expenditures, after excluding administrative expenses, expenses of the National Youth …on, and expenditures for rural rehabilitation.
…nd was established from the increment resulting from reduction in weight of the gold dollar. This increment …ded in the general receipts of the Government, nor was the expenditure for the establishment of the stabilization …s general. Thus the transactions which resulted in this fund did not, in any way, affect the deficit. Neverthe…nce remaining in this fund could, when no longer needed for the purpose of stabilization, be utilized as an offset …crease in the debt.

A year ago I recommended an increase in work relief, public works, …d other related expenditures to check the downward spiral of …siness. The program undertaken at that time has contributed …terially, I believe, to the existing upward movement of business …d employment; and I feel that the business men and farmers and …rkers of the country, no less than the unemployed, are entitled to an …surance that this program will not be curtailed arbitrarily or …olently.

The actual cost of work relief and similar expenditures goes down after jobs are found by the workers on these rolls. A violent contraction, before the natural expansion of private industry is ready to take up the slack, would mean, not only human misery, but a disruptive withdrawal from American industry of a volume of purchasing power which business needs at this time. The necessity of increasing Federal expenditures a year ago to check a recession is a well-known fact. Any decision to decrease those expenditures now that recovery has just started would constitute a new policy which ought not to be adopted without full understanding of what may be the result.

May I say emphatically that I am not suggesting an ordinary budget which is always balanced and an extraordinary budget which is always unbalanced. The ordinary expenses of government should continue to be met out of current revenues. But I also hope that those revenues in times of prosperity will provide a surplus which can be applied against the public debt that the Government must incur in lean years because of extraordinary demands upon it.

I believe I am expressing the thought of the most far-sighted students of our economic system in saying that it would be unwise either to curtail expenditures sharply or to impose drastic new taxes at this stage of recovery. But in view of the addition to our public expenditures involved in the proposed enlarged national defense program and the program for agricultural parity payments, for which no revenue provision has yet been made, I think we might safely consider moderate tax increases which would approximately meet the increased expenditures on these accounts. It should be added, however, that it is my firm conviction that such new taxes as may be imposed should be most carefully selected from the standpoint of avoiding repressive effects upon purchasing power.

Sound progress toward a budget that is formally balanced is not to be made by heavily slashing expenditures or drastically increasing taxes. On the contrary, it is to be sought by employing every effective device we may have at our command for promoting a steady recovery, which means steady progress toward the goal of full utilization of our resources. We can contribute very materially toward that end by a wise tax program.

I am recommending the reenactment of the excise taxes which will expire in June and July of this year, not because I regard them as ideal components of our tax structure, but because their collection has been perfected, our economy is adjusted to them, and we cannot afford at this time to sacrifice the revenue they represent. If the Congress should at this session adopt new taxes more scientifically planned to care for the defense and agricultural programs, it is quite posle that the existence of these new taxes will enable us in a later year give consideration to abolishing some of the present excise levies.

The revised estimate of receipts for the fiscal year 1939 as contained this Budget is $5,520,070,000, and of expenditures, $9,492,329,000, ving a deficit of $3,972,259,000.

The estimated receipts for the fiscal year 1940 amount to 669,320,000, and the expenditures for that year are estimated at 995,663,000, resulting in a deficit of $3,326,343,000.

Recommendations

Temporary miscellaneous internal-revenue taxes.—I recommend that Congress take steps by suitable legislation to extend the miscel-eous internal-revenue taxes which under existing law will expire t June and July, and also to maintain the current rates of those es which would otherwise be reduced next June. I consider that revenue from such taxes or its equivalent is necessary for the ncing of the Budget for 1940.

Postal receipts.—The estimates of appropriations for the Postal vice included in the 1940 Budget are predicated upon the enactment legislation to provide for the continuance during that fiscal year the 3-cent postage rate for first-class mail other than for local livery. While the Government collects more than it spends on t-class mail, the Postal Service is not self-supporting because it ries other classes of mail at less than cost, as shown in the tabular tnote on page xxv.

Civilian Conservation Corps.—The Civilian Conservation Corps has monstrated its usefulness and has met with general public approval. should be continued beyond June 30, 1940, and I recommend that ngress enact during its present session the necessary legislation to ablish the Corps as a permanent agency of the Government.

eview of the Fiscal Years 1938 and 1939, and the Fiscal Program for 1940

This review concerns the cash actually received and paid out by e Treasury in the fiscal year 1938, the estimates of receipts and penditures for the fiscal year 1939, and the fiscal program for 1940.

FISCAL YEAR 1938

Receipts.—Total general fund receipts for the fiscal year 1938 mounted to $6,241,661,227 which was a gain over 1937 of $947,-21,000. The receipts from income taxes were $477,091,000 in excess of the amount collected from that source in 1937 while miscellaneous internal-revenue taxes were $98,235,000 more. The amounts collected from pay-roll taxes under the Social Security and Carriers' Taxing Acts were $502,075,000 in excess of the amounts collected from the same sources during 1937. Approximately the same amounts were received in each of the two years from the tax on unjust enrichment and from miscellaneous receipts. On the other hand, the revenue from customs during 1938 declined $127,169,000 from the 1937 collections.

Expenditures.—The total expenditures for the fiscal year ended June 30, 1938 (exclusive of expenditures for debt retirement and those payable from postal revenue) amounted to $7,625,822,158, as compared with expenditures on the same basis in 1937 of $8,442,408,756. Of the reduction of $816,586,000 in the 1938 expenditures below those of 1937, the bonus payment, which was a nonrecurring item in 1937, accounts for $556,665,000. Recovery and relief was $772,539,000 less in 1938 than in 1937, and transactions in revolving funds were $82,583,000 less. Transfers to trust accounts increased $290,937,000, while expenditures for other purposes were $304,264,000 greater.

Deficit and public debt.—The gross deficit for the fiscal year 1938 amounted to $1,449,625,881. Excluding $65,464,950 for statutory debt retirement, the net deficit was $1,384,160,931. The estimated net deficit submitted a year ago, as revised and adjusted, was $1,204,330,000. The increase in the gross public debt during the year amounted to $740,126,583, bringing the gross debt on June 30, 1938, to $37,164,740,315.

FISCAL YEAR 1939

Receipts.—The total anticipated general fund receipts for the fiscal year 1939 will be $5,520,070,000, or $399,367,000 less than was anticipated in the Budget estimates of last January and $721,591,000 less than for 1938.

This latter decrease reflects the adverse business conditions of the late months of the 1937 and the early months of the 1938 calendar years, and is particularly true of income taxes which it is estimated will decline $548,618,000 below the actual collections in 1938. Miscellaneous internal revenue is expected to be $106,483,000 less, and payroll taxes will be $34,781,000 less than in 1938. Customs revenues are expected to show a decrease of $24,187,000 and miscellaneous receipts a decrease of $8,356,000.

Expenditures.—The total expenditures (exclusive of expenditures for debt retirement and those payable from postal revenue) for the fiscal year 1939 are now estimated at $9,492,329,000.

Expenditures for recovery and relief, including expenditures under anticipated supplemental appropriation for the last five months the present fiscal year, will amount in 1939 to $3,187,695,000, an rease of $951,528,000 over expenditures for this purpose in 1938. ere are also increases of $170,937,000 for the regular departments l agencies; $115,106,000 for the General Public Works Program; ,079,000 for national defense; $346,318,000 for the agricultural ustment program, largely for cotton price adjustments and parity ments; $38,785,000 for grants and administrative expenses under Social Security Act; $49,719,000 for interest on the public debt; ,992,000 under revolving funds; $78,449,000 for transfers to trust ounts; and $150,000,000 for supplemental items other than for ef. There are decreases of $2,945,000 for the Legislative Estab- ment, the Judiciary, and the Executive Office; $32,343,000 for vet- ns' pensions and benefits; $36,383,000 for the Civilian Conservation ps; and $33,734,000 for refunds of taxes.

eficit and public debt.—Excluding public debt retirements, the net cit for 1939 is now estimated at $3,972,259,000, as compared with actual net deficit in 1938 of $1,384,160,931. The gross public t on June 30, 1939, is estimated at $41,131,502,010.

FISCAL YEAR 1940

Receipts.—Revenue estimates for the fiscal year 1940 are based on e assumption that certain taxes which would otherwise expire in ne and July 1939, will be continued. The total anticipated receipts the fiscal year 1940 on this basis are $5,669,320,000, an increase $149,250,000 over the estimated revenues for the fiscal year 1939. e effect of the business recession which began late in 1937 will con- ue to be felt in income-tax collections during the fiscal year 1940 d such collections are expected to be $183,000,000 below those for 39. Miscellaneous internal revenue on the other hand will increase 60,400,000 over 1939, and pay-roll taxes are expected to be 0,250,000 higher. The tax on unjust enrichment is expected to main at the same figure as in 1939. The amount of contributions der the Railroad Unemployment Insurance Act, which appears as a w item in 1940, will be $4,950,000. Customs receipts are expected to ow an increase of $68,900,000 over collections from this source during e present fiscal year, and miscellaneous receipts are expected to be eater than in 1939 by $7,750,000.

Expenditures.—The expenditures contemplated for the fiscal year 40 (exclusive of expenditures for debt retirement and those payable om postal revenues) total $8,995,663,200 which is $496,666,000 less an the amount estimated for 1939. There are increases of

$1,046,000 under the legislative and judicial establishments; $83,735,000 for the civil departments and agencies; $8,665,000 under the General Public Works Program; $28,121,000 under the Social Security Act; $74,000,000 for interest on the public debt; $4,510,000 for refunds of taxes; and $87,097,000 under transfers to trust accounts.

For recovery and relief it is estimated that $2,266,165,000 will be needed, or $921,530,000 less than the amount required for this purpose in 1939. Supplemental estimates of appropriations will be submitted to meet the requirements of the Works Progress Administration, the National Youth Administration, and the Farm Security Administration for the fiscal year 1940. Of the estimated expenditure of $2,266,165,000 for recovery and relief purposes, $1,750,000,000 is the amount estimated for expenditure by these three agencies; $469,165,000 by the Public Works Administration and various departments from old balances of emergency funds, $10,000,000 by the Federal Housing Administration, and $37,000,000 for reduction in interest rates on farm mortgages.

National defense expenditures for 1940 will amount to $1,319,558,000. This is an increase of $309,351,000 over the contemplated expenditures for national defense purposes in 1939 and represents an increase of $99,351,000 for continuing the current program and $210,000,000 on account of the new $500,000,000 program to be submitted at a later date.

There are decreases in estimated expenditures under the agricultural adjustment program of $13,667,000; under the Civilian Conservation Corps of $5,000,000; under revolving funds of $101,-949,000; under veterans' pensions and benefits of $1,044,000; and under regular supplemental items of $50,000,000.

Deficit and public debt.—The estimated net deficit for the fiscal year 1940 is $3,326,343,200, or $645,916,000 less than the net deficit for the current fiscal year. The gross public debt on June 30, 1940, is estimated at $44,457,845,210.

It should be pointed out, however, that the increase in the debt by reason of the deficit does not mean that the Treasury will borrow that additional sum on the market. There will be available during the fiscal year for investment in special issues of Government obligations the net sum of approximately $950,000,000, which represents investments of $579,000,000 from the old-age reserve account, $271,000,000 from the unemployment trust fund, and $100,000,000 from the railroad and Government employees' retirement funds and from veterans' funds.

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The following table shows the gross public debt at the end of the al years 1936, 1937, and 1938, and the estimated gross debt at end of the fiscal years 1939 and 1940.

[In millions of dollars]

	June 30, 1940 (estimated)	June 30, 1939 (estimated)	June 30, 1938	June 30, 1937	June 30, 1936
t operations:					
ld by—					
Public (banks, insurance companies, trust companies, corporations, individuals, etc.)	35,449	33,073	30,144	30,677	29,408
Federal Reserve System	2,564	[1] 2,564	2,564	2,526	2,430
Governmental agencies	601	[1] 601	565	451	381
Government trust funds	1,260	[1] 1,260	1,217	1,212	933
	39,874	37,498	34,490	34,866	33,152
issues:					
ld by—					
Old-age reserve account	1,751	1,172	662	267	----------
Unemployment trust fund	1,480	1,209	872	312	19
Railroad retirement account	81	76	66	----------	----------
Employees' retirement funds	551	463	396	316	280
Veterans' funds	564	557	549	538	127
Other	157	[1] 157	130	125	200
	4,584	3,634	2,675	1,558	626
Gross debt	44,458	41,132	37,165	36,424	33,778

of Dec. 1, 1938, and it is assumed for the purpose of this statement only that they will remain at these ts throughout the fiscal years 1939 and 1940.

ppropriations.—The appropriations recommended in this Budget, uding those for the Postal Service, District of Columbia, and able supplemental items, total $10,190,311,483. The appropria- already made and prospective supplemental items for the fiscal 1939 for the same purpose total $10,928,609,972. This is a ease of $738,298,489.

FRANKLIN D. ROOSEVELT.

NUARY 3, 1939.

8oB & File

January 13, 1939

Memorandum to Mr. Bailie 22

GENERAL BUSINESS CHECK

We are scheduling a general business check which will start next week and run through the first week of February. You will find attached a list of the type of questions that we suggest be asked, although of course the specific questions depend a great deal on the individual company interviewed. There is also attached a list showing the principal companies that will be interviewed and the scheduled itinerary.

The main value of a general business check at this time should be in helping us to determine whether or not the anticipated moderate slowing down in industry is a temporary situation, as we think, or is an interruption of a more serious character. The questions that we have suggested have been framed with this problem in mind.

We wish to gather an impression as to the sentiment of business men at the moment regarding the political situation, their point of view towards making new capital investments, their inventory policies, their attitude towards European developments as they may affect decisions in respect to future commitments and similar questions having to do with the broader aspects of the business recovery.

We would welcome any suggestions that you may have regarding this general business check.

Ragnar D. Naess

P. S. I plan to go to Washington and to make a short trip to the Middle West spending part of the time with Mr. Heyman and part with Mr. McMartin.

P.S.
The causes of the 1937 decline will be added if that will be of value at the time of the check
J.P.B.

SUGGESTED TYPE OF QUESTIONS

The following questions may be helpful to the interviewer as indicating the type of information that will help us in analyzing the prospects for business:

I. Orders and Production

1. Incoming orders -- As compared with fourth quarter rate.
   As compared with early 1936 rate.
   What about cancellations.

2. Inquiries -- Any recent important change.

3. Unfilled orders -- As compared with 1938 low.
   As compared with early 1936 level.

4. Production rate -- Recent trend (seasonally adjusted).
   Does it reflect current level of orders?
   What per cent gain from present level before need additional capacity?

II. Capital Goods Prospects

1. Capital expenditure budget for 1939 vs. expenditures in preceding four years.*

2. Any recent change in 1939 plans.

3. Bricks and mortar vs. machinery and equipment.

4. Factors favorable to increasing capital expenditures -
   Development of new products?
   Already operating at or near capacity?
   Improving profits?
   Virtual elimination of surtax since 1937?
   Need improved machinery to offset higher labor costs?
   More confidence because of November elections?

5. Factors unfavorable to increasing capital expenditures -
   Capacity already adequate?
   Costs already sufficiently low to meet competition?
   Inability to finance?
   Fear of not securing adequate profits on new investment because of -
   Labor situation?
   Taxes?
   New Deal in general?
   European situation?

III. Inventories

1. Current level, and breakdown between raw materials and finished goods (including semi-finished) --
   As compared with June 1938
   As compared with December 1937*
   As compared with December 1936*

2. Status of customers' inventories?

3. Present inventory and buying policy?

4. Forward commitments?

IV. Price Trend

1. Finished goods.

2. Raw materials.

V. Labor Situation

1. Unionization status - present and prospective.

2. Wage rate prospects.

3. Efficiency level and trend.

VI. Profit Margin

1. Trend.

2. 1939 vs. 1938; 1937; 1936.*

3. What has been relative importance of the following factors causing change in margin between 1936 and 1939 -
   Prices?
   Raw material costs?
   Higher wage rates?
   Change in labor efficiency?
   Increase in taxes?

VII. Sentiment

1. Attitude toward outlook for -
   Business?
   Political situation?
   Monopoly investigation?

2. Effect on present plans in event of
   Outbreak of European war?
   Serious threat of war?

VIII. Financing Needs

IX. Questions for Banks

The chief aspects that can be covered by interviewing bankers (other than getting information from them regarding specific companies or industries) are such reflections as their loan figures and other information might give regarding capital expenditures, inventories, building and real estate.

X. Questions for Retail Trade

The usual questions on sales, prices, wholesale markets, inventories, purchasing policy, labor situation, type of buying (trading up or trading down? trend of installment sales? better gains in hard lines or in soft lines?) and capital expenditure plans.

* It is suggested that data for prior years requested on capital expenditures (II, 1), inventories (III, 1), and profit margin (VI, 2) be compiled before leaving the office and included in write-ups for comparative purposes.

GENERAL BUSINESS CHECK

January-February, 1939

Mr. McMartin (January 23 - 27)

Pittsburgh

Aluminum Co. of America
Blaw-Knox
Gulf Oil
Pittsburgh Steel
Jones & Laughlin
National Steel
National Supply
Spear & Co.
Pressed Steel Car
Carnegie Illinois
Union Trust

Youngstown

Youngstown Sheet & Tube
Youngstown Steel Door
General Fireproofing Co.

Akron

Goodrich
Firestone
Goodyear
General Tire

Canton

Hercules Motor
Timken

(February 6 - 10)

Chicago

American Steel Foundries
Pullman
Poor & Co.
Franklin Railway Supply
General American Transportation
Interlake Iron
Inland Steel
Ryerson
Pure Oil
Standard Oil of Indiana
Borg Warner

Mr. McMartin (Cont'd.)

Detroit

Chrysler
General Motors
Ford of Canada
National Steel
Kelsey Hayes

Cleveland

Republic Steel
American Steel Warehouse Assn.
Cleveland Cliffs Iron
Interlake Iron
Phillip W. Frieder Co. (Scrap Steel)
M. A. Hanna
Iron Fireman
Arthur G. McKee
Standard Oil of Ohio

Mr. Rawles (January 30 - February 3)

Connecticut Valley

American Hardware
Scoville Manufacturing
Chase Copper and Brass
Stanley Works
Farrel Birmingham

New York

Kennecott Copper
International Nickel
American Metal
American Smelting
St. Joseph Lead
General Cable
Revere Copper & Brass
Anaconda
Phelps Dodge

Mr. Ashley (January 30 - February 3)

Chicago

Fairbanks Morse
Crane
U. S. Gypsum
Lehon Co.

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Mr. Ashley (Cont'd.)

Chicago (Cont'd.)

Union Stockyards
Stein Brennan (Grain House)

Cleveland

Sherwin Williams
Cleveland Tractor
Union Trust
Behr Manning (abrasives)

Buffalo

National Gypsum

New York

Otis Elevator
American Radiator
International Business Machines
F. W. Dodge
International Stat. Bureau
Starrett Corp.
Lone Star Cement
U. S. Pipe and Foundry

Mr. Ashley (February 7 - 9)

Washington

FHA
FDIC
USHA
HOLC
Federal Reserve Board

Mr. Soule (January 23 - 27)

Philadelphia

General Refractories
Baldwin
Budd Mfg.

Wilmington

du Pont
Hercules
Atlas

Mr. Soule (Cont'd.)

New York

Union Carbide
Air Reduction
U. S. Industrial Alcohol
Texas Gulf Sulphur

Mr. Heyman (January 23 - 27)

Toledo

Owens-Illinois
Libbey Owens Ford
Electric Auto. Lite

Chicago

International Harvester
Deere & Co.
Oliver Farm Equipment
Farm Equipment Institute

New York

Westinghouse Electric
General Electric
American Can
Continental Can
Graybar Electric
Loew's

Mr. Bickford (January 16 - 20)

Hartford

Niles-Bement-Pond

Worcester

Norton Company
Melville Shoe

Boston

Kay & Barnes - Leather Brokers
Nat'l. Assn. of Wool Mfgrs.
United Fruit
Sacs-Lowell - Textile Machinery
Fiduciary Trust Co.
First National Bank
Associated Industries of Mass.
Filene's

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Mr. Bickford (Cont'd.)

Providence

General Fire Extinguisher Co.
Brown & Sharpe
Providence Braid Company

(January 30 - February 3)

Cincinatti

General Machinery
Cincinatti Milling Machinery Co.
American Tool Works
(Proctor & Gamble)

Chicago

Montgomery Ward
Sears Roebuck
Link Belt
National Acme
Chicago Flexible Shaft

Milwaukee

Allis-Chalmers
Cutler-Hammer
Bucyrus-Erie

Cleveland

National Machine Tool Assn.
Ogelby, Norton & Co. (iron ore)

Messrs. Bickford and Brown

New York

American Bureau of Shipping
Cotton Textile Institute
Pacific Mills
Interchemical Corp.
J. C. Penney
H. L. Green
Rayon Organon
Cluett, Peabody & Co.
Mohawk Carpet
Bigelow Sanford Carpet
American Enka Corp. (rayon)

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Messrs. Ives and Page

Utilities

Construction Budgets
American Gas & Electric
Business prospects of large industrial customers

Messrs. Ives and Fowler

Railroads

Interview individual railroads about prospects for equipment expenditures, maintenance expenditures, volume of traffic, possible railroad legislation, etc.

FOUR WALL STREET

January 16, 1939

Honorable Henry Morgenthau, Jr.,
2211 - 30th Street, N. W.,
Washington, D. C.

Dear Henry:

I hesitate to flood you with material, but in your conversation the other day you asked for it - and I am inclosing two memoranda, one being our own best view as to the part that deficit spending in the form of 'net contributions' plays in the American economy; the other, "Expressions of Business Men Regarding Causes of the 1937 Business Decline", which were given to us at the time the decline was going on. I think them particularly interesting in view of what has happened since. We are now going out to this same group and to many others, and are asking them what they think about it as they look back over the last two years; and when this material is at hand I will send it on to you. In the meantime, the conclusion that I draw from the two memoranda is that no one actually in business felt that the decline in Government spending was one of the major causes of the business decline; that, on the contrary, our friends felt that there was ample cause without this decline in Government spending. Naess' views -- which are mine -- are expressed in the theoretical memorandum, and we feel that the cut down in Government expenditures, having come at a time when a decline was already due, undoubtedly accelerated that decline somewhat but was not one of the main factors contributing to it.

With best regards,

Faithfully yours,

Earle

Enclosures.

EFFECTS OF GOVERNMENT SPENDING ON THE ECONOMY

I. DEFICIT SPENDING IS ONLY ONE OF MANY FACTORS AFFECTING THE ECONOMY. IT IS NOT A CAUSE OF BUSINESS DECLINES OR RECOVERIES.

A. In terms of the cash deficit the deficit has ranged between 3.5 per cent and 8.7 per cent of the national income paid out. From the point of view of the net contribution to community spending power, as defined by the Federal Reserve board, the ratio to national income paid out has ranged between 1.4 per cent and 1.6 per cent.*

The fluctuations in total production of the country or in national income paid out over a period of many years have been substantially greater than the proportion of either actual deficits or the net contribution to community spending power to national income produced or national income paid out. These fluctuations result from the normal underlying economic forces. It is common place knowledge that at certain times overexpansion takes place in industry attended by speculation and that such periods are followed by contraction and liquidation. The changes in the level of output of the economy, resulting from these forces far exceed the changes that may result from deficit spending of the magnitude of the last few years. Therefore, deficit spending must necessarily be considered as one element only and its effect at any given time will entirely depend upon conditions

*Net contribution to community spending power is arrived at by making adjustments in the Treasury figures, eliminating certain items of expenditures which supposedly do not directly add to spending power and eliminating certain items of receipts which supposedly do not detract from community spending power.

of the economy at the time. Such spending can, at most, have a modifying effect upon these fluctuations in business.

II. GENERAL LONGER-RANGE EFFECTS OF SPENDING

A. It seems beyond question that deficit spending has an unfavorable effect upon the willingness of the business community to make long-range commitments. The uncertainty created by a monetary policy involving as an important factor deficits over a period of years does unquestionably affect the character and amounts of long-term contracts and thereby influences adversely new capital investments.

B. Deficit spending carried on in large volume over a period of years must necessarily have an undermining effect upon the nation's credit and would tend to create an untenable inflationary spiral if past history is any guide. Inflation inevitably leads to financial, political and social chaos.

The United States is in an exceptionally strong position from the point of view of productive resources as well as from gold reserves to stand deficit spending. This does not mean, however, that continued deficit spending will not ultimately bring about its normal and time honored consequences and neither does it mean that it can be carried on without adversely affecting the investment of private capital. Deficit spending, as a policy, is only one of several features of the Administration's program, having an adverse effect upon the confidence of the business community. Other policies, as expressed in the various reforms carried through in the last few years, for example, either in respect to labor or in respect to the devaluation of the dollar, would also tend to have an unfavorable effect upon business confidence.

III. THE EFFECT OF SPENDING VARIES WITH THE TYPE OF SPENDING

A. It is impossible to determine exactly the effects of deficit spending upon the economy. The economic consequences of various types of deficit spending may be illustrated by the following examples:

1. Spending for direct relief will tend to increase the purchases of goods and services by the unemployed and thereby tend to increase total consumption.

2. Support of corporations such as railroads, banks and insurance companies during periods of emergency tends to soften the blow of the crisis. The exact measure of relief from the seriousness of the crisis by such spending is indeterminable.

3. The agricultural benefit payments or loans represent a subsidy at the expense of the industrial population. The loan policy artificially maintains prices of agricultural products at non-competitive levels in the world markets. The price of cotton today in the free market might well be five cents instead of 8½ cents. There is no doubt that the higher price is one important cause of the record low level of American cotton exports.

4. Spending for public works and utilities has a beneficial effect upon certain sections of the economy by reason of the stimulation from government orders. To what extent this stimulation is offset by the retrenchment in expenditures by private utilities is debatable. But there is no doubt that the TVA has had an unfavorable effect upon private utility spending.

5. Spending for armaments also has a concentrated effect in certain branches of the economy but can be of no major significance in the economy as a whole, unless carried to the extremes found in such a country as Germany.

The effects of deficit spending on the economy depends to a great extent upon the type of expenditure. Some types of expenditures are not only unproductive but wasteful and have a net detrimental effect upon the economy. Spending to keep the unemployed from suffering is socially and economically justified but spending that maintains agricultural prices at non-competitive levels is detrimental to the community.

IV. DEFICIT SPENDING AS A FACTOR IN THE LAST BUSINESS DECLINE

A. The 1937-1938 business decline was the result of basic economic forces such as excessive inventory accumulation, large forward commitments in raw materials, speculation in sensitive commodities, too rapid a rise in certain sections of the capital goods industries such as machinery and equipment and too rapid a rise in labor costs.

B. These developments began to have a cumulative effect during the last half of 1936 and by early 1937 had become sufficiently important to make a decline inevitable. The retrenchment in spending happened to occur at a time when contraction in business was unavoidable. Its effect upon the economy, therefore, might have been one of tending to accentuate the decline but could not be considered as a basic cause of the decline any more than the increase of reserve requirements, the President's statement regarding too high prices during the spring of the year or the lifting of margin requirements.

CONCLUSION:

The 1937 decline was accentuated somewhat by retrenchment of deficit spending but a severe business decline was unavoidable quite regardless of the change in spending policy at the time. Deficit spending affects unfavorably the long-range confidence of the business community as well as the long-range financial soundness of the country. In its effect upon the shorter-range fluctuations of the economy it is only one of many factors and among the less important. Retrenchment of spending might tend to accentuate a decline in business (the decline being the result of basic economic forces). An increase in spending might tend to accentuate a rise in production (the rise resulting from basic economic forces). The consequences of deficit spending also depend upon the direction and type of expenditures. Some types of spending have an ultimate effect of contracting instead of expanding production.

FEDERAL GOVERNMENT DEFICITS, NATIONAL INCOME, ETC.

ACTUAL AMOUNTS
(000,000)

	Net Contribution	Actual Deficit	National Income Paid Out	National Income Produced	Wages and Salaries
1940					
1939					
1938	2,000 E	2,499	64,400 E	58,500 E	43,000 E
1937	985	2,411	69,330	69,817	46,728
1936	4,145	5,468	62,586	63,466	41,906
1935	3,360	3,963	55,137	55,186	36,679
1934	3,230	3,802	51,510	50,052	34,051
1933	1,880	2,239	45,317	42,256	29,596
1932	1,830	2,716	49,024	40,014	31,563

CHANGES OVER PREVIOUS YEAR
(000,000)

	Net Contribution	Actual Deficit	National Income Paid Out	National Income Produced	Wages and Salaries
1940					
1939					
1938	+1,015	+ 88	-4,930 E	-11,317 E	-3,728 E
1937	-3,160	-3,057	+6,744	+ 6,351	+4,822
1936	+ 785	+1,505	+7,449	+ 8,280	+5,227
1935	+ 130	+ 161	+3,627	+ 5,134	+2,628
1934	+ 350	+ 563	+6,193	+ 7,796	+4,455
1933	+ 50	- 477	-3,707	+ 2,242	-1,967
1932	-	-	-	-	-

FEDERAL GOVERNMENT DEFICITS AS % OF NATIONAL INCOME, ETC.
NET CONTRIBUTION OF THE FEDERAL GOVERNMENT A % OF NATIONAL INCOME, ETC.

	Deficit as % of		Net Contribution as % of	
	National Income Paid Out	Wages and Salaries	National Income Paid Out	Wages and Salaries
1940				
1939				
1938	3.90	5.80	3.12	4.65
1937	3.45	5.15	1.42	2.11
1936	8.72	13.05	6.62	9.90
1935	7.18	10.80	6.10	9.15
1934	7.38	11.18	6.27	9.50
1933	4.93	7.57	4.15	6.35
1932	5.54	8.60	3.73	5.80

January 16, 1939

EXPRESSIONS OF BUSINESS MEN
REGARDING CAUSES OF THE 1937 BUSINESS DECLINE

R. Pritchard, Vice President, The Stanley Works, December 7, 1937

"Because of the alarming and uncertain Washington policies, industry has believed for four years that it was 'better to have goods than cash'. This conviction was the excuse for excessive stocking although throughout this four-year period none of us would admit that we were speculating. We got so used to believing that 'it is cheaper to manufacture now than it would be three months later' that we gradually lost sight of the speculation that was under way."

Chairman Weir of National Steel, March 22, 1938

"The business decline is the result of New Deal policies."

Treasurer Hesse, National Steel, November 11, 1937

"We are now paying the price for the artificiality of the recent recovery."

Blakeslee, President of Kalamazoo Stove, July 1, 1937

"There has been a letdown in business, and from what I can learn from the men in the field, it is not only the effect of strikes, but the attempted unionization of workmen in many plants. They have a feeling of uncertainty which naturally would make them hesitate to oblige themselves for a major purchase such as one of our products."

Cheff, Vice President, The Holland Furnace, June 29, 1937

"Sales have been somewhat erratic and have had a tendency to dry up every time there has been some bad labor news."

September 14, 1937 - "more than any other thing causing working men to delay signing contracts for furnaces was their uncertainty over the labor situation." Time and again Cheff was confronted with the statement that if there wasn't a strike the man would buy.

Shaver, Treasurer, U. S. Gypsum, July 1, 1937

"Clean up the labor situation and the Washington muddle, and business will take care of itself."

Leonard, President, Union Stockyards & Transit, September 18, 1937

"It isn't so much how radical or far-reaching legislation may be, it's the inability of business men to gauge what is coming that is causing the damage. If the Administration would only come out directly with its whole program, drastic as it may be, businessmen could trim their sails accordingly."

President Weyerhaeuser of Weyerhaeuser Timber Co., September 17, 1937

"Having over-estimated the demand for this year, many of them over-stocked. Currently, therefore, the inclination is to work off stocks and wait until the picture is more clearly defined before reentering the market."

Vice President Oliver Powell of the Federal Reserve Bank of Minneapolis

Attributed the decline in business in the Northwest to the continued effect of curtailed relief expenditures, and a failure of farmers to spend.

Crane Company, September, 1937, President Nolte

Three factors:

1. Excess stocking in the early months of the year.
2. Unsatisfactory labor situation.
3. Uncertainties in Europe.

President Sutherland of Sutherland Paper, September 13, 1937

He regarded concern over the foreign situation as the major cause of the downturn.

Salesman for Poor & Co., September 18, 1937

Stated that railroads had stopped all buying until the wage problem was settled. "If wages are increased and tariffs are not advanced, a large number of roads plan to make out the best they can with present equipment because they have no money to spend."

Cluett, Peabody, June 1937

Purchased a year's upply of cotton goods. Earlier in that year the company's profits would have been severely squeezed by the high prices then prevailing. As the outlook in June appeared to be one of continuing business improvement, the company welcomed the opportunity to cover its requirements on a "break" in the cotton goods market. (Subsequent declines in prices caused a large inventory loss and the inventory surplus was not cleaned up until December, 1938.)

Providence Braid Company

Overbought its rayon requirements because it had been advised by its supplier that there would be a shortage. (Several plants in the Providence area actually had to reduce operations in the spring because of a lack of rayon yarn.)

International Shoe Company

One of the large retail chains was warned of a price advance in shoes by International Shoe Company. A large order was placed at the old price for fall requirements and production and shipment of this order were completed by June 30, 1937. Ordinarily the production and shipment of such an order would not be completed before September 7.

M. T. Baker, President, National Gypsum Company, September, 1937

"Why isn't there more building? You have the potential demand, and you have the financial ability to buy. In my opinion, the element that is missing is the feeling of security on the part of the workman which he needs before he makes such a major investment as buying a house. He isn't sure, first, whether the sharp wage advance forced by his union is going to stick, or secondly, whether he has a steady job or is going to be called out on strike or laid off by his employer. So long as the air is full of labor agitation, there isn't going to be as much house buying or construction as there ought to be. The reason I am now pessimistic over the outlook for sales this fall and perhaps next spring is that I see more strikes ahead — Ford, National Steel and all the rest. I told my associates during the steel strike last June that we would have to take one year out of the building industry's cycle. In other words, what we first planned for 1937 we probably now won't get before 1938."

B. B. Williams, President, Cooper-Bessemer Corporation, January, 1939

"Our new orders began to fall off just as soon as the CIO unionization movement approached its peak. It affected us both directly and indirectly. We had to raise wage rates and increase prices. As a result, we lost most of our marine business. The price of fish hadn't gone up, and the fishing fleets simply couldn't afford to pay more for diesels. Even more important, however, was the effect upon our industrial customers. Things were happening to them so fast that they simply became scared over the future outlook, and when they are scared they don't make long-range capital investments of a hundred thousand dollars or more for new engines and compressors."

Recd 3.15 P.M. Jan 23, 1938

THE WHITE HOUSE
WASHINGTON

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PERSONAL AND CONFIDENTIAL

January 21, 1939

MEMORANDUM FOR

The Secretary of the Treasury
The Postmaster General
The Secretary of the Interior
The Secretary of Agriculture
The Secretary of Commerce
The Secretary of Labor

I think it would be a good idea if you would take a public position either by statement or speech in favor of the position taken in my annual message to the Congress as well as in the Budget message - - a policy generally known as the "compensatory fiscal policy". We must present our case to the country - - the objective of an eighty billion dollar national income and the avoidance of any action on the part of the federal government by way of stopping operations or by way of curtailment of credit.

For instance the Secretary of the Treasury could explain the soundness of the case. The Secretary of Commerce could do it with the aid of the more liberal members of the Business Advisory Council. The Secretary of Agriculture could do it with the objective of education of agricultural interests. The Secretary of the Interior could speak on the same subject from the angle of conserving material and human resources.

None of us can afford to be apologetic. Economic soundness of the policy is already recognized by many economists and business men in this country, and even more so in Sweden and other places.

I suggest you talk with Lowell Mellett about arranging radio presentation or newspaper coverage.

F. D. R.

FDR

RE COMPENSATORY BUDGET AND RECOVERY
(Held at 2211 30th)

January 25, 1939.
4:15 p.m.

Present: Mr. Hanes
Mr. Bell
Mr. Gaston
Mr. Duffield
Mr. White
Mr. Haas

Haas: I don't know how you want me to start?

H.M.Jr: There are two things I asked for. I asked for the important statements which were made during the last five or six years that affect our national economy. But inasmuch as Bell wants to get back, why don't we do the one that has to do with deficits going back the last ten years? Let's do that one first.

Haas: Here it is.

H.M.Jr: Let's see.

Haas: Now, this, Mr. Secretary, is the deficit figure that's been supplied by Bell's shop - it runs back to the beginning of 1930 - total net cash outgo. And here's a curve representing general business - the Times curve - only it's a monthly index of it - that figure going here.

And over here are some selected important statements made, and the time they were made is indicated right where these lines go.

H.M.Jr: I see.

Haas: See - here.

H.M.Jr: Do you think there is any correlation?

Haas: Well, here - Eccles and his speech explained this away by saying that at this period this deficit here didn't count because it was due to a decline in receipts. But over here in the same speech he points out the decline in this deficit here was responsible - was an important factor in bringing about this business decline, whereas this deficit was due largely to an increase in receipts. In other words, he switches his logic. In explaining this, he uses a different set of logic than he does when he explains this situation over here. In other words, he doesn't take the net deficit concept and keep it uniformly through...

H.M.Jr: I've got to lie on my stomach and read this thing - the only way I can do this. Don't you think so?

Haas: Do you want me to read those?

H.M.Jr: I'd make the deficit line red.

Haas: Red? All right.

White: Appropriate.

H.M.Jr: What?

White: It's appropriate.

Bell: I was going to say that.

H.M.Jr: The dotted one is the ....

Gaston: That's the net cash, not budgetary deficit; the net cash outgo of the Federal Government.

H.M.Jr: I've got to lie on my stomach and read this thing.

Haas: Everybody through here - there was nobody - we looked over, as you asked to look over, all these statements. I've got a summary of that with me too. You notice all these statements here - we were worrying about a boom, if you'll read those; nobody was talking about this thing going on. I mean the President was talking that the - everybody was concerned that we were going - concerned with spending rather than the lack of it. And you notice there the statements of Eccles; at different times he wanted to increase taxes and balance the budget - he said were essential.

H.M.Jr: Why some here and some here?

Haas: We couldn't get all of them.

H.M.Jr: Well now, let's just see.

"March 17. Wallace says Administration fears business boom and collapse; is working on preventive measures.

Haas: That's right up here.

H.M.Jr: "March 15. Eccles urges higher taxes to avoid inflation; afraid of continued easy money ...... balanced budget."

This is all '37. Too bad - haven't you got anything running chronologically?

Haas: No, we couldn't. Here they are on this chart. This is one we made a year ago for you. (Presents second chart)

H.M.Jr: Is this thing - is everything here there?

Haas: There's more on this.

H.M.Jr: But everything that's here is there?

Gaston: Is the net cash outgo on that one, George?

Haas: Yes, I put it on.

Gaston: That's probably the more interesting chart.

H.M.Jr: And all these statements here ....

Haas: Those statements there, Mr. Secretary, are the ones I marked in blue.

H.M.Jr: Why blue?

Haas: Just to flag the more important ones.

Gaston: All the rest of those flags are also important ones.

H.M.Jr: I can't remember seeing that.

Haas: There's a big memorandum - you asked us to go back to July '36, and this is one of the charts.

White: No, I prepared that for you, George, two years ago, but you never showed it to the Secretary.

Haas: This is the one we used in working up that memorandum.

White: We had another larger one.

H.M.Jr: Have you got that one?

White: Seven feet long. We can get it right down. Take a few minutes to get it here.

H.M.Jr: Well ...

White: Have it here in ten minutes.

H.M.Jr: Why don't you go to the phone? Because I can't read this thing.

Hanes: This is hard to read.

H.M.Jr: Yes.

Haas: If you had it on a desk, it would be all right.

H.M.Jr: Are these things in the seven-foot chart?

Haas: This is just a photograph of the seven-foot chart, except the seven-foot chart doesn't have the red line on it. I had that on ....

H.M.Jr: What's the red line?

Haas: Net cash deficit. You see, at that time, Mr. Secretary, nobody was talking about that. It wasn't, you know - that was very minor.

H.M.Jr: I never saw this.

Haas: That one?

H.M.Jr: No, this one.

Haas: Maybe you didn't, but you saw the memorandum. You never saw the chart.

H.M.Jr: There's a seven-foot chart.

Haas: Uh-huh. You see, here - we put some of it up here and some up here, and what we didn't have room for we put down here. For this month, you see, there were these other items.

H.M.Jr: I see. That's exactly what I want.

Haas: Is it?

H.M.Jr: Yes.

Bell: That's a nice chart.

Haas: I blued the ones which were most important.

H.M.Jr: But the red line is the ...

Haas: The cash deficit, see? And here when the President was worried, you know, about expenditures and so on, on the net cash deficit we're almost in a balanced budget. And there's when he made the price statement, you see. Cash is almost balanced; had a deficit running monthly of 15 million dollars.

Bell: I just thought if one of the boys were going back, I'd send this.

H.M.Jr: I won't keep you long.

Haas: This is - here's the bond market break, following the reserve - change in reserves.

Hanes: Change in reserve rates came here.

Haas: Right here.

Hanes: Yes.

Haas: Then here's the prices and here's the Times index.

One thing - we had to make this rather flat in order to get all this stuff on.

H.M.Jr: But, Harry, you say you made this two years ago.

White: A year and a half ago.

H.M.Jr: And I never did see it.

White: No.

H.M.Jr: I don't remember it.

Haas: Saw a memorandum which was based on this.

H.M.Jr: But on the big seven-foot chart, the only one you'd have to add is the red line.

Haas: That's all. It's not up-to-date, but this period you're discussing is on it.

White: We can bring it up-to-date very quickly. Not up-to-date, but it runs up to '38 - the end of '38.

Haas: The end of '37.

H.M.Jr: Did we have a balanced budget there?

Haas: Here you had a surplus and here - right over there.

Gaston: On a net cash outgo basis.

Haas: This is the zero line.

H.M.Jr: Where is the Times index?

Haas: The Times index is here. Kept going, reached a high there.

Hanes: Reached the high when you had the balanced cash outgo.

Gaston: We had it for several months; crossed the line ....

Hanes: That doesn't prove his theory, does it?

Gaston: It's a month and a half later that we reached the high point. Month and a half after we had crossed the line.

Haas: Of course, you get quite a little out of that one over there too.

Gaston: In fact, this bulge over here almost exactly coincides with the period when we were on a surplus basis. The top of the bulge in business almost corresponds to this period here when we were on a surplus basis, getting in more than we were paying out.

Bell: Eccles would contend that was the lag and it hadn't affected that yet.

White: I should be very hesitant to use those figures that way, because everyone, I think, would agree that there is a very definite lag in the effects on business from budget running anywhere from a month to seven or eight months, depending on the period.

H.M.Jr: Well, taking this period here - if you started here from there ....

Haas: Here you had a boom.

H.M.Jr: From there to there is how long?

Haas: That's about - it's one, two, three, four, five - not five months.

Hanes: Seven months down to April.

H.M.Jr: That was when you had the biggest boom with the stocks.

White: At that same period it's interesting to bear in mind that inventories were rising and ....

Haas: So was business.

White: Yes. I say inventories were rising, and the very momentum which was caused by that gave us sharply rising business, which I think can be seen more clearly here. That period of rising business here is very sharp and could be expected to carry forward for several months.

Gaston: Here you get the peak of the pre-Roosevelt spending through the R.F.C. and there you get a hump two or three months later which might have some relation to this hump here. But your big shoot-up here was obviously due to the fact that a new administration came in and there was some hope of confidence. There wasn't then any very great increase in spending; there was some, but you get this - you get that huge ....

Bell: Went down in the economy period.

Gaston: It went down there, yes.

Hanes: While that was going up.

Gaston: That's true. Then it comes down here, then it comes way up here, and then you get a response, possibly, in that hump there, which followed by about three or four months, and then again the same thing here.

H.M.Jr: I wouldn't say that that would prove either way.

White: That's right.

H.M.Jr: I don't think it proves anything.

White: I think that it merely points out that there are a lot of other important factors.

H.M.Jr: But also that this doesn't prove anything.

White: Well, I tell you, some would say there is some similarity - some similarity if you look at this in the large. Here you have your period of business activity sharply declining and this increase beginning there; could not put a brake on that yet, but it takes a little while for it to get going, and it did begin to get going, and after a few months' lag you had a higher level, and here you maintained a pretty high level of expenditure. That represents over - about 150 million dollars a month.....

Gaston: Yes.

White: ... additional expenditure right through here, and you began to have a very sharp increase in business activity and you began to carry through. Even though the fact you curtailed your contribution - not the expenditure but the contribution was curtailed - there was enough momentum in this thing to carry through on the basis of rising prices, strikes, all the other factors you enumerated.

Gaston: The hangover of that bonus thing had some effect. That was gradually fed out.

Haas: The bonus affected it, though, even before.

White: Most of it was, it is true, after - at least, that would be my thought.

Gaston: You could lay a great deal ....

White: I'm giving the interpretation others might give. Then a portion of the support was pulled out of it; there were also other supports pulled out on the part of private industry in consumption. But this main support - let that drop; you're way down to below anything but '32. Then you had here - with the supports removed, you had all these various statements being made which hit the thing and, coupled with the reduction in supports of consumption - a combination of those factors.

H.M.Jr: I think the statement I made, that you can't prove a balanced budget helps business, you can't prove spending helps business ....

Hanes: I think the most outstanding thing that impresses me is that the greatest impetus to business improvement is confidence, and the lack of confidence here, improved confidence here, and I think the increasing confidence there, had as much to do with the rise as anything else.

H.M.Jr: I'd go along with that. I'm going to look into Eccles' statements; I just want to take his statements alone; in other words, is he a good witch doctor or isn't he?

White: Probably be better to get the exact quotations, which we have.

H.M.Jr: I'd just take his statements alone - his and the President's statements.

But what I claim is - I don't say that my speech of November 1937 could make the country prosperous, but I still maintain it was right - on the right angle; and immediately following that came Ickes' speech and Bob Jackson's speech, just raising hell, and we never had a chance to see what would happen.

Haas: Well, and they had the private spending strangled after the increase in excess reserves. What it did to the bond market - cut off all - remember, John, right there, all the new issue market was just ruined; all the underwriting companies - the hundred million dollars capital they had was all tied up following that.

H.M.Jr: I think we're going to get something very interesting out of this.

Haas: Here's a comparison - thought you might be interested - comparison of the net deficit and national income.

H.M.Jr: Excuse me - did you (Hanes) read the thing Gaston gave us?

Hanes: Yes.

H.M.Jr: That's all right; I think he handled it very well.

What's this?

Haas: That's national income and the net cash deficit.

H.M.Jr: Which is which?

Haas: Here's the net cash deficit, going up, and here's national income. Thought you might want to see that. Looks something like the business curve.

Here's one that Jake asked me to make up. He said this curve he uses to represent industrial buying.

Gaston: Here's a copy of the Eccles speech, if you want to read it, in manuscript form.

H.M.Jr: This is what Jake wanted.

Haas: This new orders index he takes as representing industrial buying, and then this index which we worked up, which is a fairly high index - consumer buying in terms of physical volume, price factor taken out - that's this line here, you see. Here's your industrial buying, here's your cash deficit, this red. You notice this went down here. You had this big boom in industrial buying. Consumer buying continued right on too, didn't break until way over in here, in terms of physical quantity. In other words, in terms of shoes and so on, this is what happened. This break in new orders came right at the time of the change in reserve requirements, and this black line is the F.R.B. index of industrial production. And one reason that this kept up like that after new orders fell down is that they had unfilled orders to carry them, and they had increased even - there was even a rising in orders after Labor Day, you recall.

White: There's one point to this, too; not only do you have to explain this, but you also have to explain that. I mean I think it's a little bit dangerous to ...

H.M.Jr: Oh, Harry, the interesting thing is in explaining this. This rise in spending came, I think, three or four months before the bill passed the legislature.

White: Well, I mean - I presume this is the curve - I imagine that's what he had, here - this is the curve of expenditure.

H.M.Jr: But, you see, the curve - this thing started - the bill didn't pass until June 24, I think, or June 22 - the so-called spending bill..

Bell: June 21.

H.M.Jr: June 21. At least, it wasn't signed until then.

Bell: Wasn't signed, yes.

H.M.Jr: And we turned the corner on the net deficit long before that. As a matter of fact, the effect of that spending bill - I suppose if we begin to look at the things that went out, I don't suppose that there was any effect of that much before the first of October.

Gaston: He's speaking of the net cash outgo; not of that particular bill, but of the net cash outgo. Here's the turn in your net cash outgo.

H.M.Jr: But just the same, what I'm trying to get at is that the net recovery - I mean the recovery bill had very little to do with the increase in the deficit or net spending, whatever you want to call it. That's all I'm trying to say.

Haas: I think that curve coincides more closely with the desterilization of gold, taking the credit brakes off, right along that period - psychological effects.

Bell: Of course, when you started up here in your net cash outgo, there was a falling off in your receipts.

Gaston: I think that creates the impression that this net cash outgo does have an important effect on business activity, but that there are a great many other factors.

White: I would say it would be kind of unfortunate and dangerous if the position were taken that that does not have such implications.

H.M.Jr: Harry, no position is going to be taken by me until we have an exhaustive study. This is the first time; I want everybody in the room to put his brain on this thing, that's all. And as I told you the other day, my mind is completely open. I want to find out, if I can ...

White: I wasn't thinking of the ...

H.M.Jr: No - may I finish? What happened the last two years is - anything we can get on that would be helpful the next two years. That's all I want. Maybe there isn't anything here we can learn.

White: What I had also in mind, Mr. Secretary - I think there is a lesson here that spending is one of the factors affecting the business situation. I think the most important lesson here is that it was the mismanagement of the spending, because when you cut off your capital markets then you cut off private spending, which you had to use to go ahead.

H.M.Jr: Well, there is one thing in it; somebody is going to have an awful hard time to convince me of: that you can talk up recovery.

White: Talk?

H.M.Jr: Talk it.

White: You mean that you can't make it by bullish statements?

Gaston: You can talk it down, I know that.

Hanes: You can kill it pretty easy.

H.M.Jr: I mean I've been lying in bed here for two days, and the subject - as I say, instead of a lot of pounding, the great thing of an 80 billion dollar national income is to let people go to work without trying to pound them, and say nothing.

Gaston: I think these statements possibly are pure self-defense and they'll be injurious.

White: No question statements won't help.

H.M.Jr: Harry, that's what I'm trying to get at. Now, the President is trying to get me to make a statement. Before I make a statement, I want to be a thousand and one percent sure that I'm going to help recovery.

Bell: He's asked you to make one?

H.M.Jr: Sure. That's the purpose of this whole thing.

White: I'm very skeptical that statements would help recovery. The only thing a statement might do is to make possible ....

H.M.Jr: He's asked me to make a statement to convince the public as to the soundness of an 80 billion dollar national income.

Bell: I didn't think you'd have to make a statement to convince the public; if you had it ....

H.M.Jr: That's the whole purpose of this meeting.

Gaston: Statement on the usefulness of deficit spending. I don't think more statements of that sort are good.

H.M.Jr: I'll let you (Hanes) and Dan go back, and I'm going to chew this over with the other boys some more.

Hanes: Will you give me a copy? I'll take that thing home and go over it with a magnifying glass.

Haas: Here's the memo that goes with it.

H.M.Jr: Leave the memo here, but get one for Hanes. And you fellows go on back, and if you others will stay, please.

Bell: If this thing, Herbert - if this line here had an influence on that, then it seems to me the thing to do is reduce taxes, not increase them.

Gaston: I wouldn't say that, because there are some other reasons that come in here.

White: We must be careful, in objecting to one extreme, not to go to the other.

Haas: I agree with you a hundred percent.

White: You wouldn't say to curtail expenditures all down the line and you'll get better business.

Bell: I think we've all taken that position that a drastic cut is going to be disastrous. But get some sense in the thing.

Gaston: There's got to be some sense in any program they adopt.

White: That's right.

Gaston: I think we're all pretty damn close together on the thing.

Haas: Well, I know .....

White: What I'm afraid of is that in the eagerness to demonstrate that you can't accomplish wonders by this, you're liable ...

Gaston: ... to make statements that we all know aren't true.

White: ... and make ourselves vulnerable. There is a relationship. If you were to step up expenditures today by a couple ....

Gaston: I think Eccles and his crowd overestimate the importance of that factor and tend to underestimate some other factors.

White: That's possible, although his last speech was pretty moderate.

Gaston: I thought so. His last speech was quite moderate.

(H.M.Jr leaves room for about twenty minutes)

(White sets up the seven-foot chart previously referred to, entitled, "Some Economic Indices and Some Important News Items - Daily")

(H.M.Jr returns)

H.M.Jr: You've got the big one.

Gaston: There's a couple memoranda on the Eccles speech. Mr. Seltzer's analysis and appraisal; I extracted the highlights - highlighted his speech. And here are George Haas's shop's answers to those economic propositions that he made.

(H.M.Jr inspects big chart)

H.M.Jr: Well, there's a lot of stuff here that ....

White: Well, the selection of data - we wanted to show that some statements that were sometimes held to be important and sometimes events that were held to have had effects, did and at other times did not have such effects. So there are quite a few on there which really had no pertinence to it.

H.M.Jr: You haven't got the one, George, yet, that you took out to show Jake Viner? That isn't finished, that statement?

Haas: Oh yes, this is - this is the one. Rather than copying it, I got that out of your files. I think you read that one time.

H.M.Jr: Yes.

Haas: Because I remember, after thinking it over ....

H.M.Jr: Did you show this to Jake Viner?

Haas: Yes, he went over that, took about four hours.

H.M.Jr: Any corrections?

Haas: He made some comments, but on the whole he thought it was very good; and he had us put together some more material which he was going to look over Friday, but he didn't have time.

H.M.Jr: Well, I think I've got enough to read here, don't you?

Gaston: If you haven't enough, I've got two very interesting editorials on this general question by David Lawrence and almost a more extreme position in the Waley-Eaton publication "Sphere," on this whole question of spending and its importance in the economic picture. Dave Lawrence is surprisingly broad-minded and moderate in his discussion.

H.M.Jr: What I'm trying to do, Gene, is this. The President wrote this letter that he wants five or six members of his Cabinet to get on board and back up compensatory ...

Gaston: Do you want it?

H.M.Jr: Read it out loud. Then we can all have it.

Gaston: "Memorandum for the Secretary of the Treasury, Postmaster General, Secretary of the Interior, Secretary of Agriculture, Secretary of Commerce, Secretary of Labor.

"I think it would be a good idea if you would take a public position, either by statement or speech, in favor of the position taken in my annual message to the Congress, as well as in the budget message, a policy generally known as the compensatory fiscal policy. We must present our case to the country: the objective of an 80 billion dollar national income and the avoidance of any action on the part of the Federal Government by way of stopping operations or by way of curtailment of credit.

"For instance, the Secretary of the Treasury could explain the soundness of the case; the Secretary of Commerce could do it with the aid of the more liberal members of the Business Advisory Council; Secretary of Agriculture could do it with the object of education of agricultural interests; Secretary of Interior could speak on the same subject from the angle of conserving human materials and resources.

"None of us can afford to be apologetic. The economic soundness of the policy is already recognized in England, and even more so in Sweden and other places.

"I suggest you talk with Lowell Mellett about arranging for radio presentation or newspaper coverage."

H.M.Jr: May I have that? So you fellows can put your minds on it, see? See what you think of it, huh?

Duffield: Basically that's - I mean this chart is the one that's got to show whether it works or not, doesn't it? This is your deficit spending and your national income. Now, to achieve 80 billion dollars by deficit spending, these things have got to go together.

Haas: Of course, the President doesn't say that. He includes a lot more than that - that letter. He doesn't put it all on that.

Duffield: Compensatory budget.

H.M.Jr: He puts it - for instance, the question of credit, opening up of channels, and so on.

There's no sign of their going together here, is there?

Duffield: I was trying to find it.

H.M.Jr: As a matter of fact, I think it's perfectly remarkable the way the national income has been moving upward. What's the low here? You've got a note.

Haas: The low in national income? On a yearly basis?

Duffield: This is monthly.

Haas: That's monthly over there. The low is in - I presume in '32, then. No, I guess not; it was in March '33, wasn't it? The value figure.

Duffield: It's just over one of the big division lines; it must be March.

Gaston: Dave Lawrence takes a very interesting tack, very interesting tack.

Duffield: I understand Ben Cohen's been paying visits down there.

Gaston: He says there is something wrong with free enterprise.

Duffield: Great concession from him.

White: Dave Lawrence says that?

Gaston: Yes, and we can't sharply cut off expenditures; and business is not going to organize itself to take care of the credit problem and the thing to do is further government organization in the credit field along the lines of what we have done in Farm Credit and Home Owners Loan; we need to take care of the little man, small business man, and we need a better type of credit organizations under government auspices to give the banks paper that they can handle.

Haas: I thought you'd be interested in seeing that figure.

H.M.Jr: Did you do this new?

Haas: I just did that a little while ago.

H.M.Jr: I think it's - this is one of the most interesting charts I've seen.

Duffield: I like that one.

White: Is that the relationship of national income to deficit spending?

H.M.Jr: Uh-huh.

White: There was a chart put out by the Federal Reserve Board two or three weeks ago - I don't know whether you've got it, George - on which they showed that on a six-months basis, with a six-months lag, and it seems to show - they show the opposite; they show we had a lag.

Duffield: How can they justify a lag that's a good assumption?

White: If you put it on a six-months basis, you've got a very definite ...

Haas: It would help out over in here.

White: I don't know - have you seen that chart?

Haas: I'd like to.

H.M.Jr: What I draw from this, going back, Harry - the point I get here - this is on a three-months moving average - I consider this a most encouraging chart, because the national income - I mean if you draw a line right through the middle there, then the thing is definitely going up.

White: The trend is upward.

H.M.Jr: The trend is upward.

Gaston: Put it on a three-months moving average basis ...

H.M.Jr: This is three-months.

Haas: No. The deficit is on a three-months, but these are actual monthly figures.

Gaston: Those are actual monthly figures. ...you'd smooth that out.

H.M.Jr: Well, the trend is definitely - looks as though the trend was definitely up. The national deficit is just all over the lot. Put in the dates for me; give me that Monday. Take a look at it.

Haas: Would you like to see how the Treasury figures agree with Currie's? Just at a glance, pretty close, you see. I mean any conclusion.....

H.M.Jr: Close enough ...

Haas: .. so the conclusions would be the same.

H.M.Jr: Yes. Wouldn't you (White)?

White: Yes. Wouldn't get any different conclusion.

H.M.Jr: No. What were you saying, Gene?

Duffield: I've never been convinced that it is a valid assumption to assume that the effect of these disbursements lags after the disbursements. I've sometimes thought that the - I mean he's saying that if you put this on a six-months lag you'll see the things will follow right along. I mean I just have to be convinced of that assumption.

H.M.Jr: Well, the only thing I get encouraging as to what our objective is, is seeing that the national income steadily goes up. It looks as though there's one thing, a definite trend.

White: Some thirty billion.

H.M.Jr: Definite trend.

Duffield: Yes.

H.M.Jr: But now - and the thing - what brought it about?

Well, I think that's about all we can do just now.

PREPARED BY
Mr. Daggit, Miss Michener,
Mr. Murphy, Mr. O'Donnell,
Mr. Seltzer, Mr. White, and
Mr. Haas.

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Return to Room 285

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DEPARTMENT

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COMMUNICATION

DATE January 26, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Development of the current business recession. — PART I

Summary and Conclusions

Events leading up to the recession

During the latter part of 1936 and early 1937, it became apparent that several forces were leading toward a highly speculative situation in commodity prices, and that business activity was taking on a speculative character.

1. Prices of sensitive commodities began to rise sharply during the early fall in response to several factors:

(a) Reduced stocks of various commodities, following several years of burdensome supplies, made prices very sensitive to increased industrial demand.

(b) The drought in 1936 sharply curtailed the production of various farm products, while the supplies of certain raw materials were held down by artificial production restrictions.

(c) The war in Spain had the effect of stimulating the world demand for war materials.

2. This upturn in prices was widely heralded as evidence that price inflation was getting under way, as a result of:

(a) The continued deficit-financing policy of the Government.

(b) A large volume of gold inflows, resulting in greatly increased excess reserves.

(c) Announcement of huge rearmament programs abroad.

(d) Belief in a continued upswing in business following the re-election of the Democratic Party and the successful stabilization of world exchanges.

3. Because of the general belief in rising prices, merchants and manufacturers entered orders for manufactured goods in heavy volume. Reduced inventories, resulting in part from the spending of the soldiers' bonus, further stimulated the demand for goods. Duplicate orders in many cases were placed with different manufacturers to insure delivery.

4. The prospect that labor difficulties might shut off supplies of needed materials became an important factor in increasing the volume of unfilled orders during the spring of 1937 to a level that taxed the capacity of several major industries.

<u>The situation in early 1937</u>

This combination of factors had the inevitable result of over-discounting a favorable business outlook. In itself, without the application of restrictive measures by the Administration, this would have resulted in a corrective business reaction in the absence of some new supporting factor, such as a more rapid expansion in the construction industry.

Mild restrictive measures were put into effect in the latter half of 1936, with an increase in reserve requirements effective on August 15, and a gold sterilization policy announced on December 22. The application of the first measure signalled the beginning of a movement to liquidate Government bonds by member banks in New York City, but had at the time no other apparent effect on prices or business. The gold sterilization policy prevented a further expansion of the credit base by gold inflows.

In the early spring of 1937, business activity had reached a state of disequilibrium, where it was particularly sensitive to any depressive influence. Three chief influences which came into play at that time caused a decided falling off in new industrial buying, which was a forerunner of the business recession:

1. The beginning of a decline in prices of important raw materials, resulting from:

(a) The prospect of increasing supplies.

(b) Administration statements that prices were too high, interpreted as confirming a deflationary program.

(c) Rumors of an impending reduction in gold prices.

2. The tightening of financial markets, induced by increases in reserve requirements which went into effect on March 1 and May 1, and the continuation of the gold sterilization policy.

3. The sharp reduction in net Government contributions to business activity, resulting from reduced expenditures and increased tax collections.

The last two influences served not only as definite brakes on business through the mechanics of their operation, but, in combination with the price decline, they brought about a reversal in public sentiment and led to an expection of deflation. This resulted in a widespread movement to liquidate inventories.

Later depressive factors

The filling of large backlogs of orders on manufacturers' books helped support business activity throughout the summer, but various depressive factors in operation at that time undermined the business structure and brought on the eventual collapse:

1. Prices declined to still lower levels, partly because of increasing supplies coincident with reduced demand, but partly also because of the deflationary effect of Administration policies.

2. The reduction in Government spending became more pronounced during the summer, at a time when the favorable implications of a movement toward a balanced budget were not sufficient to bring forth an offsetting expansion in industry. The result was a net decrease in the current volume of total spending.

3. The final increase in reserve requirements, on May 1, caused a further tightening of the money market, and contributed to the growing deflationary psychology.

4. The failure of construction to increase as had been expected, a virtual cessation of railroad buying, and a reduction in public utility construction, contributed to a weakening of the business situation.

Effect of Government program on business.

In retrospect, it appears that the Government program in 1937, which was designed to put brakes on a too rapid business expansion, actually was so deflationary as to bring about a greater decline than the corrective reaction which could normally have been expected.

There seems little doubt that the Government made two mistakes:

1. The additional increase in reserve requirements imposed on May 1 looked bad at the time -- it looks worse in retrospect. Prices had already turned down substantially by then, Treasury bonds had suffered a sharp decline in prices, stock prices had turned down, and talk was beginning of the likelihood of a summer recession. Under those circumstances, any additional depressive measure on top of those already in effect appears completely unwarranted.

2. While reduction in the net deficit expenditure of the Government was unquestionably called for, the sharpness of the reduction at a time when business was particularly vulnerable to unfavorable developments was definitely not warranted. A sharp deflationary measure when recovery has not been achieved is never warranted; consequently, any deflationary force employed should have been employed with caution. If an error was to have been made it should have been made on the side of too gradual rather than too sharp a reduction.

<u>What can we learn from this recession that may enable us to postpone or minimize the next recession?</u>

1. Since deficit spending is such a potent and such an expensive method of bringing about an improvement in business, we should have followed the policy of:

(a) Reducing the amount of deficit spending as the first method of business restriction;

(b) Using no other weapon until the effectiveness of a reduction in deficit spending had been determined.

2. Since deficit spending has been an essential factor in business recovery, it should not be sharply curtailed unless and until there is assurance of an equivalent substitution of purchasing power from private industry.

3. Attempts at business control, which is still distinctly in an experimental stage, should be governed by the following considerations:

(a) The methods adopted should be handled in a flexible manner, and not kept rigid as were the methods used in controlling the 1937 boom, which are still in effect.

(b) The reaction of business to the control measures used should be continually under observation.

(c) The Administration should be ever ready to reverse its operations when needed. This is what flexibility means.

4. The Administration should have clearly before it an outline of all its powers which influence business activity, and should be constantly aware of which policies are operating in a depressive and which in an inflationary manner.

5. It is essential to develop quick and dependable indicators of maladjustments in business which presage a serious downturn, and to have in reserve a worked-out program for stimulating business activity when these indications suggest that such stimulation is necessary.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 26, 1938

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TO Secretary Morgenthau

FROM Mr. Haas GH

Subject: Development of the Present Business Recession - PART II

I. General Situation at Midyear, 1936

At the middle of the calendar year 1936, there appeared to be abundant evidence that the country faced the promise of a robust and continuing business recovery.

The FRB index of industrial production, after declining from 97 to 93 during the first quarter of 1936, had abruptly renewed its rise and, seasonally adjusted, was at a new recovery peak of 104 in June.

The BLS general index of wholesale prices in June 1936, 79.2, showed little change from that of the previous December, 80.9.

The BLS index of sensitive commodity prices, which had shown a declining tendency during the first five months of the calendar year, definitely reversed this trend during June.

The soldiers' bonus became payable in June 1936; and between June 15 and July 27 more than a billion dollars of bonus bonds were converted into cash. The receipt of these funds had been anticipated by many veterans and in part spent in advance; in further part, these funds promised strong support for some months to come for the consumption goods industries.

Employment, payrolls, and farm income were definitely on the upgrade in the aggregate, despite sectional losses due to drought.

Corporate profits were rising substantially. During the first half of 1936, the net profits of 285 industrial corporations, as reported by the National City Bank Letter, aggregated some 63 percent more than in the first half of 1935.

Banking and money market conditions were extremely favorable to the continuance of recovery. The market for highest-grade bonds was notably strong, the average yield on all long-term Treasury issues approximating 2.50 percent and that on the highest-grade corporate issues 3.19 percent. Interest rates on short-term obligations were near the lowest on record; rediscounts by member banks were of negligible proportions; and the commercial loans of banks were gradually rising. Largely responsible for the favorable conditions of the money markets was the fact that the banks possessed great amounts of excess reserves -- about $2.7 billions on July 1 -- and that gold imports were continuing to add to such reserves.

The stock market was in an upward trend. The Dow-Jones average of industrial stock prices, which had stood at 146 at the beginning of the year, stood at 158 on June 30. This rise was accompanied by a very small increase in brokers' loans.

The favorable condition of the investment markets was fostering a large and growing volume of refunding, at lower rates of interest, of public utility, railroad, and high-grade industrial bonds; and promised to permit a further huge amount of such refunding; and, in due course, a healthy volume of new capital financing for productive purposes. During the first six months of 1936, corporate refunding bond issues totaled $1,965 millions as compared with $450 millions in the first six months of 1935.

The capital goods industries, including housing construction, railroad equipment, and public utility expansion, had begun to participate in the recovery. The fact that the contribution to recovery from these industries had thus far been small, made it all the more likely that the relatively high level of business activity would be sustained and increased as these sections of our economy expanded their operations. Such expansion could be expected to offset the effects of a diminished volume of deficit spending that appeared in prospect for the ensuing twelve months. In other words, it looked as though the priming of the pump was substantially completed.

In the international field, conditions augured well for future business conditions. Except in France business activity was rising in all countries, particularly England, China, and Germany.

Foreign trade of almost all countries was increasing rapidly, chiefly because of improved business conditions but also due to progress being made in the lowering of tariff barriers through reciprocal trade agreements. Our imports jumped 17 percent over the previous year, and exports 13 percent. The high demand for raw materials was bringing prosperity to the countries of South America, Asia and Africa.

The increased activity in Europe was, unfortunately, based in no small part upon the race for armaments. The political situation looked ominous. Italy had completed its conquest of Ethiopia, and the prestige of the League of Nations as a force for peace was at very low ebb. Germany had thrown off the Versailles restrictions on the arming of Germany, and successfully militarized the Rhineland.

Only in France was the economic situation unpromising. The Popular Front in France won the parliamentary elections and a Left government came to power. Sit-down strikes occurred in large number, accentuating the uncertainty as to the political stability of France. Gold in large amounts began to flow out of France in June, and it was apparent that France was approaching a major financial crisis. Notwithstanding her troubles, France, during the first half of 1936 helped rather than hindered world recovery. Her imports increased and her internal political disturbances served to accentuate European uneasiness and hastened rearmament programs.

II. The Third Quarter of 1936

Business conditions remained highly favorable during the third quarter of 1936. The FRB adjusted index of industrial production, which had been 104 in June, averaged better than 108 in the following three months.

There was an active demand for consumers' goods, stimulated in part by the cashing and spending of the soldiers' bonus and by other deficit spending. Despite slowly rising costs, producers enjoyed good profit margins; and despite a third quarter increase of 13½ percent in the production of consumers' goods as compared with the third quarter of 1935, according to Standard Statistics Company, there was little indication that inventories were accumulating in distributors' hands.

Partly because of the announcement of price advances on orders received after October 1, and partly because of increasing demands by the automobile and other industries, steel mill operations rose to about 75 percent of rated capacity, the highest since May 1930.

Stimulated no doubt by the undistributed profits tax enacted in June, dividend declarations during the third quarter totaled $861 millions as compared with $649 millions a year earlier, according to the National City Bank Letter.

On July 14, the Board of Governors of the Federal Reserve System announced an increase of 50 percent in member bank reserve requirements to take effect on August 15. There was a slight temporary firming of both short- and long-term interest yields on Treasury and other high-grade open market debt instruments immediately following the announcement, but this movement was reversed before the new requirements went into effect; and the prices of highest-grade long-term bonds reached new high levels early in September. The Reserve Board's action had the immediate effect of reducing excess reserves from $3,167 millions to $1,816 millions.

From the date of the announcement, however, there began a slow but almost uninterrupted decline in the holdings of United States Government securities by the weekly reporting member banks of the Federal Reserve System, a decline that was offset until the end of the year by increases in the holdings of banks in smaller cities. Presumably because of the demand by the latter and by insurance companies and other investors, the liquidation of Government securities by the larger banks was accompanied by rising prices for Government securities.

<u>Business conditions in foreign countries</u> - except France - continued to improve. Our foreign trade continued to show marked gains. Much uneasiness appeared with respect to possibility of international currency chaos, but so far as the United States was concerned that uneasiness resulted merely in larger gold flows here, and greater attractiveness of American securities and strength of the dollar.

The conclusion of the Tripartite arrangement and the depreciation of the gold-bloc currencies cleared the air, and did much to restore confidence in continued international currency stability and monetary cooperation. It was the first successful and major step toward the kind of international economic cooperation which it was widely felt the world badly needed. The result was definitely bullish the world over and especially in Europe.

The international political situation, however, became much more tense. The Spanish Civil War broke out in July, and before the end of the quarter it was becoming apparent that Europe was divided into two camps in supporting the respective antagonists in the Civil War. In the Far East, China was making rapid strides forward both in the economic field, and in political strength. But the Soviet-Japanese situation remained ominous.

III. The Fourth Quarter of 1936

Shortly after the middle of October, business activity and sensitive commodity prices began a very pronounced upward sweep that continued to the end of the year.

The FRB adjusted index of industrial production rose from 110 in October to 121 for December. The BLS index of sensitive commodity prices rose from 72 at the beginning of October to 83 at the end of December. The rise in the general wholesale price index of the BLS was naturally much smaller: From 81.5 for October to 84.2 for December. The Dow-Jones index of industrial stock prices reached a high for the year of 185 on November 17, and closed the year at 180, as compared with 168 at the beginning of October.

In some respects, the business developments of November and December resembled those characteristic of a boom. The rise in commodity prices stimulated forward buying not only in raw materials but in manufactured goods. Wage increases in the steel, automobile, and other industries became front-page news and spread widely to other industries. Price advances of two to four dollars a ton for steel products ordered for first-quarter delivery stimulated forward buying in this field. Large programs for plant expansion were announced by a number of the leading steel companies. Railroad buying took on sizable proportions. An order for 100 locomotives by the New York Central represented the largest locomotive order since 1929. The St. Paul also ordered 30 locomotives. In 1935 only 83 locomotives of all kinds were purchased.

The textile industry turned in the most sensational performance among the major industries. Demand for cotton goods, even after many months of high production and sales, seemed insatiable. Although cotton mills were working at an all-time record rate, spot goods and early deliveries commanded premiums. In the December letter of the National City Bank, it was reported that the "mills are probably sold farther ahead than ever before and at profitable margins over cotton prices even allowing for the wage increase." The rayon mills were equally active. In all merchandise lines, willingness to buy ahead was more general than at any time since the boom of 1933. Activity in the heavy industries, though gaining, was still subnormal as compared with past standards, and promised further significant expansion.

The rise in commodity prices, the increases in wage rates, and the payroll taxes imposed under the Social Security Act, were increasing costs of production; but most manufacturers and distributors displayed little apprehension with respect thereto.

Although the swift rise in staple commodity prices was tinged with a distinct inflationary sentiment, which operated as both cause and effect, the unhealthy aspects of the rise can easily be exaggerated. The rise was international in scope, with few exceptions; and although it owed much to forward buying, there was a real strengthening of demand and of current consumption; and production likewise was rapidly increasing.

In many respects the rise in staple commodity prices could be regarded as a natural and thoroughly wholesome development, serving to produce a better balance in the price structure, and to diminish the internal difficulties and international trade barriers of those regions and countries that were engaged mainly in the production of raw materials. The great disparities between the declines in raw materials prices as compared with those of manufactured goods and services between 1929 and 1933 had constituted one of the principal causes of the collapse in trade and of the prolongation of the depression. The rise in staple commodity prices in the last quarter of 1936, though perhaps proceeding too rapidly, did much to restore equitable price relationships; and therefore strengthened the underlying factors making for further recovery.

Even much of the forward buying was of a character normal to, and required by, periods of rising trade volume. Inventories adequate for any given level of business activity become inadequate at a higher level, thereby necessitating a quasi-permanent increase of investment in inventories.

Nevertheless, the banking authorities again became concerned over the possibilities of an uncontrolled inflation. The continued inflows of foreign gold were steadily offsetting the effects upon excess reserves of the 50 percent increase in requirements that had been made effective on August 15. This fact contributed to a sharp rise in the prices of long-term Government bonds during the month of November and the first week of December. The average yield on all Treasury bonds maturing in eight years or more fell from 2.42 at the beginning of November to 2.22 by December 8.

On November 21, there appeared widely publicized, and apparently officially inspired, forecasts of a further increase in reserve requirements. Three weeks later, the Goldsmith Washington Service definitely predicted an early increase to the full legal limit -- an increase of one-third over the then-existing requirements. Some two weeks later (December 21), the Secretary of the Treasury announced, in effect, that further acquisitions of gold by the Treasury would be kept out of the banking system by being placed in an inactive account, and that such acquisitions would be financed by the sale of Treasury obligations.

The Goldsmith forecast coincided with the beginning of a protracted decline in the prices of Government securities and other high-grade bonds; but this decline did not become pronounced until the following March.

In the meantime, a noteworthy expansion of business loans by banks continued. During the four weeks ended December 23, 1936, customers' loans other than those against securities and real estate increased by $238 millions, and on that date stood at $4,279 millions, or 26 percent higher than on the comparable date of the previous year.

In the Treasury financing of December 15, subscriptions totaling $4,952 millions were received for the cash offering of $751 millions of 2½ percent Treasury bonds of 1949-53; and 70 percent of the $787 millions of notes maturing in December 1936 and February 1937 were turned in in exchange for the same bonds as against 26 percent in exchange for 1¼ percent 5-year Treasury notes. The continued strong preference manifested for bonds as against notes was less marked, however, than in the case of similar exchange offers earlier in the year.

<u>There was no indication of a break in the rising level of business activity in foreign countries.</u>

The Spanish Civil War became a major international problem. The spread of war became increasingly threatening and speculative purchases of raw materials were stimulated. Prices of raw materials, particularly metals, rose sharply in the United States as well as in world markets.

The situation in France was unchanged. New social legislation was the most important factor in the continuation of the uncertainty which impeded recovery. Devaluation was not successful in repatriating French capital. There was, consequently, no flow of gold exports from the United States, but rather, a continuation of imports.

IV. The First Quarter of 1937

Shortly after the turn of the year widespread strikes in the automobile and shipping industries and severe floods in the Ohio Valley temporarily reversed the course of recovery and adversely affected business sentiment.

The setback was relatively brief, however, and the strong rebound following the settlement of the West Coast shipping strike and the General Motors sit-down strike on February 4 and 11, respectively, was accompanied by a further sharp upturn in sensitive commodity prices.

Under the added spur of armament expenditures, together with the accompanying speculation, the metal markets in London rose sensationally, followed by quick responses in our domestic markets. Copper at 16.8 cents, lead at 7 cents, and zinc at 8 cents at the end of March, compared with prices of 10 cents, 4.8 cents, and 5.2 cents, respectively, at the beginning of the previous November.

A sellers' market developed in steel and many other industries, and this was accompanied by rising wage rates and rising prices. In January and in March, new orders in steel and other industries reached levels far in excess of current production; levels attributable to surges of forward buying brought about by a distinct and widespread expectation of inflationary price rises, and, in some cases, by fears that labor troubles would later obstruct deliveries.

Despite a high degree of concern in responsible circles that the upward movement of sensitive commodity prices threatened to get out of hand unless restrictive measures were undertaken, it appeared entirely probable that natural corrective influences would soon be exerted. Copper production and consumption were both increasing substantially, and the increased prices provided incentives to expand mine operations all over the world. The same was true of lead and zinc. Further, the rising prices of raw materials and foodstuffs were strikingly benefiting the countries and sections that produced them, thereby encouraging a great expansion in trade. Marked improvement on this account was taking place in Canada, Australia, South Africa, Argentina, British India, Brazil, etc. Speculative excesses there undoubtedly were, but these were far more pronounced abroad than in the United States; and normal corrective reactions could be anticipated in these cases as increasing supplies became available.

In the United States, however, governmental action of at least a precautionary character was deemed advisable. We have already cited the semi-official intimations late in 1936 of a second increase in required banking reserves. These intimations were followed by a distinct firming of short-term interest rates and some firming in long-term interest rates. On January 31, official announcement was made of a further 33-1/3 percent increase in reserve requirements, to take effect in two equal instalments on March 1 and May 1. High-grade corporate and municipal bonds, which had been softening noticeably during the previous two weeks, declined sharply and almost uninterruptedly during the ensuing two months. Government issues held fairly steady until about March 1, when the first instalment of the new increases in reserve requirements became effective. Right from the beginning of the month, however, before it became apparent that income-tax revenues would fall substantially below the previous estimates, Government securities joined the decline under a wave of selling that caused losses of three to four points.

The yield on 9-months Treasury bills rose from under .10 percent toward the end of November, to .71 percent late in March. The rates on bankers' acceptances and open market commercial paper likewise rose.

The theory held by some that short-term interest rates could rise appreciably without affecting long-term rates was not confirmed in this instance. The average yields on outstanding Government and high-grade corporate bonds increased by about one-quarter of one percent. New financing had to meet a hardened money market. The Philadelphia Electric Company issue of $130 millions of 30-year bonds was originally scheduled to be offered with a coupon rate of 3¼ percent. The rate had to be changed to 3½ percent, with an offering price of 102½, and the issue sold close to 99 upon dissolution of the underwriting syndicate.

The pressure upon the Government bond market was exceedingly severe, and it accentuated a congestion in the new issue market as a whole. In the short period between January 6 and the end of March, the weekly reporting member banks reduced their holdings of direct Government obligations by $907 millions. A slight resistance to the price decline in long-term Governments was occasioned by the shifting during the weeks of March 17 and 24 of $98 millions of Federal Reserve Bank holdings of Treasury notes and certificates into a like amount of Treasury bonds; and by concentrated Treasury purchases of bonds for its trust accounts. The collapse in the bond market, coupled with a sharp decline in stock prices which began early in March, greatly darkened the outlook for refunding and new capital financing.

While it appears to be almost certain that the pronounced weakness in the bond market was primarily attributable to the increases in reserve requirements and to the gold sterilization policy, there were other contributing factors. Widespread labor difficulties, which at times threatened severe physical violence, constituted one of these. Another was the gathering fear of imminent inflation, and its normal accompaniment of higher long- and short-term interest rates. The failure of income-tax receipts during March to come up to previous expectations was another factor.

Official concern over the possibilities of an inflationary boom was reflected on March 15 when Chairman Eccles of the Reserve Board issued a formal statement on this subject. On April 2, the President, in his weekly press conference, specifically alluded to the level of production in heavy industry as dangerous, and the prevailing prices of metals, particularly steel and copper, as too high.

Foreign trade of all countries continued to rise, and countries which exported raw materials had extraordinarily high favorable balances of trade. Continuation of British economic recovery was assured by the adoption of a big armament program. Business activity in some European countries fell a little during this quarter from the high levels of the last quarter of 1936, but there was an upward tendency in March.

The danger of the spread of war was considerably lessened by the agreement between the major countries of Europe on the introduction of the non-intervention patrol program. Prices of raw materials reached the peak in March, to begin the prolonged decline at the beginning of the next quarter.

There was nothing in the foreign picture to promote a recession in the United States. On the contrary, foreign conditions were favorable to continued upturn in the United States.

V. The Second Quarter of 1937

The month of April opened with numerous uncertainties in the air. The previous month had been one of falling bond prices, falling stock prices, and declining bank deposits. It had likewise been one, however, of enormous forward ordering in numerous industries; a development attributable in part to inflation sentiment, and in further part to actual and anticipated labor difficulties.

On the other hand, the statements (previously cited) of the President and of the Chairman of the Board of Governors of the Federal Reserve System, as well as the gold and credit policies previously adopted, were counter-inflationary in character. Doubt began to be entertained more strongly whether, under these conditions, the increased costs arising out of higher wage rates, shorter working hours, and higher raw materials prices could be transferred to consumers.

The new quarter opened with Government bond prices continuing their sharp decline of the preceding month. By April 2, no fewer than five long-term Treasury bonds and six Treasury note issues were selling below par, a development that came as a shock to many bankers. The Treasury 2½ percent bonds of 1949-53, which had been issued at par the previous December, and which had sold at 101-22/32 on February 8, sold at 96-6/32 on April 2.

This sharp break in Government bond prices produced considerable alarm in banking quarters. On April 5, the Open Market Committee of the Federal Reserve System announced that it was prepared to make open-market purchases of United States Government securities in such amounts and at such times as might be desirable in order to exert its influence toward orderly conditions in the money market, and to facilitate the adjustment of the member banks to the increased reserve requirements which would become effective on May 1. Upon this announcement, the Government bond market rallied moderately, though it lost most of the rally by the end of the month.

Stock prices also continued to decline during April; but what was even more unsettling to business sentiment was the sharp decline in sensitive commodity prices which started at the very beginning of the new quarter and continued with only slight interruption for two and a half months. On April 1, the BLS index of sensitive commodity prices stood at 86.82. By June 17, it had dropped to 77.84. Contributing to this price decline and shaking markets throughout the world were rumors beginning early in April that the United States Government proposed to reduce its buying price of gold below $35 per ounce.

Despite these uncertainties, business activity was maintained at a relatively high level throughout the quarter. The FRB adjusted index of industrial production averaged 118 for April, 118 for May, and 114 for June, exceeding the average of the first quarter. The decline in June was due to strikes in the plants of a number of "independent" steel producers.

Unfortunately, however, the sustained high level of production in many industries was mainly due, not to the current rate of incoming orders, but to backlogs of unfilled orders built up in the previous December, January, and March. The very sharp decline in new orders was probably more important than the factors more commonly cited in the press -- taxes, labor troubles, over-expansion of consumer credit, and the Administration's attitude toward the utilities -- in explaining the declining trend of stock prices virtually throughout the quarter. Not for many years were current earnings being capitalized so cheaply by the stock market, whereas the great reduction in long-term interest rates, other things equal, should have raised the capitalization ratio.

Beneath the surface of the sustained volume of business activity, a weakening of the underlying forces was taking place. An important part of the pronounced spurt in business activity was due to the stimulating effects of increased investments in inventories of all kinds. Such an increase is natural after a business revival has passed its earliest stages because the new level of demand requires greater inventories. So soon as the latter have been built up adequately, however, further significant stimulus to the revival must be supplied from other sources.

Expansion of activity in the capital goods industries, including residential and other construction, is normally relied upon to supply such stimulus. For many years, these industries have constituted a large fraction of our entire economy; and the capital and labor employed therein cannot readily be shifted into consumption lines. Moreover, a significant fraction of the national income is "saved" each year by individual and institutional investors; and unless these savings flow freely into capital goods expansion, they tend to remain unspent for anything whatever. For these reasons, a high level of activity in the capital goods industries is normally necessary for the achievement and maintenance of business prosperity.

Great hope had been placed upon new residential construction for 1937; and during the first six months of the year, residential construction contracts awarded in the 37 Dodge States did exceed those of the first half of 1936 by 54 percent. But this percentage gain still left the volume of residential construction contracts at a figure only one-third that of the first six months of 1928. The prices of building materials on June 30, 1937 were about 13 percent above those of June 30, 1936, and were even higher than those of 1929.

The F. W. Dodge figures for public works and utility construction contracts in the first half of 1937 were only 2 percent greater than in the same period of 1936; and other non-residential contracts were only 15 percent greater. Total construction contracts in the 37 Dodge States in the first half of 1937 amounted to only 43.4 percent of the volume of such contracts in the first six months of 1928.

On the other hand, throughout the early months of 1937 railroad equipment buying was very substantially heavier than in many years. Indeed, freight car orders were running at levels approximating those of the best months of 1929, and, on May 1, the total cars on order were reported to be larger than on any corresponding date since 1926. During the month of April alone, some 84 locomotives and 13,000 freight cars were placed on order.

But, as the second quarter of the year progressed, it became apparent that this source of industrial demand was rapidly weakening. The loss to railroads by the expiration on December 31, 1936 of the emergency surcharges on certain classes of freight had been surmounted by the increasing volume of freight traffic as a whole. Now, however, there was growing talk of substantial wage increases for railroad labor, and other costs had risen. Further, earlier expectations of a great rise in freight-car loadings in the fall were being revised downward as a result of various signs suggesting the possibility of a business recession. New orders for railroad equipment dropped sharply in May and June.

The failure of the public utility industry to embark on expansion programs that appeared warranted by the physical volume of their business is partly reflected in the figures previously cited for construction contracts. The common explanation for this failure runs in terms of the Administration's alleged hostile attitude to the industry, and in terms of the rate reductions effected in various States. Without attempting to assay the merits of these explanations, it is well to point out that deterioration in the investment markets, attributable in part, at least, to Reserve Boardcredit policy, exercised a distinctly restraining influence.

New plant equipment constitutes another important type of capital goods. In this field, the demand during the first six months of 1937, as measured by Moody's index, approximated the level of 1929. To a large extent, however, this expansion in plant equipment was being financed by the liquid resources of corporations accumulated through depreciation charges and previous earnings, rather than through new capital flotations and reinvested current earnings. In view of the undistributed profits tax, a continuance of this high level of demand would have to rely heavily upon favorable conditions in the investment markets; and in this respect the situation appeared to be vulnerable.

We have already called attention to the deterioration in the bond and stock markets that had occurred since the beginning of March. The underlying banking and credit position, despite surface appearances, was not immediately favorable to active capital markets. The final increase in reserve requirements, which went into effect on May 1, reduced the aggregate excess reserves of the System to approximately $800 millions the following week; and the credit-expanding power of this $800 millions was now only as great as that of $400 millions of excess reserves before the first increases in reserve requirements were made on August 15, 1936.

Accentuating the effects of the drastic contraction in excess reserves were other factors that had seriously reduced the credit-supporting power of a given volume of excess reserves below that which had existed in pre-depression years:

(1) Banking funds were no longer as mobile as they had been in pre-depression years because, among other reasons, the law now prohibited the payment of interest on demand deposits. Hence, excess reserves could not be depended upon to flow quickly to the centers most needing them. With $800 millions of excess reserves for the System as a whole, there might actually exist deficiencies in required reserves in important banking centers, while the surplus funds of country banks remained sterile. With the reduced volume of aggregate excess reserves, their regional distribution became a matter of primary importance, with no mechanism functioning to insure a suitable distribution.

(2) The ratio of the capital funds of American banks to their deposit liabilities (13.8 percent) was within one-half of one percent of the lowest level since 1873 (as far back as the available figures go). Banks with exceptionally low ratios of capital resources to deposit liabilities tend to conserve rather than to use their excess reserves, in order to supplement their poor capital position.

(3) The psychological hangover from the banking collapse caused bankers to prize the possession of excess reserves as a safety factor, and therefore sterilized the credit-supporting power of a considerable fraction of such reserves.

Early in 1937, intelligent bankers throughout the country became keenly aware that, under the programs being followed by the Treasury and the Reserve authorities, the credit situation could move and was moving in only one direction: tightness. They were told in effect:

"We will soon have mopped up more than two-thirds of your previous excess reserves by administrative increases in reserve requirements. Our gold sterilization program tells you that you will get no new reserves as the result of gold imports or newly mined gold. As a matter of fact, this program tells you that the volume of excess reserves will be reduced every time a dollar of new gold is acquired. In a word, a moderate credit expansion, in view of the waste of some excess reserves by poor distribution, will quickly exhaust the power of the member banks to expand credit without borrowing from the Reserve banks; and most of them are not likely to do this unless money rates rise substantially."

The answer of the banking system was a step to credit expansion. The total loans of all insured commercial banks increased by $1,075 millions in the first six months of 1937; but for every dollar of new loans made, more than a dollar of Government and other securities was liquidated.

We have already noted that bank liquidation of Government securities had been initiated by banks in the larger cities during the last six months of 1936, but that such liquidation had been offset during that period by purchases on the part of banks in smaller places. During the first six months of 1937, bank liquidation of securities became general. During the latter period, the holdings of direct and guaranteed Government obligations by all insured commercial banks declined by $785 millions, and their holdings of other securities by $344 millions, or a total of $1,129 millions. This liquidation of investments slightly more than offset the increase in loans.

The securities sold by the banks put pressure upon the market, and, by absorbing individual and institutional investment funds, reduced the volume of funds available for the capital markets. In consequence, the bond market softened, and it is not surprising therefore that although stock issues more than doubled, the total volume of corporate capital issues floated during the first six months of 1937 was about 32 percent smaller than in the first six months of 1936.

The substitution of business and other loans for Government and other securities in the portfolios of the banks constituted in itself a restrictive influence. Most of such loans are for short terms, and bank deposits arising out of short-term business loans are different in character and in their effects upon business from bank deposits arising out of bank investments in long-term securities.

In the latter case, the cash balances of business enterprises are increased without creating constraint in the use of such cash. They are "free" balances. In the former case, the serviceability of the new cash is more limited because it cannot prudently be employed in ways that will not readily permit liquidation of the short-term loans. Hence, when banks substitute short-term business loans for long-term investments, the aggregate net "free" cash of individuals and business men is reduced.

During the six months ended June 30, 1937, there took place a reduction of $1,753 millions in customers' net balances of demand deposits in all operating insured commercial banks. That is, total demand deposits, exclusive of interbank and United States Government deposits, declined by $678 millions, and the short-term debt of individuals and business enterprises to the banks increased by $1,075 millions.

The figures and considerations just cited are subject to minor qualifications: (a) Among the so-called business and agricultural loans of banks are some loans of medium-term or even longer character and some nominally short-term loans which are indefinitely renewable; and (b) some $470 millions of the decline in demand deposits may be attributed to a shifting of such deposits to time deposits, which increased by this amount. But these qualifications do not destroy the general implications discussed above.

Foreign

Despite the gold scare, dropping stock market prices and raw material prices, and continued trouble in France, the international economic situation was good. The level of industrial activity in most countries continued to rise. The "gold scare" disappeared from view before the end of the quarter, but stock prices and raw material prices continued to fall.

The export surplus of raw material exporting countries in South America and Africa fell from the record high levels reached in the first quarter, but these countries were still experiencing prosperous conditions. Our own exports leaped. During the second quarter total trade was 42 percent higher than in comparable period of 1936, although a declining tendency in our imports in comparison with previous months first appeared.

The long-term capital market in England began to tighten, with a continuous drop in the price of Consols, but not enough to impede the expansion of the capital goods industry.

Towards the end of June another crisis developed in France, and Blum resigned on June 20. A more conservative government, with Bonnet as Finance Minister, took control. The franc depreciated further, but the crisis seemed to have receded for the time being.

There still appeared no development abroad to act as a depressing influence on business conditions in the United States.

VI. The Third Quarter of 1937

The increasing congestion in the capital markets became strikingly evident from the very beginning of the third quarter. The Securities and Exchange Commission obtains confidential reports from 23 large distributing houses on new bond issues. In May, this selected group reported an average unsold balance of 9.3 percent of the amount of their participations as of the end of the first day of offerings. This figure rose to 11.4 percent in June; 32.0 percent in July; and 67.4 percent in August. In September, the offerings of $48 millions of Bethlehem Steel Corporation 3½ percent convertible bonds and $44 millions of Pure Oil Company 5 percent convertible preferred stock were decided and very conspicuous failures, and resulted in very heavy losses to the underwriters.

The total volume of security offerings in the third quarter was the smallest since the revival in the capital markets early in 1935: Total corporate offerings amounted to about $400 millions, as compared with $755 millions in the second quarter and $970 millions in the first quarter, according to the Commercial and Financial Chronicle.

General business activity, on the other hand, was maintained at a relatively high level during the first two months of the quarter. Contributing to this result were (1) a good rate of automobile production and sales, stimulated in part by announcements that prices would be raised on the 1938 models to be introduced in November; (2) steel production was maintained at a higher level than incoming orders, both to work off previous backlogs and to build up inventories for the anticipated fall business; and (3) a sustained high level of retail sales.

The important cotton textile industry, however, which had been prominent in the wave of industrial expansion in the fall of 1936, sharply curtailed its operations in July.

By late August, the steel industry had virtually eliminated its backlogs of orders. The volume of incoming orders for some time had been substantially below current production, and sizable inventories had accumulated. There was general expectation that a renewal of demand would be forthcoming after the Labor Day holiday. It soon became evident that this expectation was not to be realized. A drastic and prolonged decline in steel production set in.

In the last week of August, steel operations were at 84 percent of rated capacity; by the end of September, the rate had declined to 74 percent.

Coincidentally with the decline in steel operations, the stock market, which, during the summer, had nearly regained the peak levels of the previous March, commenced a sharp and protracted decline. On August 14, the Dow-Jones average of 30 industrial stock prices stood at 190. By the end of September, the average was under 155. This sharp decline, which continued nearly unabated during much of the fourth quarter, shook the confidence of business men in the near-term business outlook, and made any substantial volume of new common stock financing virtually impossible.

Some persons, notably Mr. Kahlman Linker of the Monthly Stock Digest Service, have attributed much of this and succeeding declines in stock prices to the Revenue Act of 1937, approved by the President on August 26, which, by closing the tax loopholes offered by foreign and domestic holding companies, is alleged to have drastically reduced the attractiveness of common stocks to very wealthy investors.

Sensitive commodity prices, which had enjoyed a moderate summer recovery from their sharp spring decline, weakened perceptibly in late July and August; and after the middle of September nose-dived uninterruptedly to the beginning of December.

Coincidentally with this widespread deterioration in the business situation, the deficit spending of the Federal Government, which had previously been providing a strong stimulus to the economy, now became transformed into a net excess of cash receipts over cash expenditures -- a deflationary influence. In the calendar year 1935, the net excess of cash expenditures over cash receipts amounted to $2,814 millions; in the calendar year 1936, when the prepayment of the soldiers' bonus was made, $3,718 millions; and in the first six months of the calendar year 1937, $449 millions. In the third quarter of 1937, there was a net cash surplus of $162 millions.

This startling and rapid transformation of the results of the Government's fiscal operations was due primarily not to a decrease in the level of expenditures (except for the non-recurring item of the soldiers' bonus), but to very substantial increases in tax receipts and in the funds collected by or appropriated to Government trust funds -- notably the Social Security trust funds.

Such an abrupt transition from a large cash deficit to a net cash surplus could be achieved without shock and disequilibrium to the economy only if a full and free flow of investment funds into active employment took up the slack. This did not take place in adequate degree; and part of the explanation for the current business recession must be attributed to this fact.

Early in August, market quotations for Government and other high-grade securities, which had strengthened during July, turned abruptly downward. The increasing seriousness of the conflict in China was no doubt an adverse influence; but the principal factor appeared to be the growing prospect of strain in the banking situation, particularly in New York City. Out-of-town banks had drawn heavily upon their New York correspondents to meet the final increase in reserve requirements on May 1. A considerable loan expansion, principally in New York City, had since occurred. In consequence, the excess reserves of the principal New York City banks were becoming uncomfortably small. On August 4, they amounted to only $37 millions. Further, the normal seasonal expansion in money in circulation during the fall and winter could be counted on to cause an additional and perhaps very substantial drain upon excess reserves.

Facing this situation, the Board of Governors of the Federal Reserve System on August 20 announced reductions from 2 to 1½ percent in the discount rates of the Chicago and Atlanta Federal Reserve Banks, to take effect the next day; and in the following two weeks, the rate of the New York Bank was reduced to 1 percent, and that of all the others to 1½ percent, with the exception of the Cleveland Bank, which had already established a 1½ percent rate on May 11, 1935.

In connection with the August 20 announcement, the Board of Governors issued a statement explaining that the discount rate reductions were designed to make Federal Reserve Bank credit readily available to member banks without encouraging the latter to borrow outside of their districts or to liquidate their portfolios; and to ameliorate the effects of the poor distribution of the existing excess reserves.

On September 13, the Board of Governors announced that it had requested the Treasury to release $300 millions from the Inactive Gold Account; and that it was "prepared to purchase additional Government securities if necessary to provide funds to meet seasonal withdrawals of currency from the banks and other seasonal requirements." Principally by redeeming $350 millions of mid-September bill maturities in cash while accepting War Loan Deposit credits in payment of $100 millions of bills issued on September 22 and 29, the Treasury was able to add the entire amount of released gold to bank reserves very rapidly, with a consequent general improvement in the tone of the high-grade bond market. The Reserve banks did not make additions to their portfolios of Governments until the week ended November 10; and the aggregate amount purchased during that and the succeeding two weeks, when the program was apparently halted, was limited to $38 millions. On September 26, the Board of Governors announced that, effective October 1, the restrictions previously in force with respect to paper eligible for rediscount and collateral acceptable for advances would be very greatly liberalized. In its December Bulletin, the Board further declared that the notes of borrowers who use the proceeds of a loan for the purchase of goods for use rather than for resale are eligible for discount.

Abroad, recovery continued uninterrupted. However, there was considerable uncertainty and fear that the United States recession would spread to other countries. The Japanese-Chinese incident had developed into major hostilities between the two countries but the volume of foreign trade of even these two countries did not change substantially during the third quarter. The possibility that the war would spread to other countries was not popularly regarded as strong enough to initiate a repetition of the speculative boom in the price of raw materials such as occurred in the fall of 1936.

Raw material prices throughout the world continued to decline, but there was no cessation of the rise in industrial activity in European countries.

The gold inflow into the United States ceased, and there were rumors that the Stabilization Fund was selling gold.

VII. Fourth Quarter of 1937

The fourth quarter of the year opened with the course of business in a precipitate downswing. The Federal Reserve Board adjusted index of industrial production, which had averaged 117 during August and 111 during September, fell to 103 in October, and to an estimated 91 in November; with no evidence that the trend would be reversed during the remaining month of the calendar year.

The same story is told by the course of sensitive commodity prices and the movements of speculative securities. The BLS index of sensitive commodity prices, which had stood at 78.4 in the middle of September, declined to 64.0 by the end of November.

The Dow-Jones average of 30 industrial stock prices, which had stood at 190 on August 14, touched a low of 113.6 on November 24, and stood at 123.5 at the end of the month. The decline in this average from the March high cancelled about 74 percent of the entire advance in the general average of share prices since July 26, 1934. The decline from the March 1937 high to the November low exceeded 41 percent. In order to reduce the number of "restricted" accounts, and to increase the potential effective demand for stocks, the Board of Governors of the Federal Reserve System as of November 1 reduced the minimum margin requirements from 55 percent to 40 percent.

The BLS indexes of factory payrolls and employment declined sharply in November. The payroll index was 100.1 for September and October, and 89.3 for November. The employment index was 102.1 for September, 100.5 for October, and 94.7 for November.

Steel production fell steadily throughout October and November, dropping to about 30 percent of capacity by the month-end, and to a slightly lower level since. Production schedules of automobile producers were sharply curtailed, with the result that automobile assemblies in November dropped below the corresponding month of 1936 for the first time this year. Cotton mill activity declined further in November, and the generation of electric power showed a considerable decrease. Residential construction contracts in the 37 Dodge States, on the other hand, were practically unchanged in October from the September level, and decreased only slightly, after seasonal adjustment, in November.

A further substantial shrinkage took place in the volume of bank loans and bank deposits. Recent figures are available only for weekly reporting member banks. Between September 29 and December 8, these banks reported a decline of $281 millions in brokers' loans, and of $495 millions in their total loans; and reductions of $157 millions in their adjusted demand deposits, and of $885 millions in their total deposits. The principal New York banks increased their holdings of direct Treasury obligations by $263 millions, while the remaining reporting member banks in the aggregate reduced their holdings of Governments by $153 millions.

The rapid rate at which business activity has been declining has rarely been equaled. The Standard Statistics Company reports that the decline in its index of industrial production since March "has proceeded at a pace which has outstripped the downward trend in the initial nine months of any previous major business recession in the past thirty years, with the single exception of 1907." (Standard Statistics Company Outlook for the Security Markets, December 6, 1937.)

The precipitate character of the decline may be attributed in considerable measure to inventory liquidation. We have already noted that after the first stages of a business revival, a powerful stimulus to increased activity is normally provided by the building up of inventories of all sorts to the higher volumes appropriate to the increased actual and prospective level of demand. In the downward swing, the reduction of inventories to volumes appropriate to the lower level of demand is a process of capital disinvestment that exercises a correspondingly powerful depressing influence upon the volume of business activity. This process has doubtless been accentuated in the present instance by the experience of business men in the deep depression of 1929-1933, which has made them attach a high premium to liquidity.

Thus far wholesale trade has been affected to a far greater extent than retail trade. Retail sales results for October were generally favorable, but available reports indicate some slackening during November, more noticeably in industrial centers than in agricultural areas. The available data on department store trade in the New York Federal Reserve District indicate that stocks of merchandise in the reporting department stores, adjusted for seasonal changes, were reduced substantially during September and October. There is some reason to believe that supplies of both raw materials and partially fabricated products in the hands of industrial consumers are being depleted. The very rapidity of the retrenchment process in many lines offers ground for hope that the readjustment process will be completed more promptly than would otherwise be the case.

Partly because of the business recession, banking and credit conditions, as reflected in the prices of high-grade bonds, have improved during the quarter. Total excess reserves for all member banks have remained slightly in excess of one billion dollars; and because a less-than-normal increase in currency circulation is taking place during the present Christmas season, the total volume of excess reserves is not likely to fall below $900 millions.

The prices of the various classes of Government securities have risen appreciably since the middle of September. Yields on Treasury bills have declined to the lowest levels in nearly a year. In the mid-December Treasury financing, near-record oversubscriptions were received for the 8-year 2½ percent bonds and the 5-year 1-3/4 percent notes, both of which issues immediately commanded substantial premiums in the market. High-grade corporation bonds have firmed in price since the end of October.

Since November 9, the gold stock of the United States has been reduced by about $40 millions, and the Inactive Gold Account has been correspondingly reduced. On December 13, this Account stood at $1,232.6 millions.

In the London Economist of November 6, 1937, is an article entitled "Economic Outlook in America," from which the following excerpts were taken:

"The conclusion from these facts is inescapable. On the score of the income available to consumers for the purchase of goods there is nothing to justify a recession of production and everything to justify a further sound expansion.....

"The capital goods industries, however, tell a very different tale.....

"At midsummer, then, the position was that current consumption was healthy and flourishing, but that the capital goods industries were still flagging, hindered by a dormant new issue market.....

"Thus the capital goods industries were not only in the more vulnerable position earlier in the year, but they have, in fact, started the downward movement. There can be no one explanation for this change in trend. Part of the responsibility can be placed upon the depressing effects in the bond market of the Federal Reserve's policy of raising the reserve requirements of the banks. This undoubtedly put a stop to the incipient revival in the new issues market. Simultaneously, the heavy tax on undistributed profits made it more difficult to finance capital extensions out of profits. In some industries, notably the railways and building, rising labour costs, either directly instigated or at least encouraged by Government action, prevented expenditure on capital goods. And finally, the effort made in Washington to balance the Budget severely reduced the Government's own expenditure on capital goods. It might almost have been a concerted programme to discourage capital investment.....

"..... In 1927 a recession was cured by cheap money. The same may happen in 1937, if cheap money is allowed to have its normal effect....."

Sobel mail
income

January 26, 1939

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FOR THE SECRETARY:

I talked with Dr. Goldenweiser for about an hour this afternoon in accordance with the arrangements which you had made with him this morning. He will give the problem some further thought and will call me probably early next week after he has completed work on the Board's annual report.

His position today is that one of the most important influences on the trend of national income and of business generally is exerted by price relationships. In this connection, he places great importance on the attached chart of wholesale prices. He points out that our greatest difficulty occurred in the period of increasing price disparities between 1929 and the first quarter of 1933. Furthermore, our most prosperous recent period came during 1935 and 1936 when all classes of prices were on roughly comparable levels. The emergence of a new price disparity early in 1937, he feels, contributed to the subsequent decline in business activity. He recalls that Dr. Lubin presented to the group which studied prices for the President a valuable chart correlating prices and national income.

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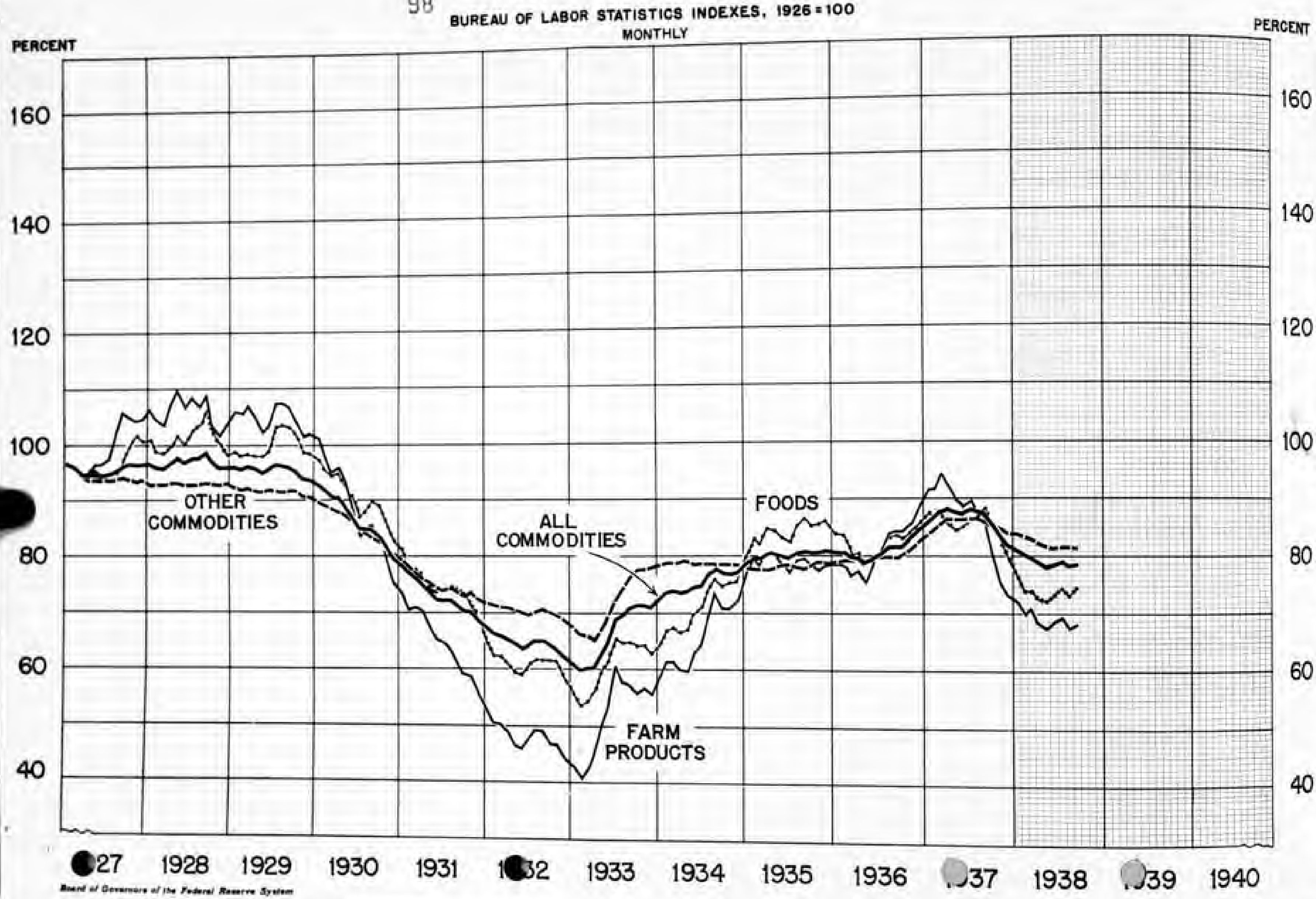
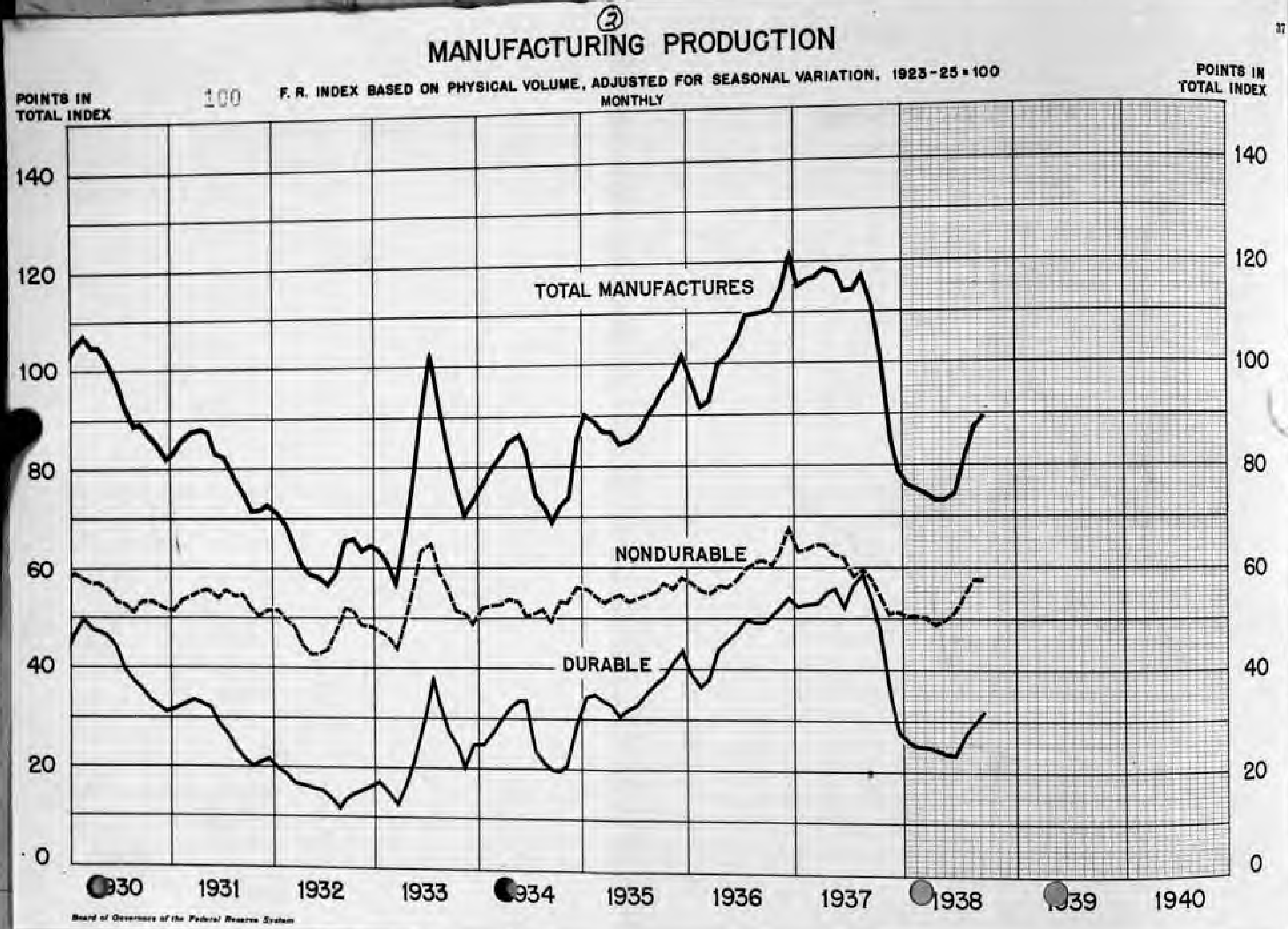
WHOLESALE PRICES



Dr. Goldenweiser feels that chart correlations such as these are of little value in themselves unless they have some logical explanation in the work-a-day world. He feels that the price disparity charts besides correlating well with the trends of national income do have a logical explanation because low prices for any group of producers limits their purchasing power and dries up their demand for goods from other classes of producers.

Dr. Goldenweiser also believes that the trend of national income coincides roughly with the trend in durable goods industries. The second accompanying chart showing production in the durable goods industries and the non-durable goods industries indicates the relatively stable character of the non-durable goods production as compared with the wider fluctuations in the durable goods industries which synchronize roughly with the fluctuations in national income. The trend in durable goods industries, he says, depends on a great many things, principally, the willingness of people to invest, the adequacy of the underwriting machinery, and the chance for a profit. He has the feeling that the amount of underwriting capital is not now sufficient to meet the needs of the country. He also feels that certain



(2)
MANUFACTURING PRODUCTION
F. R. INDEX BASED ON PHYSICAL VOLUME, ADJUSTED FOR SEASONAL VARIATION, 1923-25 = 100
MONTHLY
POINTS IN TOTAL INDEX
POINTS IN TOTAL INDEX
TOTAL MANUFACTURES
NONDURABLE
DURABLE
140
120
100
80
60
40
20
0
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940
Board of Governors of the Federal Reserve System

deterrents like capital gains taxation and like TVA have kept private investment from functioning well. In general, he believes that the railroads, utilities, the automobile industry, and construction must be helped in every way possible to increase the volume of durable goods production, which in turn would exert an upward pressure on the volume of business and national income.

We did not discuss the spending theory at great length. He did say, however, that he did not believe that you could prove or disprove the effectiveness of spending with any existing figures. The whole spending approach, he believes, is still highly experimental. He feels that logic shows certain things about spending; for instance, spending which is done in competition with private enterprise might better not be done at all, spending which is financed by money collected through sales taxes probably might as well not be done at all, spending which enables people to purchase goods they would not otherwise buy and which is financed from funds otherwise idle contributes to the prosperity of the country. How long such spending can be continued and when it should be shut off are things about which he is uncertain, except to say that he agrees that the unemployed must be taken care of.

The only definitely disrupting factor which he mentioned was the NRA. He said that he believed it had raised costs at just the time when the effort should have been in the direction of increasing consumption.

He will get in touch with me again Monday or Tuesday of next week.

ESD

THE WHITE HOUSE
WASHINGTON

80 bil
mc

January 26, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

In regard to my memo of January twenty-first, don't you think you could do something to back up our general policy? Talk it over with Lowell Mellett. The others are arranging to help.

F. D. R.

FDR

104

THE WHITE HOUSE
JAN 25 1 47 PM '39
RECEIVED

THE SECRETARY OF THE TREASURY
WASHINGTON

January 25, 1939.

The President,

The White House.

My dear Mr. President:

Your letter of January 21, of which you spoke to me on Monday, was received Monday afternoon.

At your convenience I should like to have an opportunity to discuss its contents fully.

Sincerely,

H. Morgenthau Jr.

Secretary of the Treasury.

Released for Publication Saturday, January 28, 1939.

See last page

105

MONTHLY SURVEY OF BUSINESS

of the

American Federation of Labor

No. 99. January, 1939.

WHAT'S AHEAD FOR 1939 AND 1940?

Business has started the year 1939 at a substantially higher level than that of a year ago. The three first picturegraphs herewith illustrate this clearly. Steel ingot production in the week of January 21 was 713,000 tons, which compares with 485,000 tons in the corresponding week of 1938.[1] (See graph page 1.) This is a sign of new life in many basic industries: Builders are ordering steel for a volume of heavy building contracts 88 per cent above last year (first three weeks); railroad steel orders are expected to be 50 per cent above last year because rising freight haulings have made the need for new rails, cars, locomotives imperative; orders for machine tools in December were more than double the May 1938 low figure, orders for electrical equipment, farm tools and other machinery have increased substantially and are still increasing. Automobile plants turned out 90,000 cars this year compared to 65,000 last year in the week of January 21 (See graph page 2). This increase means that there is more activity in the industries manufacturing parts, paint, glass, tires, upholstery materials, batteries and accessories, and there will be more work for gasoline stations. Automobile manufacturers are keeping their production closely geared to sales, and sales have been well above last year. Business activity as a whole is 11 per cent above last year, according to the New York Times index, which stood at 91, in the week of January 14, compared to 82 in the same week last year. (See graph page 3.)

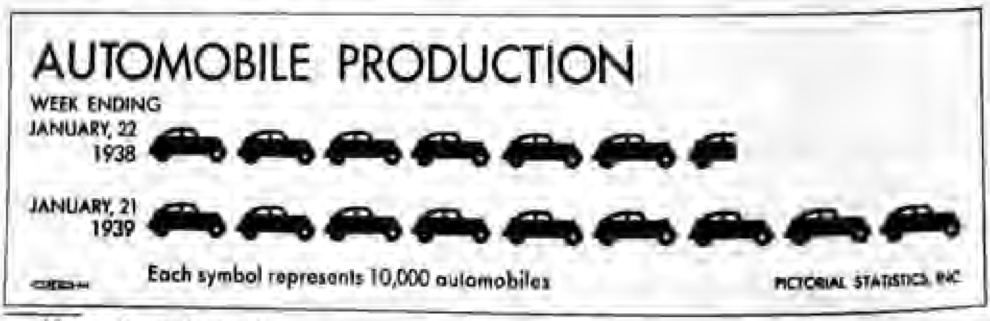
The rapid business rise which began last June tapered off in mid-November to a temporary lull which observers believe is normal after so swift an upswing. War scares had a dampening effect in January, but observers point out the underlying soundness of the business structure and the stimulating forces now present, believing that the spring will bring a new upsurge of recovery. Inventories have been sold off, workers' buying power is rising, there is no inflation of credit, and prices have held almost without change since mid-November. Government spending has been running at very high rates and will continue in the first half of 1939. In addition to railroad building, utilities must now plan new construction to meet record demands for power; residential as well as heavy construction is increasing, contracts for the four weeks ending January 7 being more than double last year's.[2] Observers seem unanimous in the belief that, barring war, recovery will soon

[1] Based on Iron Age per cent of capacity figures taking present capacity at 70,000,000 tons of steel ingots yearly.
[2] Business week reports daily average residential contracts $3,603,000 in 1939, $1,772,000 in 1938, 4 weeks ending January 7.

be resumed. The outlook for 1939 is distinctly encouraging. A more constructive labor policy is developing, typified by Roger Babson's advice to his clients that "regular conferences with labor's representatives may avoid serious trouble."[3]

Wages: Of the wage increases which, due to union activity, lifted the general hourly wage from 58¼ cents in 1936 to 65¼ cents at the end of 1937, very little was lost in the recession of 1938. There were some wage cuts, but no general move of wage cutting. By October 1938 the wage tide had turned upward again and the average was 63 cents for industry as a whole (latest figure[4]). Thus, of the 7-cent gain only 2 cents were lost, and losses are already being recovered. In manufacturing, wage gains in 1937 were greater than in industry generally, rising 9 cents, from 57½ (1936) to 66½ (end 1937); and in 1938 losses in the first three quarters were partially restored in October and November so that the manufacturing wage level is now 64½ cents (November), showing a net loss of only 2 cents also. By November wage cuts in factories were being replaced by wage increases and 90 plants reported wage increases to the Labor Department, while only 23 reported wage cuts. This compares strikingly with the worst 1938 month, when 233 wage cuts were reported and only 36 increases (May). In building, union scales averaged $1.36 per hour in 1938 compared to $1.26 in 1937. Thus it is clear that labor, through its trade unions, has been able to keep wages well intact through the 1938 recession. Because of this achievement, buying power will expand rapidly with reemployment and lift production to higher levels than would otherwise be possible.

Buying Power: Trade unions have done important service to American industry. Maintenance of buying power was one of the chief reasons why the recovery of 1938 was the swiftest in our history. At a time when general wage cutting was imminent, trade union resistance checked this destructive force. This point comes out clearly when we compare the peak business months of April and May 1937 with the same months a year later, when the recession had reached its bottom. While buying power of non-farm labor declined only 6 per cent, production of consumers' goods fell 19 per cent and production of producers' goods 33 per cent.[5] Buying kept on while production was cut, and the large inventories of goods which had choked the market were sold off. In December 1937, inventories in the hands of wholesalers were 6 per cent above 1936, and sales were down 12.5 per cent; today (December 1938) inventories are 14 per cent below last year and sales are up 1.5 per cent. This healthy situation is one of the reasons for the brighter 1939 outlook. Orders are coming straight through to manufacturers with every increase in employment and workers' buying. WPA has also been responsible for maintaining buying power by giving jobs to those laid off by industry and adding $500,000,000[6] to workers' income in the last half of 1938.



[3] Babson Report, January 16.

[4] The figures are calculated from Labor Department wage records and cover manufacturing, mining, trade, utilities and service industries.

[5] Workers' buying power—Department of Agriculture figures. The figures include relief payments. When relief is omitted the decline is 9 per cent. Production figures from Federal Reserve Bank of New York.

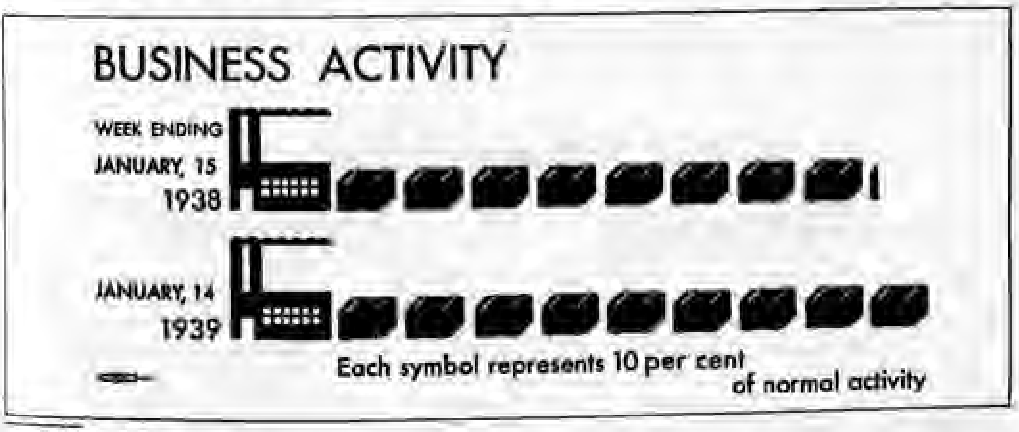
[6] Expenditures for WPA in the last half of 1938 were above the same 1937 period by this amount (Treasury figures). This $500,000,000 replaced a loss of $1,700,000,000 in workers' income from industry.

What reductions occurred in buying power in 1938 were due chiefly to unemployment. By the year end unemployment was still above last December by 2,000,000; nevertheless, the total buying power of non-farm workers, including WPA and relief payments, was slightly above December 1937, totaling $3,790,000,000 for the 1938 month compared to $3,736,000,000 last year.

Cost of Living: At the end of 1938 cost of living was somewhat lower than a year ago. The index of the National Industrial Conference Board for December was 85.8,[7] 3 per cent below that of December 1937, which was 88.6. But cost of living increased two-tenths of 1 per cent in December over November, due to higher food costs. While large increases in living costs are not anticipated in the near future, Labor should watch this important point. At the present price levels[8] it takes a wage of 75 cents per hour with employment of 40 hours a week for 50 weeks a year to give a worker's family of five a bare subsistence level of living; such a living level affords no provision for emergencies or illness, or higher education for the children. It cannot be considered an American standard. A wage of $1.00 per hour, with employment as above, will provide a minimum health and efficiency level of living, or a minimum American standard.[9] Budgets for skilled workers are much above this level.

Productivity and Labor Costs: It is not high wages, but high labor costs that run up the employer's expenses. Labor costs are often low when wages are high; and labor costs are bound to decline as production rises. The National Industrial Conference Board gives the following figures, to show changes in wages, productivity and labor costs from 1929 to October 1938: In these 9 years, output per man-hour in American factories increased 22 per cent; hourly wage rates rose 16 per cent, but labor cost today is 5 per cent below 1929; and the average work-week is 23 per cent shorter than in 1929. We are entering the year 1939 with higher wages and lower labor costs than in predepression days. As production increases, labor costs will decline further.

Unemployment: At the end of 1938 (December) there were still 10,380,000 out of work in the United States. This is nearly 3,000,000 more than in September 1937, when unemployment reached its recovery low point. Although 1,200,000 have gone back to work since last May, when the recession was at its worst, there are 500,000 more work seekers than there were in December 1937, due to our increasing population. Labor-saving machinery has probably eliminated about 2,000,000 jobs in the last 9 years, in spite of the general reduction of work-hours to 40 or 44 per week. In these



[7] 1923 = 100.
[8] December 1938, latest figure.
[9] The bare subsistence budget is that of the WPA brought up to date by the Labor Department. It represents the average for 31 cities. The minimum American standard is the budget of the Heller Committee of the University of California adjusted to represent the average for these same 31 cities. The WPA budget was adjusted to cover a family of five.

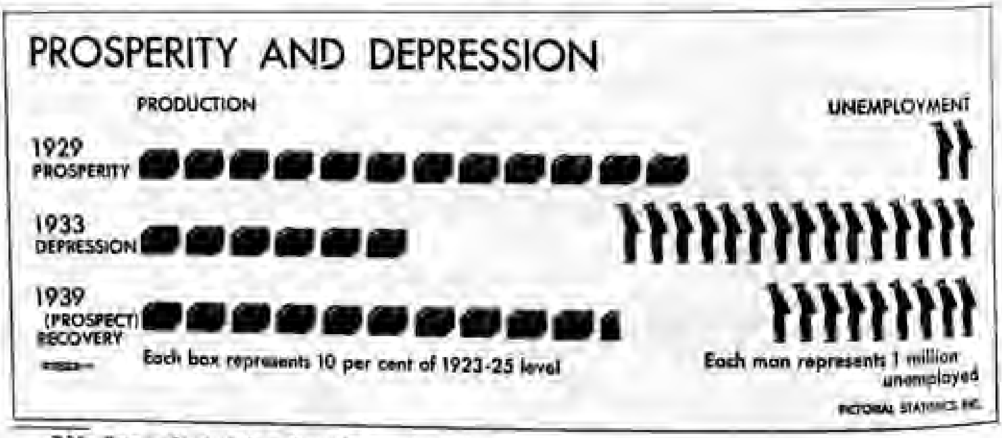
years, 5,000,000 have been added to our working population, so that we must find jobs for 7,000,000 more persons than in 1929, even after recovery has put the depression-unemployed back to work. Louis H. Bean[10] of the United States Department of Agriculture, estimates that by 1940, even if recovery reaches normal proportions and industrial production is 9 per cent above the 1929 level, there will still be 6,000,000 unemployed. To find work for these unemployed in private industry is America's major task today. There is nothing as yet in the industrial outlook which would reduce 1939 average unemployment below the 9,000,000 mark.

Profits: With the improvement in business activity in the third quarter of 1938, profits turned upward, but from a low level. Standard Statistics index for 158 companies, which had been 84.5[11] in December 1937, fell to 36.5 in the first and 35.4 in the second 1938 quarter, and rose in the third quarter to 40.4. It is too early for fourth quarter reports. With the improved 1939 outlook and higher business activity, profits should be considerably above last year's low level.

Outlook for 1940: The picturegraph below shows what always happens in depression: Men are thrown out of work and denied an opportunity to produce what they need for a decent living. There is no prospect of a return to 1929 levels of production and employment in 1939.[12] Unless the American nation can devise some means of National Planning, labor will be permitted full employment to create full production only for short periods of prosperity; the years between will be times of widespread unemployment and low production, with miserable living standards and actual hunger for millions.

A very real danger lies ahead for 1940. The Federal government, with all its spending for recovery, has not succeeded in getting private industry to put men to work and produce goods to capacity. By 1940 the present wave of government spending will have largely exhausted its stimulating effect on business, and unless plans are devised to set private industry to work producing goods and raising living standards, we shall either face another depression or a greater armament program to put men to work. Excessive armaments lower living standards and increase danger of war. Also, government cannot forever go on piling deficit on deficit.

In this critical outlook, which literally may be a matter of life or death to all of us, the first step is to establish a National Planning Board of representatives from business, labor, agriculture, consumers, government with provisions for experts to assist them and a mandate to stimulate the production of goods by private industry.



[10] Mr. Bean is Chief of Agricultural-Industrial Relations.
[11] 1926 = 100.
[12] Industrial production figures are from Federal Reserve Board. Average 1929, index 119; March 1933, index 59; 1939 prospect, index 104, Cleveland Trust Company. Unemployment estimates are from American Federation of Labor. The 1933 figure is also for March.

Treasury Department
Division of Monetary Research

Date 1/31/39 1938

To: Miss Chauncey

From: Mr. White

Original of attached given to the Secretary this morning, and he is going to take it to the White House.

I.

After declining from $79 billions in 1929 to $46 billions in 1933, national income payments rose steadily until 1938, when they dropped back to $64 billions after having reached $69 billions in 1937.

Although national income in 1937 was $10 billions less than in 1929, nevertheless factory employment in 1937 equalled that in 1929, and total non-agricultural employment was only 1,000,000 less than the 37,000,000 employed in 1929. The total volume of industrial production in 1937 was within 8 percent of the 1929 level.

If the rise had continued at the same annual rate, national income would have reached $80 billions in 1939.

II.

The setback in national income in 1938 has been attributed by various people to a number of causes. These need to be appraised. Among the more immediate of these are:

(1) An over-accumulation of inventories

(2) Excessive speculation in commodities

(3) Consumer resistance to rising prices

(4) Deflationary effects of increases in reserve requirements

(5) The curtailment of government spending

(6) Labor difficulties, including rapidly increased wage rates and sit-down strikes

(7) Shortages of skilled labor in key positions

(8) A too-rapid increase in production costs

(9) A decline in new construction

(10) A contraction of the market for new capital issues

(11) Government tax policies

(12) Maladjustment of prices, and price rigidities

(13) Fear of gold price reduction

(14) Government competition

(15) Excessive short-term installment buying

III.

It is proposed that an investigation be made of certain fundamental factors which may have been significant in bringing about the decline in industrial activity in 1937 and 1938, and which may stand in the way of increasing the national income in the future. Specific recommendations based on the findings of these investigations should be made in order that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed.

(1) What important industries have made less than a proportionate contribution to the increase in the national income in the past five years? What important industries have made more than a proportionate contribution to the increase in the national income in the past five years? What can be done to convert specific industries which have retarded recovery to stimulators of recovery?

(2) How far is the claim that new investment is being seriously blocked by specific government measures justified?

(3) To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets? (b) borrowing? (c) sale of equity securities?

(4) To what extent and why are depreciation charges not being reinvested?

(5) What elements of our tax structure, Federal, State and local, serve substantially to retard the growth of the national income through their effects on consumption, on new investment, or in other ways? What modifications that would stimulate or encourage the growth of national income could be adopted with respect to:

(a) Level of upper bracket personal surtax rates

(b) Carry-forward of losses and averaging of income

(c) Consolidated returns and taxation of intercorporate dividends

(d) Undistributed profits tax

(e) Capital gains taxation

(f) Capital stock tax

(g) Excess profits taxation

(h) Social Security payroll taxes

(i) Sales and other excise taxes

(j) Tax exemptions and other specific incentives to encourage employment, investment, etc.

(k) Depreciation allowances

(l) Other elements of the tax structure

(6) Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital?

(7) In what industries should capital be invested during the next two years? How much is likely to be invested in these industries during the next two years?

(8) What is the volume of savings likely to be available for investment during the next two years?

(9) How much would substantially lower rates of interest to borrowers of capital for production of capital and durable consumers' goods increase borrowing? What can the Government do to lower such rates of interest?

(10) How much would a reduction in the cost of borrowing to potential purchasers of durable consumers' goods (e.g., home purchasing) increase the demand for such goods?

(11) How important would a longer rate of amortization be as a stimulant to the demand for durable goods?

(12) At what points and what level of increased production will the lack of adequate skilled labor retard expansion?

(13) To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location, or function -- the field of investment activity to which it proposes to confine itself during the next two years?

(14) What measures could the Government take, either independently or in cooperation with State and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?

(15) It has been claimed that private industry by itself cannot profitably absorb current savings. Were this true a continued national income of $80 billions or more would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?

(16) What types of Federal Government expenditure operate to increase the national income most, and which least? To what extent is it possible to shift from those that increased income least to those that increase income most?

(17) Is there any justification for the claim that governmental spending on public works or WPA projects results in a decrease in spending on the part of private enterprise?

(18) Would a substantial increase in the public debt during the next few years have any important effect on government credit?

(19) Are there any prospects that (a) inflation or (b) deflation will emerge in the immediate future?

(20) To what extent are world developments likely to constitute a drag on recovery in the United States during the next two years? What steps, if any, can be taken to protect our economy from possible adverse economic effects coming from abroad?

(21) For what specific products can we expect a substantial increase in exports during the next two years? What, if any, removable obstacles lie in the path of important increase in our total exports?

(22) To what extent, in what fields, and with what effects on our national income, has the Government contributed to an uneconomic price structure?

(23) What will be the net contribution that the Federal Government (and if ascertainable, State and local governments) will make in 1939 and 1940 to the volume of buying power in the hands of the people?

(24) Would the maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?

(25) To what extent would a redistribution of our national income contribute to the attainment and maintenance of a high national income?

(26) How much unemployed would we have were our national income soon to reach $80 billions? What age distribution and what skill classification will make up the unemployed group at that level of income? How large a volume of unemployed must we expect to make provision for during the next five years?

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1/31/39

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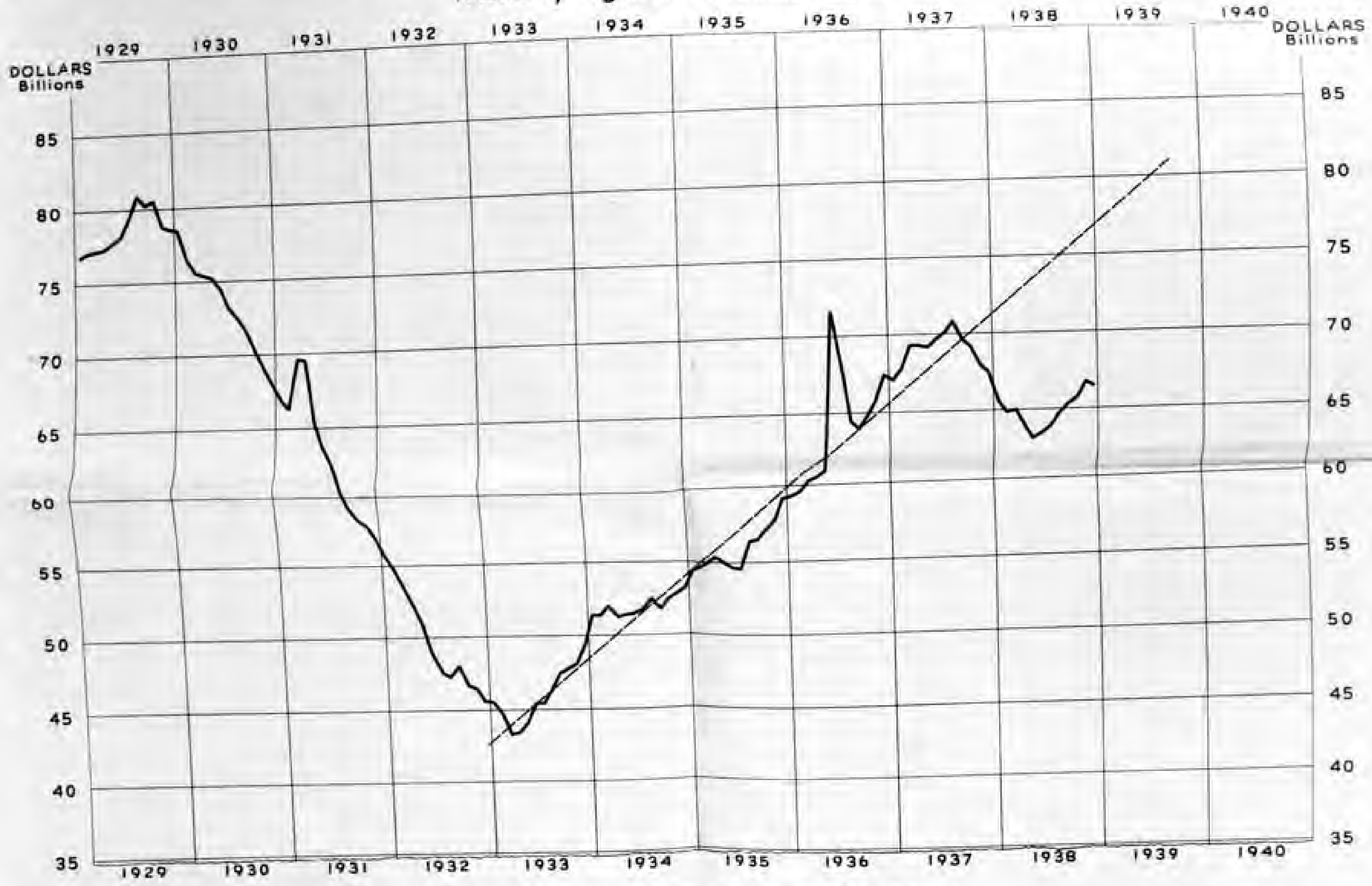
NATIONAL INCOME PAYMENTS
Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve

RE NATIONAL INCOME AND RECOVERY
(Held at 2211 30th St.)

February 6, 1939.
8:30 p.m.

Present: Mr. Hopkins
Mr. Eccles
Mr. Henderson
Mr. Currie
Mr. Nathan
Mr. Frederic Delano
Mr. Hanes
Mr. Gaston
Mr. White
Mr. Haas
Mr. Thorp

H.M.Jr: The reason I asked you gentlemen here was this. This is supposedly the Fiscal and Monetary Committee, with a couple of guests. We prepared in the Treasury, with the help of Mr. Lubin, a series of questions which resolve themselves down into about fifteen questions - what various people thought happened in '36 and '37 to cause the sharp falling off of the national income. And then we added about twenty-six more statements of various problems, which, as far as we knew, we had no answer to.

I showed these to the President and asked him whether he'd like us to take them up in the Fiscal and Monetary Committee, and he said he would very much, with this suggestion: that he felt that if we only covered part of the territory, although we had twenty-six various statements - and that he wanted us to invite Mr. Hopkins and, to quote him, to show it to him in confidence and let him show it to Mr. Harriman in confidence for suggestions. And then he said, "Show it to Leon Henderson, who you may not know is the works of the Monopoly Committee." And he said, "Get his help, because," he says, "take the question of over-production." He says, "Frankly, in the N.R.A. days we always ducked it. There's nothing in this memorandum about over-production." And he said, "Get their suggestions and their help."

Now, I want to say this for the benefit of the people that are here. We've been very successful so far in that at these various meetings we have always taken the position that whatever we do is the property of the President and he could do with it what he wanted to; he could throw it in the ash can or he could use it; but it's his property.

And I think if it's agreeable to you that somebody read the statement, why, whoever is near a lamp there - if somebody would read it out loud. And give these gentlemen a copy so they could follow it.

(Duffield passes out copies)

H.M.Jr: I think after this is read to you, you'll get the idea of what we're groping for, and "groping" is the word. You've had it in advance, haven't you, Marriner?

Eccles: I got it Saturday.

H.M.Jr: Do you like it?

Eccles: Very much. I think it's fine. I liked it very much.

H.M.Jr: Is there that chart with it that we had prepared?

Duffield: The chart didn't come.

Haas: I got one out in the car.

H.M.Jr: Would you mind getting it? We've got to have a chart; otherwise, the meeting wouldn't be successful.

Eccles: What I'm wondering is what the President meant when he said this was only one side of the story.

White: Well, Leon is apparently going to give us the other side that's left out.

Henderson: You know, over the period of the N.R.A. and in the times when I've seen him, when something's come up, he's always adverted to an idea he had in mind of what N.R.A. properly could accomplish.

He was sure from his experience, and I think it was fortified by what Johnson told him, that one of the main purposes which N.R.A. would serve would be that of a stabilizer of production, a regularization of production; that by the very exchange of information as to stocks on hand and orders and a general appraisal of the possibilities, you would get a prevention of the excess accumulation of inventories and a disruption.

I know when we had the study of the regularization of the automobile industry that matter came up, and also at other times when the President had occasion to speak in such terms. When I one time was pointing out to him the inventory situation, he said, "If we had had the N.R.A., this wouldn't have happened." And I believe that's what he meant by over-production. He always has felt that something like a bureau of industrial economics, by means of putting business men on notice, would prevent an over-accumulation of stock.

H.M.Jr: Well, Duffield .... What? Will you read it, Herbert?

Gaston: Yes.

H.M.Jr: Please.

Gaston: Section I.

(Reads in entirety Section I. of attached memorandum)

H.M.Jr: May I interrupt, please, a minute. Mr. Lubin was invited to come tonight but he couldn't come. I just want to let you know, because he was most helpful on this.

Gaston: (Reads in entirety Section II. of attached memorandum)

Hopkins: Those are good questions.

H.M.Jr: What do you think, Mr. Delano? Do you think that ....

Delano: I think they're a lot of very good questions. I wouldn't make any snap judgment on them.

H.M.Jr: Do you think your group in the National Resources could take some of these and ...

Delano: Yes, I should think so.

H.M.Jr: And would it just be a way to start, before we think of what additional questions we want to ask, would we say what questions you have the staff - just using you - what ones would naturally fall to the National Resources Board? Would that be a way to start that thing?

Delano: Mr. Currie, do you think the Industrial Committee could handle quite a share of these questions - don't you think?

Currie: Yes, I think so, Mr. Delano.

Hopkins: Would it be fruitful, Henry, to pursue this negatively a little bit? You have some questions here that might seem in our judgment not to be very fruitful for investigation and inquiry, and would bring back something that's pretty vague. I think, for instance, 26, off-hand - "How much unemployed would we have were our national income soon to reach $80 billions?" And how would it be divided, and so forth. Now, that's at the moment a matter of opinion. Personally, I don't believe there is anybody you can find that can find that out. I don't think anybody knows the social effect of an $80 or $90 billion national income. We think there will be less unemployment, but when you try to say how much unemployment there would be, the age distribution, and what skilled classification will make up the unemployed at that level of income, I simply - my opinion is that you can't find that out, that nobody knows what the effect is, that you can't ....

You know today, you have known for some years, how many people do not share in the national income to an extent that they have lived on public bounty of one kind or another. How many that would be as far as unemployment is concerned, I just don't think you could find out, and I think you'd be left with a dissertation written by somebody which would wind up as an expression of somebody's opinion.

Now, I've seen - oh, I've seen a half a dozen pretty competent people estimate this. They all estimated differently, they all make different kinds of statements, and I just don't think anybody knows it, and I don't think if you've got it - I don't think you could make any kind of a scientific inquiry that would be worth much.

White: It has this merit. What you say is true not only of that question but possibly of some others.

Hopkins: That's one; I was wondering if we could go through some of these and get the ones about which there might be ....

Delano: I think there's one thing that many of us seem to forget could tell us a lot; that is, supposing there are 10 or 12 million unemployed in this country today, how many of that 10 or 12 million are practically unemployable? Now, I ...

Hopkins: I don't think you know that, Mr. Delano.

Delano: But I think you'd probably come nearer knowing it than anybody else.

Hopkins: What you do know is that in times of a high national income and high production people who are unemployable today become altogether employable and corporations seek their services and are anxious to hire them. Employability is a matter of the national income rather than a fact. There is no such thing as a fact of unemployability, unless you say a person is feeble-minded or insane; then he's unemployable. But ...

Delano: I agree with you, that's true; I mean every corporation will tell you that there are a lot of people that they're the last to fire and the first to hire.

Hopkins: That's right.

Delano: That is, they want to get maximum efficiency. But now there are a lot of persons that won't hire a man that's over thirty-five. Of course, if business was rushing they'd lift that a good deal.

Hopkins: And they'd lift it at once.

H.M.Jr: Well, if we're going to make plans for two years or five years for the country, that sentence - how large a volume of unemployed would we expect to make provision for during the next five years - I think it's very important.

White: Yes.

H.M.Jr: And, without being - I don't mean to be personal to anybody in the room, but this thing of always going up and never being - always asking for money for three months or six months or twelve months and never having the answer to that, even if it's only an estimate - I think that just that one sentence... I mean maybe there's nothing we can do to plan, but at least we could make a reasonable guess of how many unemployed we've got to take care of in the next five years, especially in connection with Social Security and all the other things that we're doing.

White: And I think there's something that's to be said ....

Delano: Are you going to take care of all men over sixty-five, for instance? That's quite an answer.

Hopkins: That gets into something besides unemployment. This question is about unemployment.

Gaston: Do you know whether the Employment Service has ever made public, if they have, any classification of these unemployed as to ages and skills and education and so forth?

Hopkins: Oh yes, we've got more information on that subject than any nation in the world ever had. There's no nation in the world that ever got as much information about the unemployed as we have.

Gaston: Can't you see - couldn't you observe some trends now you've had some growth and some shrinkage in those rolls? Isn't there something to be deduced from what classes go out first, what ages, what sort of skills go out first, so that you might have some inferences as to what the residual might be, given a steady flow out into industry from these rolls?

Hopkins: Well, personally, I don't think you've got much. I think somebody could sit down and write a thesis on the subject and make a statement, but I think all you'd have when you got through would be somebody's thesis.

White: There is just a possibility that you could divide these questions into possibly two groups, or even three. One group would contain question in which you can't be too hopeful of results which you may obtain; nonetheless, since they are not mutually exclusive, since, for example, a particular department or particular groups of persons might undertake this without in any way interfering with the rest of the study, they may be worth while, may contribute something to the general problem.

And then, in so far as it is necessary to cut down, you would confine yourself to those that you put in a particular group which you felt were most important and which you expected to get best results from.

Henderson: Well, isn't there, Harry, a way of classifying the questions in - those in which there is reasonably reliable statistical evidence, and the others in which the best essays, to use Harry's phrase, can be written.

Now, Means and Bean, on the basis of their work, could give some kind of an essay on 26.....

White: I think so.

Henderson: ... which would be, if you had to have it, the best thing that you could get, and nobody would want to pin a guaranty on it.

Hopkins: I think White's getting at something here. You might put these questions - might - almost off-hand I could see them in three groups. For instance, I would think in one, the first part of one - I would assume that that could be answered pretty conclusively.

Delano: You're on page two?

Hopkins: No, I'm - yes, number one on page two. "What important industries have made less than a proportionate contribution to the increase in the national income?" Now, without going into the exact wording of that question, I would think that could be pretty conclusively answered. Now, I may be wrong, but I would think it could be.

Now then, you move down to - let's say you put that 26 in class two as something somebody could write an essay on.

Then you move to a thing I'd put in class three: "How far is the claim that new investment is being seriously blocked by specific government measures justified?"

Now, I simply think that you cannot make an inquiry or investigation of that, because I don't think you'll ever get anything other than somebody's opinion. You go and ask John Brown, who's got a million dollars, and he'll say to you, "I would have invested that million dollars except for the undistributed profits tax or the excess profits tax or the capital gains tax." Now the fact he says that doesn't prove anything.

White: A little more than that can be done with it. What you say is quite true. Yet I think there is a possibility of approaching the thing from a quite different standpoint, different angle. I know that some of Currie's staff has fooled around with a different approach that may yield results. Now, how convincing they will be remains to be seen, but I think there's enough possibility there so that it's worth trying.

Hopkins: Develop that a little, White, if you think this can be done. How would you do it?

White: One of the things I know they've done - they can speak for themselves - that is, they've taken industries in which the excess capacity has been reduced and the evidence seems to be that wherever you have the appearance of prospective profits, irrespective of the period of years, irrespective of the year that you select - wherever you have the appearance of prospective profits, either as a consequence of eliminating excess capacity or as a consequence of certain other circumstances, you have very substantial reinvestment, whereas at the same time in industries which have a great deal of excess capacity - at the same period, I mean - you don't have any such investment.

So such an approach might be quite fruitful. I don't know how far you've pushed that.

Currie: Not very far, Harry. The one attempt we made, because it's the one talked about most, is the electric power industry. There we charted the relation of generating capacity to output in terms of 1929. Of course, we found this great big pocket being formed in the depression, and then when the relationship of output to generating capacity got back at the end of '36, beginning of '37, to where it was in '29, you had about 300 million dollars less investment than you had in '29; but whether that was a time lag there, whether that would have been made up shortly, or whether with the introduction of new practices they had a more even distribution of the power load than in 1929 - those things would have to be gone into, be broken down as to particular regions; take the Southwest, T.V.A., ...

White: Have you explored the ground and come to a conclusion whether it's worth while going forward with?

Currie: Pardon?

White: Have you explored the ground enough to indicate whether it's worth while going forward in that direction?

Currie: More of an intensive study could be done. I found no evidence in any other industry of this fact. But in that industry there's a possibility you might make out a case.

Hopkins: I still think it would be difficult to prove.

White: There is this to be said. There will be several questions here in which the only things that can be done are in the nature of essays. However, one can't disregard the significance of the value of competent essays.

Hopkins: Especially if they happen to agree with you.

Currie: I think you might do ....

White: I said they were competent.

Currie: On this particular question you can do a negative job in a way - I mean if you bring out that in industry after industry after industry the main factor in creating investment is the degree of excess capacity in inverse ratio; negatively, you're answering this question.

Henderson: Positively, you show that as you approach the limit of capacity there is renewed investment. It can be made a positive showing.

Currie: That's right.

H.M.Jr: May I just get this before we get on one out of the 26? I'd like to just approach this for a minute - let me get Henderson's - he's always very frank.

Do you get, after reading the first part, the fifteen statements, which have been picked over, each one, of what different people - some think it's one, some think it's two or three - that made this break in the trend which looked as though our national income, if it hadn't been for the break in '37-'38 - we were headed towards an $80 billion income. Now, looking at the thing as a whole, without saying that this particular thing we can't answer or this one, do you think it's worth while proceeding with the idea?

Henderson: Yes. Very much. I don't think you've got all the reasons here that have been stated.

H.M.Jr: No. The President said there were a lot ...

Henderson: I think one very significant one hasn't been stated, and that's the one which - well, that Sachs was emitting, and also is the subject of that study by Lehman & Cohen, you remember: that there really was a - might be a modification of number 10 - that there was not so much a contraction of the market for new capital issues, but a contraction of capital assets for working capital for leading companies. You remember that study.

Haas: Yes.

Currie: Which in turn they tied up to the subject of the new issue market, restrictions on new issues, lack of underwriting capital.

Henderson: That's Sachs' thesis and the Mazor thesis, which are the same, supported by a study in which they find - which Cohen & Lehman did for the new school - was that it was a shortage of working capital, really.

H.M.Jr: I saw that.

Henderson: That, induced by certain New Deal measures which they think really throttled the forward progress. That ought to be in for - certainly I'd want a shot at appraisal of it.

Haas: That would come in in 10.

Henderson: But in the main I think it's an excellent thing to do, particularly those which are measurable. Now, Henry, number one, over-accumulation of inventories, is - while that maybe both a cause and a result, I would say it was a result of particularly number 12. That would be one thing on that before we got into the statistics.

But certainly it is possible to make a real appraisal of the inventory thing in terms which would be useful as we approach another such period. And I think it ought to be really dinned into our consciousness as to what happened. There's been no similar period that's shown in Kuznets' works, certainly, Lauch, of inventory accumulation such as took place.

Currie: Practically the largest on record, I think.

Henderson: About two and a half times what it was in 1929. I think that the setting down of these things would be very much worth while. It is awfully difficult, however, from the statistical material to follow this wage versus price thing - the hen and the egg thing - as to which came first.

H.M.Jr: Well, I'm not fooling myself at all about the difficulty, and I'm not fooling myself that nothing may come out of it. But at least - I don't care whether out of the 26 there's only three that are any good - at least if our people were thinking along those lines, to try to find out what did happen, and out of that possibly prepare ourselves so that the thing may not happen again in the immediate future, some good might come out of it; some good might come out of it. But I personally am not satisfied with the information which is in Washington as to what did happen, and I'm not satisfied that we're prepared to in any way combat the thing happening right over again.

Henderson: Well, I'd certainly go along with that second. I'd be less - I'd be a little indifferent on the first, but the second is pretty true. The organized information or the approach as to handling another prospective similar period is certainly not here.

White: And I think you're probably unduly modest and pessimistic about the possibilities here, because these include many of the fundamental questions; and doubtless there are some that have been left out and that should be added and will be added. But when you get through you'll have, I presume, most of the questions which are constantly in the forefront of all discussions, and which go to the - appear to go to the root of the matter. And an attempt to answer them, getting such statistical evidence as is possible, will in the first place be a great deal and it will indicate what evidence is not available, which may indicate what we ought to get.

And thirdly, in the realm of discussion, and many of these questions would have to resolve themselves into that, I think there is something to be gained by having it discussed from the various points of view and brought together. And therein, I think, is the danger of allocating questions to particular groups, because there are numerous of these questions - and possibly we could select them in a group - in which the person handling them would determine in part what the conclusions are, and therefore it would be essential to have those particular questions handled by several groups independently, the results compared. And inasmuch as we are all reasonable human beings and want to get at the facts, I presume that the essays have some value in that direction; those would be of the essay type almost wholly, if not wholly.

And then I think it is also true to say that on almost all these questions you can get some evidence.

H.M.Jr: Marriner, how do you feel about this committee taking hold of this, or approximately in the form it's in?

Eccles: It seems to me all the questions really resolve themselves into possibly three headings: First, a consideration of what did happen to bring about a downturn. That can only be of value as it may serve as a guide in the future to avoid similar mistakes.

Secondly, what can be done that we may not be doing and that will help to bring about the desired objective of a much higher national income?

And thirdly, what are the pitfalls, the things we need to watch, the things we need to be conscious of developing, that might be an impediment or would tend to retard a program of reaching that income?

Now, that, after all, it seems to me, is the broad thing that we're interested in - is getting this higher national income, reviewing the past in order to serve as a guide in the future, while at the same time giving a study to those factors, and it seems to me they're pretty well enumerated here.

There is some overlapping, of course, and some duplication - at least not duplication but overlapping, in connection with the consideration of getting an increased national income. And we know also that there are certain pitfalls, there are certain things that we should have in mind to watch out for, to attempt to avoid. Now, I think it's a very necessary and a very worth while study. I don't know how successful we'll be even if we should agree on some kind of a program; you've always got the political problems of trying to get through or get the adoption of a program or portions of a program that would assist in reaching your objective.

But certainly, unless we expect our democracy merely to go along on a hit-and-miss basis, there isn't anything else we can do but to try to take the information that we have and the body of knowledge that we are able to get by further studies and make a real effort to interpret it. We've got an awful lot more information than we ever use.

H.M.Jr: That's right.

Eccles: It seems to me that we ought to try to bring some of it together and to interpret it in the light of what our objectives are. And it seems to me that this Committee is especially - inasmuch as we have the support and the backing of the President on this kind of a program, that we ought to be better able to do a job in this field, inadequate though it may be, than any other body in existence in this country today. And I'm not - I'm not very hopeful, but all we can do, it seems to me, is make a fight, make an effort, and keep on trying. And I know if we don't do it that just as surely as you live we're going to repeat some mistakes and we're not going to know about it until after it's too late.

H.M.Jr: Well, I feel that this kind of study - and the President felt that way; I mean took time enough to read it very carefully, discuss it - is very much worth while, and I checked very carefully, as carefully as I could, as to whether anything approaching this was being done by any government agencies, that we weren't duplicating, and as far as I could find out there wasn't anything like this going on. I may be wrong, but the people told me there wasn't, so we're not falling over anybody.

And I myself - I mean just talking for myself, I feel the need of this thing very, very badly, and while I'm not going to be too hopeful, at least if I could have this going on and have the contact with the people making the study, at least I'd feel that I was making the best effort I could not to fall into the same pitfalls, as Eccles said, which we've just gone through, lacking that study. That's why I personally am very enthusiastic and am willing to devote a lot of time to it myself, because I'm not particularly happy about the prospects for '40. But if you say, "What are you going to do about it tonight?" I just wouldn't know what the answer is. But I don't think the prospects for '40 are any too bright, and if somebody - something like this was going on I'd at least feel, for my own self and my particular responsibility, that I was doing everything that I could, through the intelligence of the people that were with us and other departments, to try to meet the thing as intelligently as possible. That's why I'd like to see this thing done.

Now, as I say, this is - as the President said; he put it this way - he said, "This only takes care of two phases of a six-sided cube," and he particularly stressed a lot of the monopoly things, which are not included in this thing. Then he said if Hopkins would study this thing, talk to Mr. Harriman, see what things they felt were left out, why, we could.....

But after all, while Mr. Bell isn't here and I haven't had a chance - I'm doing my home work right out in public, so to speak - I'd just like to know from Mr. Eccles and Mr. Delano if they'd feel that I'm over-enthusiastic or over- - I mean ...

Delano: I think the work is very well worth doing.

Eccles: You know, the various departments of government - unless a person lives over here for a few years, they don't realize how many there are and how many things can be done that don't fit into a pattern, and each one is absorbed in their own immediate job and they too often lose sight of the relationship to the over-all picture. They pursue a course that might work directly opposite to what an over-all picture visualizes.

People outside of the Government are making independent studies. The Industrial Conference Board, the Chamber of Commerce, the Bankers Association, the Manufacturers Association, and various banks are putting out their bulletins and making prognostications, and they're taking government figures and other figures and trying to interpret them and make forecasts, and the public is being, it seems to me, terribly confused, and so often some of the work that is being done by those agencies is done with a bias; there is a certain bias too often and they oversimplify very difficult problems.

And the Government itself seems to me to add to the confusion without an effort of this sort to try to bring together ....

H.M.Jr: Well, you don't think this would add to the confusion.

Eccles: I say that the Government does, the way we have operated, due to our failure to try to appraise the various activities and the various programs and try to fit them into a picture that makes an objective. I don't say this would - I say this should tend to avoid that very thing. This should tend to stimulate confidence to the extent that we have not only definite objectives, but that we have a program that we're trying to fit into the objectives that we're trying to reach.

I think that there is too much feeling, and I think justly so, outside that we're all confused, that we none of us know where we're going or what we're doing, and I think it's just due to a lack on the part of the administrative division of the Government of at least trying to bring everything together into some kind of a plan. Not that you may - not that you could always carry it out, because it involves often a legislative approach; but certainly if we're going to render any useful service here to the President as a Committee and advise him with reference to an economic and fiscal and monetary program, we either ought to say we can't do it or we ought to make a supreme effort and try to develop a program that makes sense, try to develop one not that we pull out of the air, but try to develop one that is based upon the best possible information that's available, after applying the best minds that are available upon the information we've got.

Now, after we've done that we can't do anything else, but certainly we can't do any less if we're going to serve him as we're expected to, except by doing just that. Now, that's the way I look at it.

H.M.Jr: Well, as a by-product, for instance, when I was asked at my press conference point blank on the processing tax, having had the whole discussion of the Fiscal and Monetary Committee and knowing that we listed that as, I think, public enemy number one, why, I felt perfectly safe to come out and say I thought it was a terrible thing and I was "agin" it. But I had the benefit of the work of the people, and so forth and so on, and if I hadn't had the benefit of this Committee, I wouldn't have taken such a strong position, and the answer was I got away with it. But the fact that this group and the economists that are working for it - they all say, "Listen to this - public enemy number one," .....

Eccles: They were unanimous.

H.M.Jr: ... - gave me that backing.

Hopkins: Huh?

Eccles: I say: and they were unanimous.

White: For a change.

H.M.Jr: But I mean I never would have gone out that way if I hadn't known this group was back of me.

Johnny, do you want to say something?

Hanes: No, Henry, I think Marriner hit the nail on the head when he said that this Committee is expected to produce something concrete, and this is the most productive effort that I've seen, and I believe with an agenda if this thing were announced tomorrow morning, that the Federal Government was studying this sort of an approach to this thing, it would engender more confidence in the business structure of this country than any other one thing that I can think of.

Eccles: They wouldn't think we were just guessing and hoping.

White: Arouse a tremendous amount of interest.

Hanes: If you could get the President of the United States to announce it - that this is the thing - that they had directed a concrete study, and the best minds in the Government were working on this thing in order to bring about an $80 billion income, or whatever the income was we're shooting for, I think it would engender more confidence in the business structure than anything we've done here at all. And I'm crazy about it; I think it's real.

H.M.Jr: May I interrupt one second. In adding to the discussion of the President, I think a sentence he used was most interesting. He said, "Make these questions as provocative as possible." I mean that was what he said. Excuse me, Marriner, but I just wanted to add that.

Eccles: Well, I was just going to say that you've got a legislative body here, in fact you've got two of them that are constantly considering every day in various committees questions that have a bearing upon the whole economic trend of the country. They make decisions and legislation is developed that seems to me might not be developed, and certainly the decision that may be made might not be made, if there was a body of thoughtful, expert, considered opinion, with reference to some of these matters.

H.M.Jr: Well, again using processing tax as an example.

Eccles: That if Congress then saw fit to take action contrary to all of the arguments that were possibly made against certain action, they would be - it seems to me there may be more hesitancy in doing some of the things they may do.

H.M.Jr: Leon, would you do what the President would like you to do, that is, take this personally and study it, and those things which you don't like, say so, and those things which you think we've left out, add them?

Henderson: Why, sure. What I was thinking - I don't believe there's a bit of difficulty on that, inasmuch as I'd like and have wanted for a good long time to see some agency make the move of doing just this. And I've been here five years now and I've been looking for some agency in the administrative arm that would move on this particular topic. We should have had it in a planning board, of course; that would be the logical place for it. Maybe a Resources Committee that was adequately staffed could do it. A fiscal policies board has certainly got to do it or, as Marriner said, just give up the ghost. Now, I think it's just merely a question of what kind of an organizational structure you're going to institute and to get it done, get it started pretty quickly.

Now, I can pick off certain topics in there that we can do in our Committee (TNEC) and some of them we expect to do; and if you get the proper heading up of the thing, why, we can go to work on it and most of these things could be reasonably well answered in the next three months.

H.M.Jr: In three months?

Henderson: Yes. If I had nothing to do except to organize what the existing information is, within three weeks I could have a reasonable answer on all of them except the tax thing.

H.M.Jr: And Hanes could give you that tonight.

(Hearty laughter)

Hanes: I don't mind saying I could give you a hell of a lot on it tonight.

But I was going to say one thing more, Henry.

Henderson: In fact, if we were back in the W.P.A., Mr. Secretary, and Hopkins wanted that tomorrow morning, we'd do it by tomorrow morning. We've done it.

White: Is that the way you got it? That explains some things.

H.M.Jr: I won't say anything. You're my guest.

Gaston: That leaves Harry wide open.

H.M.Jr: We'll skip that one.

Hanes: Mr. Secretary, may I ask a question just to throw it out for discussion? What would the group think about getting about twenty, thirty, forty, or fifty private agencies at work on such questions as these and others that may be added from time to time? We can get an awful lot of help from the outside. Maybe it would do us some good to get an outside viewpoint on a great many of these things. We can take it or leave it, as we like.

Henderson: That should be determined according to which ones you ask, under what terms of reference you do it, and under what terms of supervision.

Eccles: Isn't there this danger, though, Johnny, that some of these outside agencies - that you've got to be careful that they're not already committed in some field. There's so many of these agencies that have got pretty strong - taken some very strong positions, and they have some pretty definite commitments.

Hanes: Well, of course, you'd have the names of all those people. You could discount the ones you don't like, just throw them in the wastebasket if you don't like them. But I was just wondering, why do we sterilize all the brains in the United States? Why don't we get all the brains we can get to work on this thing, rather than sterilize them and just say, "We don't want your opinion." Let's get all the opinions we can get.

Delano: That Fortune crowd seems to have made quite an interesting study.

Henderson: Interesting, Mr. Delano, but keep a question mark or two up on that particular thing. If you ask me, I think it's a pretty lousy job. I mean now you can take that with some of your good comments and discount them and balance them; but I think that Fortune article is a pretty poor job, considering what could be done on the subject.

White: You could certainly tap scientific organizations and institutions.

Eccles: That's right.

White: But I think one of the dangers of getting purely commercial groups to work on some of these is that if the government group presents a different report, presents a different side, which may be quite likely in many instances, why, it would have possibly unfortunate public consequences.

If you confine yourself, on the other hand, to those who qualify more or less as objective experts, for want of a better name, ...

Hanes: I was thinking of the Minnesota School of Business Administration, for instance; I mean give some of those kind of people a real shot at this thing, where they're groping around, looking for something to put their people to work on. And these bring up so many problems which they are studying from day to day.

Henderson: What you could do, John, instead of that is to tap those individuals as individuals rather than tap them as an organization. In that way you avoid the thing Marriner has pointed out, of asking somebody to give you something on which they're already committed for policy reasons. For example, after having analyzed two or three things which the United States Chamber has done, and after collecting a dossier on the Conference Board of that thing, I would never think of asking them as a Board or as a Chamber to make a reply on one of these things; but there are people in those groups and people working for members of the firms that belong to the Conference Board of the United States Chamber, and there are people in the universities and there are also in the research staffs.

Haas: Well, the National Bureau up in New York would be all right.

Henderson: You always come back to the National Bureau. But the National Bureau will not take on an additional thing. They'll say, "Here's the best we've got." I've got their figures on capital formation for 1937. Have you (Currie) seen those?

Currie: Yes.

Henderson: I sent them over. They show as far as consumer goods goes we were above 1929 in 1937, a very astounding thing; on consumer goods we beat the 1929 physical production in 1937. They'll give you those things. You can rely on those. We're constantly working on that. That's a body of knowledge which the Government people already have, George.

The point I'd say on this, John, on the matter of anything which has reliable content - that's part of the working knowledge of the governmental groups now. As far as - when there is an opinion question, that's something else.

Hanes: Yes, and so much of this is opinion, as Harry Hopkins said a moment ago, and after all what I assume you're trying to get at here is what is affecting adversely the business psychology in this country.

Henderson: I incline more to the things you can measure.

Hanes: It seems to me the more opinions we could get on it - at least we'd have a lot of opinions. I don't think it ever hurt anybody to listen to anybody's opinions.

Currie: Don't you think, John, we get that opinion every day?

Hanes: Maybe you do. I don't think I get it every day, no. Get it out of the newspapers, if that's what you mean, but I don't think that's what I'm looking for. I'm looking for real intelligent honest-to-God - looking for appraisals by people that you have faith in, confidence in, and people who are doing things every day, know something about what they're doing.

H.M.Jr: Mr. Hopkins.

Hopkins: I've got one suggestion to make which is positive, one that's a little tentative.

The positive one is this: That I think these questions are provocative; they may not be inclusive enough; I think some of them aren't worded quite right. And I'd like to see a committee of three made up of people like White and Currie and Henderson get these questions down the way we want them, in the exact language we want them in, very carefully chosen language, add such questions as they think best so that we get a complete meeting of minds. And I would think those fellows could readily put these questions down. I think that they ought to be put down in better order than this; for instance, I think Marriner outlined a type of approach to this thing that is not bad. And I would think that could be done in the next day or two. I don't think that would be much of a trick, to get these. Somebody must have done a lot of thinking about this in this crowd in this room; I don't know who did it, but somebody.

H.M.Jr: Well, there were three people did it: White, Haas and Lubin.

Hopkins: Yes. Well, I'd like to see this gone over once more, and get these questions ...... Now, that's a positive suggestion.

H.M.Jr: I gave a couple of those thoughts.

Hopkins: Now, the tentative suggestion is this. Let me interpolate a minute about Johnny's question. The stuff that's in here, and all the implications of it, are the basis of the 1940 campaign.

H.M.Jr: Is that going to raise its ugly head?

Hopkins: I'm telling you how the question is going to raise its head. This is very important political stuff. The reason I don't like to submit this to people in any outfit that's opposed to Roosevelt that wants to answer this - they're going to take this occasion to publicly hit him right over the head with a club. These fellows you ask about this thing outside the Government don't hesitate to publicize it at great length.

Another thing I'd say: Whether anybody likes it or not, Roosevelt is the President of the United States, and this is the executive crowd that are supposed to be working on this thing; we've got the executive responsibility for the administration of the Government. Now - I mean if we can't answer these questions, and any like them, and all the implications, if we haven't got an answer to these - and I don't think this Administration, incidentally, has had answers to a lot of these questions in the six years we've been here - ...

Eccles: We should have started this six years ago.

Hopkins: I don't know; we wouldn't ever have gotten the answers, possibly. Many of these are policy questions; lot of these things involve Administration policy. When you get in this tax question, you really get the question, what's the policy of this Administration regarding taxation? - that's what you're asking here - and why? And I think it would be a grand thing to see if this thing could be written down in close-fitting language.

Now, the tentative suggestion that I've got is this. Once these questions get agreed upon, I certainly would like to take a flyer in my department at answering these. I would think that White and Haas and the crowd they're working with would like to submit the answers to this thing for the Secretary. The National Resources Board might. Lubin might want to do it on his own account. Then we'll bring these together and see how far apart we are and see if we could bring those then together in a memorandum, which would either be a memorandum of this fiscal policies committee - that could be worked out later, as to how you'd get this - a meeting of minds, and put it in the hands of the President.

The first suggestion is a positive one, the second one is quite tentative.

Gaston: I'd like to say something on that second suggestion, Harry. It seems to me in dealing with a great many of those questions you'll have an important problem of research, a statistical problem there, getting out a lot of material, and it does seem to be a great waste of effort if that's duplicated.

(Mr. Thorp comes in)

Hopkins: I'm inclined - I don't know, but I'm inclined to doubt that if this is a matter of wide - I'm inclined to think this is not a matter of long studies; I'm inclined to think this is a matter of some very close-knit thinking. And I grant you we've got to get some statistical data in our efforts here.

White: I think both. I think there is a good deal of merit in having the various agencies, four or five of the agencies, tackle the same questions from their particular point of view. I think there is a great deal of merit in that and I almost think it's necessary where so much of it will be a question of philosophy, question of point of view, and so forth; then see if you can iron out the differences and how much similarity of view there is, and thrash out the differences. On the other hand, there is a good deal of material here that involves some rather comprehensive and extensive research. So it might be possible to combine both those ideas.

Hopkins: Why couldn't you, then, White, add to the duties of the committee that's going to prepare these questions the further duty of indicating which of these things require some pretty careful statistical analyses and studies; let this committee indicate what agencies could best collect any one of these items. In the meantime certain of these things which do not require - where the statistical material is fairly readily available, you could go to work on. For instance, I'd very much be interested in this first question, as to how some of you fellows over in the Treasury would answer that question. Now, suppose four or five of us did work on an answer to that question; then we'd get together and see how close we are.

White: It would mean that most staffs, I think, would have to - would need more people and drop everything else for a while.

Currie: That one - the first two parts of that question could be answered very quickly. It's the third part that would ....

Hopkins: Well, that becomes a matter of ....

Henderson: We're going to have that number one in our Committee before we get through - the first two parts of number one. What can be done about it, I don't know whether we'll have or not.

Hopkins: I don't think you can set up something here with this kind of stuff and wait until seven or eight months to put this on the President's desk. This is going to be - if you've got to wait that long, this thing - that's too late.

Eccles: I was going to suggest this. That number one section - we can do that afterwards. I mean that's water over the dam and it's a study that can go along. What I would move into for the moment is the thing of questions of importance from the standpoint of timing: what can be done that will stimulate or assist in increasing the national income by getting private activity to expand? In other words, what is there that might be done to give that stimulation? That can't be all-inclusive, but it seems to me that we may well do this, that we can give a report to the President on this thing piecemeal; tell him that to complete it all would possibly take until next summer or next fall, and by the time we come to certain answers he'd say, "Why didn't you tell me that a few months ago?"

H.M.Jr: Well ....

Eccles: There are certain matters now that Congress is in session that have to do with possibly certain legislative matters, amendments to legislation, that might be a real help and stimulation to private activity. Well, the sooner we can develop what some of those factors are - I mean like in tax matters - Johnny talks about taxation, a case in point - certain aspects of the labor problem, certain aspects of the question of the capital market; and we've got this problem of Government spending, the question of appropriations. You've got four things there in a broad way that we ought to have a program on pretty soon.

With reference to labor maybe nothing could be done; but at least there may be certain things that would be really helpful and that would involve some of the amendments. There's indication there's going to be some amendments possibly in the Wages and Hours, possibly in the Labor Relations.

Now, there are many factors in this picture. There's going to be tax legislation, possibly, of some kind or other.

H.M.Jr: Don't forget Social Security.

Eccles: That's another one you've got, Social Security; that's right in the mill, it's got to be considered. You've got the question of spending, what's the W.P.A. appropriation going to be, what other appropriations - whether you're going to have public works, roads, CCC camps, and other items.

You've then also got the question of the railroads, which is one of the most important matters. You've got a question of housing amendments that are coming up right now that are being proposed, and what can be done with reference to reducing the financing cost, possibly, or lengthening the time of amortization. I'm thinking of a half dozen of these things that I know are coming up that all have a bearing on this. And it won't do a damn bit of good to complete studies with reference to those after the laws are passed for this session of Congress.

Delano: I'd like to say a few words.

H.M.Jr: Please.

Delano: Doesn't mean at all that I'm not in accord with these questions, but my mind has been running along this way a little bit. It seems to me in the last six years we've been trying quite a good many experiments, and at the early part of that time I remember meeting two Englishmen who were over here, one of them a prominent member of the (words not understood) named Clayton and another important economist named Beveridge. I remember one thing they said which impressed me very much, about the way they were doing this job in Great Britain. They thought it was very important not to tax their Federal treasury very heavily, but to do things which would get the maximum amount of aid from industry, in some cases going to the extent of guaranteeing bonds for private industry, and all that.

Now, we didn't start on that method, and I think we had an impression in this country that it was only necessary to prime the pump. That was the expression that was used. Well, I don't believe anybody in this room believes that priming the pump then or now would solve the problem. It needs something much more fundamental.

Now, some of the experiments we have tried I think have had some pretty good results. You take the F.H.A.; it seems to be having very good results, and it isn't a very big obligation on the Government. Some of the things that we've done are just the reverse.

I have in my other coat pocket - I carry around a little chart showing the construction work in this country in the booming years of '27, '28, '29. Total annual cost for construction work by private industry and by cities, states, and Federal Government, something like 14 billions a year, and of that amount the Government only contributed between a quarter and half a billion. Well, during these recent years we've dug into our pants to the extent of two and a half billions a year, but we haven't been able to get the cities, the states, the private industry, to anywhere near fill in the gap. In other words, we've gone on the theory that if we set a good example the others would come along. But they need more than a good example; they need some real inducement. And I think you did that in the case of the F.H.A.

Now in the railroads about the only spending they have done in a capital way has been where they've been helped and encouraged by the R.F.C., and while they haven't had enormous amounts to spend on that sort of thing, they have accomplished quite a good deal, without a big drag on the Federal Treasury.

So it seems to me that we ought to give some thought to the kinds of things, the kinds of remedies that we should adopt which will get private industry doing their share.

Now take the power thing. I've been sitting in on that Army committee about power. Supposing the Federal Government would say to an industry, say, in Pittsburgh or Cincinnati or Chicago, "We'll build some transmission lines to transport your power at a certain price per kilowatt hour, if you'll build the plants to generate electricity at a certain price." I mean that would be a sort of bargain where the Government did part, but we'd expect the industry to do a great deal more. And things of that kind, I think, are more needed now than the Government doing it all as a good example.

H.M.Jr: Well, Mr. Delano, would this be a way of getting this thing started - I'm thinking of what Hopkins said - if each of us would designate one or two people - technical people to represent us and have them get together and work over this first draft?

Delano: Yes.

H.M.Jr: And after they've agreed amongst themselves - and as they're doing it they might be thinking, "Is my department equipped to do this, or would I like to work with somebody else?" They could be thinking of that as they go along, and they could check off - "Well, the Treasury could handle this all right, but on this one we'd like to work jointly with Commerce" or "we'd like to work jointly with Federal Reserve" and so forth and so on, and "this naturally would fall to Labor." But they could do that as they went on, and when they came in they could say, "These are the ones we're equipped for and these are the ones we're not equipped for, and these are the ones we'd like to work on all together." And I think each of the people here could say now, if they could, who would represent them.

Delano: Well, so far as Resources Committee is concerned, most of the work of this kind has been done by a committee on which Mr. White, Mr. Currie, and Mr. Henderson have worked; it's an Industrial Committee with about twelve members representing all the departments of government.

H.M.Jr: I don't think Commerce is represented.

Henderson: Commerce had a representative on there.

Delano: They had for quite a while.

Henderson: It was too socialistic for them, so they gradually withdrew; they got scared of some of the things we were doing. They needn't have been scared. Never did any revolutionary things I know of. Sat around and hoped for an occasion like this, in the main. Have done some thinking in the meantime; but I mean they've wished for an occasion like this. If Commerce could come back on this committee one of these days ....

White: That would still leave room for each department to decide if they would like to take some of these things independently.

H.M.Jr: I still go back to what Hopkins suggested: in order to keep this going, if we say tonight who is - those of us here - I think that Hopkins is sufficiently liberal that we could admit him to this Committee, and now that he's ....

Henderson: Well, I ....

H.M.Jr: What?

Henderson: I don't know.

Delano: Stiffening up.

White: He's changed.

H.M.Jr: I'll vouch for him. I'll vouch for him. The fact that he's in my home ....

Eccles: We better get him in now while he's eligible.

H.M.Jr: If you don't mind, this other committee brings in other departments, and maybe I'm being over-cautious, but as I said at the beginning, I've always felt that this work - all the work I was doing is the property of the President, and until he's said to bring in Agriculture or bring in - who else is on your committee?

Delano: Labor. Lubin's on it.

H.M.Jr: Well, he knows that Lubin is on it. But I'd like to just think about it again, because he has been so - I mean we've been so - this is one of the few groups I've ever worked with that I didn't pick up tomorrow morning's paper and read in some column what I did the day before; and this has been fairly successful and I'd like to keep it that way.

Delano: Well, Mr. Currie, what would you say about a man like Gardiner Means?

Currie: I was just going to suggest, Mr. Delano, that the staff of the National Resources Committee will be in a position very shortly to do much more of this than they have been. They've been in this great rush of getting out these publications. You've been in the process of winding up this blue book. So I understand some more of their permanent staff will be available than have been up to date.

Henderson: If Mr. Delano wanted to leave it to, suppose, White, you (Currie) and I, and somebody from Commerce were appointed, why, we could lay out as we run along where a lot of that material is to be found. The thing can be organized. We could do that if you wanted to leave it that way, Mr. Secretary.

H.M.Jr: Well, it isn't quite clear. Mr. Hopkins said that Mr. Thorp will represent him. Now, Eccles, who will represent you?

Eccles: Currie.

H.M.Jr: Currie.

White: I think you better have a couple of ... - excuse me.

H.M.Jr: I know. Well, I'm going to have Haas and White represent us, because we divide it up in the Treasury.

Delano: I'd like to have Ruml put as much time as he will upon this thing.

H.M.Jr: And if it's - now who have I overlooked? And will you (Henderson) represent yourself?

Henderson: Uh-huh. Glad to.

Hopkins: Very articulately, too.

H.M.Jr: And if it's satisfactory to have somebody kind of ride herd on you fellows, see that you meet and just you in a room and leave you, why, Duffield's available to do that for me personally - provide a place, so forth, if that's necessary. Just the way you have - oh, what's his name?

Delano: Eliot.

Henderson: Why couldn't we agree on Currie as chairman - I'd suggest a little group - and then have him work with Duffield about getting rooms and so on.

H.M.Jr: I - excuse me - I think we ought to have Lubin on that; Lubin definitely, because he did this. Excuse me.

Hopkins: What about a time schedule?

H.M.Jr: Excuse me - what were you (Henderson) going to say?

Henderson: I was going to suggest that Currie act as chairman because of the fact that he's done so many things for the Resources Committee and also for the Federal Reserve Board and he's familiar with most of these items. We have a habit of turning to him on a number of things that are contained in these questions. He could work with Duffield to arrange for the time and place of the meeting and things like that.

Currie: I don't know whether for this little group we need so formal a thing as a chairman.

Henderson: I think you do.

Gaston: Just call him the Goat.

Duffield: Just Goat.

H.M.Jr: The Goat?

Gaston: Yes, just call him the Goat.

Hopkins: What about a time schedule?

White: You set the schedule. We'll adhere to it.

Hopkins: How about Monday?

H.M.Jr: Well, that's today a week.

Hopkins: What day is today?

H.M.Jr: Monday.

Hopkins: About a week from today?

H.M.Jr: We'll meet ten o'clock Monday morning?

Delano: It's all right.

H.M.Jr: What?

Hopkins: Suits me.

H.M.Jr: Is that all right?

Delano: I think if you will make it Tuesday - my friend Ruml can come down if it's Tuesday.

H.M.Jr: Tuesday at ten o'clock?

Delano: Then you could get Ruml down, I think.

H.M.Jr: Marriner, have you an engagement for next Tuesday?

Eccles: No, I haven't got one. I was just thinking - have you, Harry?

Hopkins: No, I'll make myself free.

Eccles: I'll be here next week.

H.M.Jr: How about Mr. Delano, Tuesday, ten o'clock?

Delano: I can't; I've got to be in New York Tuesday. But I could get Ruml to come down; I'd rather have him.

H.M.Jr: Well, I'd rather have you.

Delano: I could come Monday, then.

H.M.Jr: Oh, if it's interesting Ruml will come; if it's provocative enough, he'll come.

Henderson: Monday is a bad day for Ruml, isn't it? It has been on several occasions.

Delano: He says that's the one day in the week he can't come. He was here Sunday, all day Sunday, and Saturday

Henderson: I saw him Saturday.

H.M.Jr: Where would you like to have it, Mr. Delano? I can - I mean I'm not dated up or anything.

Delano: Are you willing to make it Wednesday?

H.M.Jr: Yes, except that - does that put it off too much, Harry?

Hopkins: I think the sooner the better. On a job like this, you can do - if you're going to do it, you can get it done in a week as easily as you can in ten days.

Currie: Your thought, Mr. Hopkins, was to work over these questions, perhaps rearrange them, put them under main headings, rewrite them and point them out; perhaps make any additions that we think necessary.

H.M.Jr: That's right.

White: And, I take it, at the same time say which would be handled by which group.

Henderson: Note the agencies that might handle them.

H.M.Jr: I think - can you be here Monday, Mr. Delano? Can you be here?

Delano: Yes.

H.M.Jr: Let's just say - I think - let's say ten o'clock next Monday. I think a week - putting it off ten days is too long. And if it's agreeable, Duffield will ride herd, just to see they meet, so forth and so on.

Henderson: Very good.

Eccles: I think that's absolutely necessary.

H.M.Jr: I think if we have a meeting Monday morning - if my luck holds out, the President will have me for lunch Monday and I'll have something to show him; and I'm following very, very meticulously just what he laid down, and I think before we add anybody - we'd like to stay that way, because he was quite specific on who he wanted to see it and who he didn't want to see it. I think we'll leave it that way. If he feels there is a blind spot - he felt there was as far as we've gone and he asked Mr. Hopkins and Mr. Lubin to join - I mean Mr. Henderson. Now, after he sees it again a week from today, if he still feels we should solve the cotton problem, why, we ...

Eccles: I've never - when you get a committee that's too big you usuall bog down. Isn't that right?

Hopkins: Sure.

H.M.Jr: I think we're all thinking the same thing.

Eccles: And it seems to me that if we're going to get together on this program and do an effective job, the Committee's got to be kept down in number. And where specific questions might come in, you might advise with certain agencies like Social Security with reference to that problem, with other agencies, rather than bring more in on the whole problem. I'm thinking merely from the standpoint of workability of the thing.

H.M.Jr: Getting something done.

Eccles: Yes.

H.M.Jr: Now we've got - I think it's certainly enough for a week, and if he wants to add somebody, that's his privilege.

Eccles: Yes. In bringing this thing in, don't you think that part one for the time being can be left to further studies?

Henderson: At least separated. Yes, I would suggest that.

Eccles: I mean from the standpoint of time, if we're going to do any good, we've got to point this thing up into the specific things that need immediate attention.

Henderson: We got that already written anyway, Marriner.

White: We've got everything done but the ....

Henderson: Currie did that a long time ago; we've got the answers on all that written.

I.

The setback in national income in 1938 has been attributed by various people to a number of causes. These need to be appraised. Among the more immediate of these are:

(1) An over-accumulation of inventories

(2) Excessive speculation in commodities

(3) Consumer resistance to rising prices

(4) Deflationary effects of increases in reserve requirements

(5) The curtailment of government spending

(6) Labor difficulties, including rapidly increased wage rates and sit-down strikes

(7) Shortages of skilled labor in key positions

(8) A too-rapid increase in production costs

(9) A decline in new construction

(10) A contraction of the market for new capital issues

(11) Government tax policies

(12) Maladjustment of prices, and price rigidities

(13) Fear of gold price reduction

(14) Government competition

(15) Excessive short-term installment buying

II.

It is proposed that an investigation be made of certain fundamental factors which may have been significant in bringing about the decline in industrial activity in 1937 and 1938, and which may stand in the way of increasing the national income in the future. Specific recommendations based on the findings of these investigations should be made in order that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed.

(1) What important industries have made less than a proportionate contribution to the increase in the national income in the past five years? What important industries have made more than a proportionate contribution to the increase in the national income in the past five years? What can be done to convert specific industries which have retarded recovery to stimulators of recovery?

(2) How far is the claim that new investment is being seriously blocked by specific government measures justified?

(3) To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets? (b) borrowing? (c) sale of equity securities?

(4) To what extent and why are depreciation charges not being reinvested?

(5) What elements of our tax structure, Federal, State and local, serve substantially to retard the growth of the national income through their effects on consumption, on new investment, or in other ways? What modifications that would stimulate or encourage the growth of national income could be adopted with respect to:

(a) Level of upper bracket personal surtax rates

(b) Carry-forward of losses and averaging of income

(c) Consolidated returns and taxation of intercorporate dividends

(d) Undistributed profits tax

(e) Capital gains taxation

(f) Capital stock tax

(g) Excess profits taxation

(h) Social Security payroll taxes

(i) Sales and other excise taxes

(j) Tax exemptions and other specific incentives to encourage employment, investment, etc.

(k) Depreciation allowances

(l) Other elements of the tax structure

(6) Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital?

(7) In what industries should capital be invested during the next two years? How much is likely to be invested in these industries during the next two years?

(8) What is the volume of savings likely to be available for investment during the next two years?

(9) How much would substantially lower rates of interest to borrowers of capital for production of capital and durable consumers' goods increase borrowing? What can the Government do to lower such rates of interest?

(10) How much would a reduction in the cost of borrowing to potential purchasers of durable consumers' goods (e.g., home purchasing) increase the demand for such goods?

(11) How important would a longer rate of amortization be as a stimulant to the demand for durable goods?

(12) At what points and what level of increased production will the lack of adequate skilled labor retard expansion?

(13) To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location, or function -- the field of investment activity to which it proposes to confine itself during the next two years?

(14) What measures could the Government take, either independently or in cooperation with State and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?

(15) It has been claimed that private industry by itself cannot profitably absorb current savings. Were this true a continued national income of $80 billions or more would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?

(16) What types of Federal Goverment expenditure operate to increase the national income most, and which least? To what extent is it possible to shift from those that increased income least to those that increase income most?

(17) Is there any justification for the claim that governmental spending on public works or WPA projects results in a decrease in spending on the part of private enterprise?

(18) Would a substantial increase in the public debt during the next few years have any important effect on government credit?

(19) Are there any prospects that (a) inflation or (b) deflation will emerge in the immediate future?

(20) To what extent are world developments likely to constitute a drag on recovery in the United States during the next two years? What steps, if any, can be taken to protect our economy from possible adverse economic effects coming from abroad?

(21) For what specific products can we expect a substantial increase in exports during the next two years? What, if any, removable obstacles lie in the path of important increase in our total exports?

(22) To what extent, in what fields, and with what effects on our national income, has the Government contributed to an uneconomic price structure?

(23) What will be the net contribution that the Federal Government (and if ascertainable, State and local governments) will make in 1939 and 1940 to the volume of buying power in the hands of the people?

(24) Would the maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?

(25) To what extent would a redistribution of our national income contribute to the attainment and maintenance of a high national income?

(26) How much unemployed would we have were our national income soon to reach $80 billions? What age distribution and what skill classification will make up the unemployed group at that level of income? How large a volume of unemployed must we expect to make provision for during the next five years?

RE NATIONAL INCOME AND RECOVERY January 30, 1939.
10:30 a.m.

Present: Mr. Gaston
Mr. White
Mr. Haas
Mr. Duffield
Mr. Lubin

H.M.Jr: All right, gentlemen.

(Lubin hands H.M.Jr memo entitled "Outline for analysis of factors determining the level of national income")

H.M.Jr: I'm not going to read out loud, to save my voice.

(Reads silently)

There's no argument about this chart, is there?

Haas: They haven't seen that. I got that out afterwards. I don't think so.

H.M.Jr: See if anybody argues about that.

Lubin: That's the one I saw. No.

(Haas hands to White chart entitled "National Income Payments - Monthly Figures on Annual Basis" - from 1929 on)

White: George, after you got through adjusting seasonal, multiplying by twelve, you had the same as the total.

Haas: Took their seasonal.

White: Had the same as the total.

Haas: That's right.

White: So you rechecked that way.

Haas: I think so. Anyway, Nathan's - the figures are his original figures and his own correction. Just a way of putting the monthly figure.

White: Yes. I don't know - adjusted monthly, multiplied by twelve. These are monthly basis.

Haas: Monthly basis - multiply their seasonal by twelve, gives you the annual rate at each month.

White: Is that the dotted line?

Haas: No, that's the ....

Lubin: That's the solid ....

Haas: That's the solid line.

White: I don't see that, unless it isn't stated right. If you multiply the figures by 12, you get an annual ....

Haas: That's what it shows: the annual rate at that particular month.

White: Oh, annual rate. That should be said there. I think that better be said.

Haas: It's in that, isn't it?

White: It's a rate of income.

Haas: Doesn't it say there .....

White: It says "monthly figures on an annual basis."

Haas: All depends what you mean by an annual basis.

H.M.Jr: I think it's very, very good. I got a few suggestions to make. What?

Lubin: There are some other suggestions that ....

H.M.Jr: I didn't look at page four.

Lubin: Page four?

H.M.Jr: I didn't know there was a page four.

White: There are some additions and changes.

H.M.Jr: Do you want to give me yours or ....

Lubin: Well, one of them which would come in under - between 10 and 11 - rather, between 9 and 10 - 9-a - which bears on very much the same thing that 8 does - "How far will substantially lower rates of interest to purchasers of industrial goods stimulate industrial activity?" the difference being that in housing if you lower the interest rate you stimulate a lot of new housing, whereas if you lower the interest rate for automobile paper, you won't lower the cost for automobiles.

White: That could be combined with the other.

Lubin: Number 10. There ought to be a 10-a there to point out in what industries we may expect a shortage of labor to occur, when that would occur, what the rate of activity would have to be before you face that bottleneck.

H.M.Jr: I see.

Lubin: Then number 12 too, in regard to tax structure. The administrative problem of depreciation rates - we discussed that yesterday, Harry; you weren't there. How far - if it's started down - if you gave these people permission to write up their depreciation, to reinvest, would that stimulate their ....

White: That would be one of the modifications. That's why you added that phrase.

Lubin: Yes.

Haas: And - that and other modifications, too, Harry.

Lubin: Then, too, I think that we could make the thing a little bit more realistic if we gave a few examples you've got steel and rayon, which are two very fine examples - of investments in the last two or three years in very large amounts.

White: There are a few more additions. Have you any more additions?

Lubin: Yes. In number 2, not "specific expansions," but "specific examples of new investment" - in parentheses there.

H.M.Jr: Now, in 13 - I'm not trying to - I'll give you the idea, I'm not trying to put it in the final form. The thought I had was this: I wonder if we couldn't differentiate between - that we'll say to private industry, "We've explored private industry. Now, that's your field, if you'll go ahead and develop it; and the Government will keep out of it as long as you go ahead." And then we'll find certain zones where private industry does not go ahead and the Government will concentrate on that.

White: Yes, the delineation or delimitation of specific zones in which opportunities for private investment, or in which private investment, private enterprise, should expand, and the specific limits to which Government activity should take shape if it is to expand.

H.M.Jr: I think that's very important, because that takes in this whole question of government competition with business. Now, if there is anything to this - if business doesn't go ahead because it is afraid of government, well, let's say, "All right, the government is going to confine itself...." - after all, they keep throwing Sweden in my teeth all the time. Well, in Sweden the government field is limited to certain definite fields, and in that field - that's the government field, and business doesn't compete with government and government doesn't compete with business.

Now, if business knew that the Government wasn't going to go into certain fields, they might go ahead, and I think that drawing of a circle around - at least, to explore that might be very helpful.

White: That could be combined with 17.

Lubin: And also bears on 5 - the ability to get new capital.

White: Yes. The grouping of these could be improved.

H.M.Jr: I mean, for instance, if Mr. Roosevelt would say that the Government's policy - "We're going to concentrate our efforts on these fields, and we want business to go ahead and for the next two years we're not going to enter this field. Now, it's up to business to go ahead."

White: That should be very valuable.

H.M.Jr: What?

White: I think it would be very valuable.

H.M.Jr: Huh?

White: Very valuable.

H.M.Jr: What do you (Lubin) think?

Lubin: Yes.

White: Even if it spells out what people usually think. But if it sets a certain definite prescribed limit of government activity.....

H.M.Jr: If somebody asked me, "What does the Government consider its field for investment?" I'd be very hard-pressed to - for instance, I'd like somebody to tell me where the Government begins and stops in the public utility field. I mean, what does it consider its field? Now, we said something by word of mouth the last time - Senator Barkley there - but I don't know whether we lived up to it or not. You know? Huh?

Lubin: (Nods yes) Of course, if we could get Mr. Ickes to live up to it ...

H.M.Jr: Well, I'm being - if there's a billion dollars worth of private capital that could be released in the private utility field, if they knew what the Government considered its field, I think it's perfectly fair for business to say to government, "What do you consider your field, what do you leave for us?" I think if that could be explored - if you could get the President to define it, I think it would be very helpful. And then that field which is ours - let's push ahead in that as hard as we know how, see? Huh?

Could you (Lubin) define what the Government's field is in the public utility field?

Lubin: (Nods no)

H.M.Jr: I couldn't; I don't know where it begins.

Lubin: The thing is too vague.

White: Haven't any specific limits; can't find it because it doesn't exist.

H.M.Jr: But if it was defined, you might - even if you define it geographically - "Beyond these areas we're not going to do a thing" - that in itself - if nothing else came out of it but that, you might release a billion dollars worth of investment. Do you agree with me?

White: That's a thought - geographical on utilities.

Duffield: Geographical on utilities - very good.

H.M.Jr: Is that a contribution that I've made? What?

Lubin: Yes.

H.M.Jr: Now, something else.

Lubin: See if we can't tie that up with number 5, Harry.

H.M.Jr: Well, of course, number 14 ties in with my suggestion.

White: Yes, 5, 17, 14, and ...

H.M.Jr: What? 14?

White: There's a group there which belong together.

H.M.Jr: And then that would be - if the Government defined its field, then we'd come out with an elastic policy that that field would be expanded in times of depressio and contracted in times of plenty.

White: An interesting thing - if you could force thinking, working on that specific delimitation, you've gone a long way both to settle ....

H.M.Jr: Well, the accordion plan would be used, but it would only be used in that field. I mean when you talk with a Swedish economist - they take it right off -

"This is what the Government considers its field."

White: Trouble is they have so much more they can legitimately consider its field.

H.M.Jr: Let's explore what we can consider - I mean, are the railroads - is that the government field or isn't it? Do you see?

White: Yes. Force the ...

Haas: Highways are all government.

White: To force the answers to those questions is the important thing.

H.M.Jr: That would be something, huh?

White: Absolutely.

H.M.Jr: Now, on 16: "Are there any prospects that inflation will become a problem in the immediate future?" And: "Are there any prospects that deflation ...."

Haas: That's good.

H.M.Jr: What?

Haas: That's right.

H.M.Jr: Deflation.

White: (a) inflation and (b) deflation.

Haas: That comes up in that question I asked you about, Harry.

H.M.Jr: 17 is part of what I'm talking about.

White: Yes, but it's not wholly - I mean should be combined.

H.M.Jr: But they could be grouped. Now, the other thing - I don't think you could do enough on the tax business.

White: Well, there's one or two - the tax thing is so shaped that everything would come under it; it's set in pretty general terms. Could be spelled out a little bit more.

H.M.Jr: I think it should be spelled out more. I don't think it's enough.

Lubin: One important question is how much capital would flow into industry if you eliminated all tax-exemption.

White: Well, I thought there are a lot of questions that could be asked under that.

H.M.Jr: What's that?

Lubin: They all come under this general question. Might make it up in seven or eight different examples.

White: Specific questions.

H.M.Jr: I think the tax thing is the important thing.

Now let me ask you this. Is this too broad a thing for the Fiscal and Monetary Committee?

White: No, I think that it's ......

H.M.Jr: It's way beyond fiscal and monetary.

White: This is what I had in mind: that the study would be conducted under their auspices and that they would have the privilege of calling on anybody within the Government, any technical men or studies within the Government or without the Government. But a good many of these problems are overlapping and interdependent; we merely put them down because of the special emphasis which they may have, and they may be boiled down and grouped a little. But I think they all touch very important problems that should be studied and reports should be made, should finally come out with something in black and white.

For example, Roy Blough tells me the other day that Win Riefler told him that the cause of the downturn in the spring of '37 was the scarcity of skilled labor in key places. He said if it hadn't been for that, we could have continued. I got this through Roy Blough, so it may not reflect Win Riefler's position at all. However, if he does hold that and if others do, I think it ought to be spelled out and answered. I asked Lube about that; he said he didn't think so at all. But it's as important to get rid of those things which are not so as to establish those things that are so.

H.M.Jr: I think that 20 is a terrifically important thing. I think it ought to be a little bit - I think it deserves more than two sentences.

White: Yes, that can be developed.

Lubin: If the Budget Committee of the Appropriations Committee of the House approves our budget for this year, we'll have some real stuff on that. We've asked for some initial funds to start a division on occupational outlooks, industry by industry.

H.M.Jr: That's swell. But I think it deserves more than this thing. I read this bulletin that the A.F.L. gets out, the monthly bulletin. George sent it to me. They come out for a national planning board. That's really what we're talking about here.

White: You have this report and that's what you'll have.

H.M.Jr: I read it last night, and what we're talking about is a national planning board.

Gaston: That's what your Fiscal and Monetary Committee ought to be.

White: Or at least they ought to raise the issues and point to the specific recommendations and let some other .....

H.M.Jr: I don't know how you people feel, but I think that's a distinct contribution; I'm very much pleased. On account of the President's birthday - I talked to him this morning - I'm not seeing him except on a birthday party tonight; so if I could have this tomorrow ....

White: Tomorrow.

H.M.Jr: Tomorrow morning. I'm asking him to see me tomorrow, and he's devoting his day ... I think this is swell.

I appreciate perfectly the tremendous size of this thing. But the thing that I've said ever since I've been here - the thing that's always bothered me is, they always put a pistol to my head and say, "Give us 200, 400, 500 million dollars more for relief for five months." Now, this testimony - I think I'm correct - that was given up there - as far as I know, there wasn't a single economist called on to lay down the principles and say, "This is the outlook for five years and this is how we're going to take care of this thing," and so forth. Not a thing ....

Lubin: Do you think there is an economist who could have done that?

H.M.Jr: That's the tragedy, Lubin.

Lubin: I think the difficulty, frankly, is that the people in Washington who might be doing work along that field are too busy doing other things, and you're not ....

White: Less important, much less important.

Lubin: And you're not going to get anywhere unless half a dozen people are given a job doing nothing but thinking about this.

H.M.Jr: I've made up my mind - excuse me - if the President will say the word, I'm willing to give half my time to this, because I don't know anything - I'm willing to devote half my time to this, if he'll let me. I've never been called to a meeting at the White House to sit down and discuss anything like this. Never. I don't know if Miss Perkins has, but I never have.

Lubin: The closest approach is those little monthly meetings we used to have a year ago last spring.

H.M.Jr: With the President?

Lubin: Just segments - primarily the report on housing.

H.M.Jr: Oh yes, you came to Cabinet. Yes, but that was sort of an outlook forecast, wasn't it?

Lubin: Well, yes.

H.M.Jr: But if you people will do this, then let me have it, I think I'll see him tomorrow and I'll put this .... Do you think, Lubin, the Fiscal and Monetary Committee would be ....

Lubin: Well, it's the only organization we have other than Resources Committee.

White: They're part of it.

Lubin: They're part of it.

H.M.Jr: If we get into this, Lubin, do you think somebody - should we broaden the membership?

Lubin: I'll say this, that the Committee itself will have to take on a staff which will do nothing else but work on this problem.

H.M.Jr: Well, we have no money.

White: I think probably other than that it would be quite possible - you've got four agencies there, and if they can call on other agencies, you can have each agency proceed on as many of the studies and then it will be up to each agency to allocate as many of the funds or men as they have available to it.

Lubin: Have to do more than that, Harry; have to get somebody in.

Haas: I think Lubin's right.

White: Do it under the particular departments and not under the ....

Gaston: Let the departments bring them in.

White: Let the departments bring them in.

H.M.Jr: Have you (Lubin) had any contacts with Professor Douglas Brown?

Lubin: Yes, I know him very well.

H.M.Jr: What do you think of him?

Lubin: I feel that maybe he's very, very good.

H.M.Jr: What I'm doing is this. What I got in mind is, I'm going to ask Douglas Brown whether he'll come down and see the Treasury through these hearings before the House and the Senate and head this thing up for me, and see us through the House and Senate hearings on Social Security. That's what I had in mind.

Lubin: He can do that well. He's got a nice personality, easy, quiet; he knows what he's talking about.

H.M.Jr: Do you know anybody better?

Lubin: I don't know anybody who could do it better than he.

H.M.Jr: He knows what labor's interests are and he seems to be very fair.

Lubin: He is that, definitely.

H.M.Jr: What?

Lubin: He is that, definitely.

H.M.Jr: So I thought, George, you could see him before he comes up here, and let him review what we've got on hand, you see?

Haas: All right.

H.M.Jr: What? Give him a Treasury car. My thought was to get him and let him - ask him if he'd see the Treasury through these hearings, which can go on for a couple months.

Lubin: Be prepared to have to argue with him, because he feels very much indebted to the University and he'd sort of feel that it's unfair to them to take so much time away. So you'll have to do some convincing of him.

H.M.Jr: All right. But do you know anybody better?

Lubin: Nobody can do it as well as he, and he's been at it from the very first day we've had Social Security.

H.M.Jr: And do you know anybody outside of the Government that I could invite in as consultant economist to sort of head up this thing - I mean this thing?

Lubin: I don't know.

White: I think Hansen, if you could get him, would be very good.

H.M.Jr: I'll tell you my objection to Hansen. I find Hansen a little bit rigid in his thinking. He's got his ideas; he's pretty rigid.

White: He's ....

Gaston: He's not very quick on his feet either.

H.M.Jr: I like Hansen, I think he's a distinct contribution, but it seems to me he's got his definite channels; that's the ...

White: Wesley Mitchell - are you impressed with him?

Lubin: You know who could do this job well? I don't know whether he's too old to do it. Alvin Johnson.

White: Alvin Johnson?

Lubin: Very flexible mind, lovely personality. I don't know whether he'd be interested.

White: You (H.M.Jr) know him.

H.M.Jr: Isn't he awfully lazy down there?

Lubin: Well, he always has been lazy. Yet I think he isn't lazy when he has something to do. Take this "University in Exile" - he's done an awfully good job.

H.M.Jr: Oh yes, wonderful.

White: The man you put in charge won't be able to do any work; merely a question of seeing that somebody else did it.

Lubin: He did an awfully good job on the Encyclopedia of Social Science.

White: Has the advantage of being familiar with academic ....

H.M.Jr: Would he be looked up to by ....

White: By some and by others not.

H.M.Jr: Well, think about him.

Duffield: Riefler?

White: Hell no!

Duffield: Why not?

White: I could give you seven reasons. But just my opinion.

Duffield: I want to ask a question about this if I can.

H.M.Jr: Please.

Duffield: Is there any point among these twenty which is intended to cover the possible Government effects on number 12 on page two: "maladjustment of prices, and price rigidities"? Shouldn't there be a question as to what extent the Government policies or practices contribute to price disparities or maladjustments, and to what extent can you stay out of that?

H.M.Jr: Such as the Army buying woolen blankets when they're at the peak.

Duffield: Such as a 12-cent cotton loan?

Lubin: (Nods approval)

Haas: You wanted to put the thought in 12 that's down in number 3.

Duffield: I don't know whether you intend in some of these twenty questions to raise the question of whether the Government contributed to any of these price disparities, or could help to iron them out.

H.M.Jr: Very good question, Gene.

Duffield: I don't know whether you intend to cover it in the twenty questions, but it ought to be covered.

H.M.Jr: I think it's a good point. What else, Gene?

Duffield: That's all.

White: Couldn't get Viner to head up these studies? He'd be the ideal man if you could get him.

H.M.Jr: Of course, Viner did a beautiful job in the summer of '34 for me when he brought down these seventeen economists. Sixteen of them were good, Lubin.

Lubin: All but Harry.

H.M.Jr: That's the idea.

White: Well, sixteen out of seventeen is a good average.

He would have close contact with the men in the academic field. The men in the Government he knows, and the men outside of the Government; he knows some men in various funds.

Lubin: He'd have one other advantage; he wouldn't come in fresh, that is, he wouldn't come in untutored, he'd know how people in the Government feel, work and act.

H.M.Jr: Well, half of the men down here have studied under him.

White: That's right.

Lubin: Have a more practical approach than somebody coming in from the outside.

White: Wouldn't be engaged in any long Ph.D. thesis that would be ready two years from now.

H.M.Jr: A couple days would be enough a week. Wouldn't have to be here continuously.

White: He himself wouldn't.

Lubin: He could do some of it out in Chicago.

White: Some of his own men could do some of it there.

H.M.Jr: And he'd have the respect of anybody here, wouldn't he? What?

Lubin: I don't think anybody questions his ability.

White: No, and he's sufficiently scientific and objective so somebody could present a different thesis and expect it to get an examination; and there will be differences, unquestionably.

H.M.Jr: Oh yes, but I mean they've got to respect his ability and his intellectual honesty.

White: I think they would. I'm sure there would be some who have ....

Lubin: Of course, you know, you have from the point of view of public acceptance the fact that he is now President of the American Economic Association.

H.M.Jr: Jake?

Haas: Oh yes, this year.

H.M.Jr: I ....

Lubin: Just elected this December.

H.M.Jr: I didn't know that.

Lubin: That would mean ....

H.M.Jr: I didn't know that. Son-of-a-gun, he never told me. (To reporter) See that I write him a letter.

Haas: Told me that was another one of his burdens.

H.M.Jr: See, that would be - that title - did he succeed to - whom?

Lubin: Hansen.

H.M.Jr: Was Hansen the one? Now, what's the thing that Randolph Burgess was the President of?

Haas: Statistical Association.

H.M.Jr: Oh, he's on the statistical.

Unless somebody's got - anybody think ....

White: There are some more questions that you're going ....

H.M.Jr: Are you (Lubin) still discouraged? Don't you think that ...

Lubin: I think that - I tell you, I'm going to be discouraged until I see something substantial.

H.M.Jr: That's all right. Listen, if we can get old man Roosevelt to agree to define just one thing, if we just did one thing, if we could get him to define the Government's field for investment, that might do more to reassure business than anything that I know of. Huh?

White: There is this to be said, however, about a man in charge of these studies. I'm throwing out a thought. It might be better to get somebody other than those who have been mentioned, who is not generally known or regarded to be partisan to a particular point of view. Viner is. Maybe we can find someone who is not so well known.

H.M.Jr: I won't decide it today.

White: There are some more questions, if the next copy is to be the final copy, I'd like ....

H.M.Jr: Please.

White: To what extent are the European developments likely to constitute a drag on recovery in the United States during the next two years, and what steps, if any, can be prepared to defend our economy from adverse effects coming from abroad? In other words, introducing the foreign situation.

H.M.Jr: Good.

White: Then there is: What will be the net contribution that the Federal Government and, if ascertainable, the state and local governments, will make to the volume of buying power in the hands of people in 1939-1940? That ties up with one of the other ...

H.M.Jr: But when you say "abroad" I'd use the word "world," because, for instance, our loss of markets in the Far East ....

White: Yes; well, that would be included.

H.M.Jr: I mean I'd make it ....

White: Oh, I said "European," didn't I? I didn't mean that.

H.M.Jr: I'd say "world."

White: And Latin America, too.

H.M.Jr: Yes.

White: And then too - I mention this last because, if I remember correctly, you mentioned it, and of course it's very important, but I don't know whether you'd want it: To what extent is the redistribution of national income necessary for the maintenance of a rising national income? Pretty general over-all question.

Lubin: I'd like to go further, not only - first I'd like to explore the maintenance of national income once you get it, and secondly, the maintenance of a rising ...

White: Maintenance of rising national income.

H.M.Jr: Anything like that you want to put in is all right.

White: Then I'm wondering if in the first part of the report it might not be stated - that is, if you're going to present this to the President; if you want to do it orally, perhaps - that it is proposed that the Fiscal and Monetary Advisory Board present a report embodying the findings on these various subjects, and break it down into these immediate causes and more basic causes; that they be given permission to call upon ... et cetera .... Unless you want to do that orally.

H.M.Jr: That part I can give orally.

Haas: We thought that chart might be attached.

H.M.Jr: Yes, I can give that orally. Is that all right? I can give that orally.

White: The thought in my mind, Mr. Secretary - if the Fiscal and Monetary Advisory Board is going to be responsible for these studies, you might wish to have a few names to present to them, rather than selected ahead of time.

H.M.Jr: You mean as to what ....

White: As to who's going to be in charge.

H.M.Jr: Well, you politician. All right.

Anybody else got anything? All right.

Subject: Outline for analysis of factors determining the level of national income

I.

After declining from $79 billions in 1929 to $46 billions in 1933, national income payments rose steadily until 1938, when they dropped back to $64 billions after reaching a figure of $69 billions the previous year.

Although national income in 1937 was $10 billions less than in 1929, yet factory employment in 1937 equalled that in 1929, and total non-agricultural employment was only 1,000,000 less than the 37,000,000 employed in 1929. The total volume of industrial production in 1937 was within 8 percent of the 1929 level.

If the rise had continued at the same rate without interruption, national income would have reached $80 billions in 1939. A critical analysis should be made to determine the causes of the setback from the favorable 1937 level.

II.

The setback in national income in 1938 has been attributed by various people to a number of causes, which need to be analyzed and appraised as a guidance to future policy. Among them are:

(1) An over-accumulation of inventories.

(2) Excessive speculation in commodities.

(3) Consumer resistance to rising prices.

(4) Deflationary effects of increases in reserve requirements.

(5) The curtailment of Government spending.

(6) Labor difficulties, including rapidly increased wage rates and sit-down strikes.

(7) Shortages of skilled labor in key positions.

(8) A too-rapid increase in production costs.

(9) A decline in new construction.

(10) A contraction of the market for new capital issues.

(11) Government tax policies.

(12) Maladjustment of prices, and price rigidities.

(13) Fear of gold price reduction.

(14) Government competition.

(15) Excessive short-term installment buying.

III.

It is proposed that an investigation be made of certain fundamental factors which may have been significant in bringing about the decline in industrial activity in 1937 and 1938, and which may stand in the way of increasing the national income in the future. Specific recommendations based on the findings of these investigations should be made in order that policy might be formulated which would lead to an increase in the national income. The following are merely suggestive questions that point to the lines that the investigation might follow:

(1) What important industries have made less than a proportionate contribution to the increase in the national income in the past five years? What important industries have made more than a proportionate contribution to the increase in the national income in the past five years? What can be done to convert specific industries to a stimulant to recovery?

(2) How far is the claim that new investment is being seriously blocked by specific Government measures justified? (Specific expansion of new investment in plant expansion and renovation during the past two years.)

(3) What are the sources of new capital investment for plant expansion and new industrial development? Cash assets? Borrowing? Sale of equity securities?

(4) To what extent are depreciation charges not being reinvested in replacement of existing plant?

(5) Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the desired capital?

(6) In what industries should capital be invested during the next two years?

(7) What is the volume of savings available for investment during the next two years?

(8) How much would substantially lower rates of interest to borrowers of capital for production of capital and durable consumers goods increase borrowing? What can the Government do to lower such rates of interest?

(9) How important would a longer rate of amortization be as a stimulant to production of durable goods?

(10) Does the lack of adequately trained skilled labor constitute a barrier to the expansion in any important enterprise or industry?

(11) For what specific products can we expect a substantial increase in exports during the next two years?

(12) What portion of our tax structure serves substantially to discourage new investment or plant expansion? Are there any modifications in the tax structure which could be adopted which would stimulate recovery?

(13) What types of Federal Government expenditure operate to increase the national income most, and which least? To what extent is it possible to shift from those that increased income least to those that increase income most?

(14) Is there any justification for the claim that governmental spending on public works or WPA projects results in a decrease in spending on the part of private enterprise?

(15) Would a substantial increase in the public debt during the next few years have any important effect on Government credit and industrial activity?

(16) Are there any prospects that inflation will become a problem in the immediate future?

(17) What measures could the Government take, either independently or in cooperation with State and local governments, to increase Government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?

(18) Would the maintenance of a substantially higher national income (at present price levels) require a change in the existing ratio of savings to consumption?

(19) It has been claimed that private industry by itself cannot profitably absorb current savings. Were this true a continued national income of $80 billions or more would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?

(20) How large a volume of unemployed must we expect to make provision for during the next five years?

has been ack'd

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NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

February 9, 1939.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

I will be pleased to have you note the enclosed copy of a letter I have this date written to Mr. Raymond L. Buell, Editor of FORTUNE Round Table, on the subject of government spending.

Sincerely yours,

Frederic A. Delano

Frederic A. Delano
Chairman, Advisory Committee.

Encl.

Signed in the
absence of Mr. Delano.

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

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February 9, 1939.

Mr. Raymond L. Buell,
Round Table Editor, FORTUNE,
Time and Life Building,
Rockefeller Center,
New York, N. Y.

My dear Mr. Buell:

I have read and am rereading the result of the FORTUNE Round Table discussion. I have been a student of this problem for five or six years, and I congratulate you upon the work you are doing. I do not believe that there is any simple answer, and I am impressed with the fact that a great many people who are expressing opinions, either have not studied the question or are relying on good, old fashioned prejudices. It is no reflection on the molders of thought of a hundred years ago more or less that their conclusions then arrived at do not apply to the problems of today. It was in a new country and at the time that Benjamin Franklin lived and the simple formula he preached in "Poor Richard's Almanac" was obviously the right one, but very few people would agree with it today.

When the World War began in 1914, I thought that the financial men were right when they believed it could not last many months because at the rate of spending that was then going on, all financial resources would be exhausted. How wrong that opinion was has been amply demonstrated. I think that we could safely say that no war has ever been stopped by reason of financial exhaustion.

I wonder if there are ten thousand people in this country who understand the problem, let alone can solve it? And yet, ten thousand people is a very small number in a population of 135 million. On the other hand, I believe in what I learned in algebra class a good many years ago, - if you can state a problem correctly and formulate the equation, the solution is comparatively simple. It is with this thought that I heartily congratulate the FORTUNE Round Table on the work it has undertaken. Do not get discouraged by the diversity of opinion, but try to agree on a statement of the problem. The oft used figures of ten million unemployed may not mean very much. It may mean that half of these ten million are, practically speaking, unemployable or employable for only part-time, and even so, ten million is only about 7½% of the population, which is not a surprisingly big figure. Perhaps the answer is that the 92½% who are employed or who have means beyond their own absolute necessities must carry the burden of the 7½% less fortunate.

There is one general observation which I think any man of mature years would make, and that is that there is no objection to the fullest discussion even if it leads in some cases to extreme points of view. Most of us know that in the long run the correct answer will be some point intermediate between the extremes. As I have said to myself a great many times, I would a great deal rather have our Government spend a billion dollars and by doing so encourage private investment to spend two billions than I would to have the Government spend two to three billion dollars on its own without encouraging private investment to do anything; but this does not mean that I would like to see the Government withdraw entirely from its spending activity and throw the entire burden on private capital or to throw the door open to such forms of private investment as would result in ultimate harm and the spoliation of our natural resources.

Sincerely yours,

Frederic A. Delano
Chairman, Advisory Committee.

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON, D. C.

OFFICIAL BUSINESS

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PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE, $300

The Honorable,

The Secretary of the Treasury.

By Messenger

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DEPARTMENT OF COMMERCE
OFFICE OF THE SECRETARY
WASHINGTON

February 10, 1939.

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Statistics on the national income are being used more widely than ever before and we in the Department of Commerce are somewhat concerned over the lack of uniformity in the estimates and definitions adopted by speakers, writers, and the press. I am addressing this letter to a number of men in the Administration in the hope that we may all use the same figures and definitions.

The following estimates of income are prepared currently by the Department of Commerce, the first two annually and the third monthly:

1. The national income is defined as the net value of all goods and services produced and represents the yield of our entire economic activity. This appears to be the most important measure available on the performance of our economy. The 1937 total was 69.8 billion dollars.

2. Estimates of income paid out measure what business enterprises pay for the different factors of production, namely, labor, capital, management, and land. National income and income paid out differ by the amount of savings of business enterprises. In 1937 income paid out totaled 69.3 billion dollars.

3. Monthly estimates of income payments measure income received by individuals. These figures differ from income paid out in that certain items accruing to individuals such as Social Security deductions are replaced by actual receipts of individuals such as Social Security benefits. Also, direct relief is included in this measure. In 1937 income payments totaled 69.0 billion dollars.

If you have the time and would be interested in discussing the national income, I would appreciate the opportunity of having Robert R. Nathan of my Department talk the matter over with you. A copy of a bulletin entitled, "Income in the United States 1929-37," which was released some weeks ago is inclosed. The figures on income payments for the full year 1938 have just been released and I am inclosing a copy of the release for your convenience. I do hope that we can, by confining our figures to the official estimates of the Department of Commerce, help to bring about some degree of uniformity and a better understanding of the national income.

Yours sincerely,

Harry L. Hopkins

Secretary of Commerce.

For Immediate Use

DEPARTMENT OF COMMERCE
Washington

January 25, 1939.

INCOME PAYMENTS

Secretary of Commerce Harry L. Hopkins today announced that income received by individuals in the United States in the form of wages, salaries, dividends, interest, entrepreneurial income, rents, relief, and Social Security benefits totalled more than 64 billion dollars in 1938. The 1938 aggregate of 64.2 billion dollars was 7 percent below the 69 billion dollars recorded for 1937. The drop in the purchasing power of consumers arising from current income was somewhat smaller than the decline in the total dollar income, since living costs were slightly lower in 1938.

While income payments in 1938 were 40 percent higher than in 1933, they continued 18 percent below the record level of 78.6 billion dollars for 1929. The cost of living of urban wage earners averaged 14 percent lower in 1938 than in 1929, indicating a moderately lower real income in 1938.

It was pointed out by Secretary Hopkins that the sum of income payments to individuals is not identical with the total national income, which represents the net value of all goods and services produced within a given year. The difference between these two aggregates is accounted for primarily by savings of business enterprises. Generally in the more prosperous years business units retain part of their net product, and income disbursed to individuals is thereby less than the national income. The amount retained by business enterprises is called positive business savings. In other years disbursements exceed the value of what is produced, and this difference is called negative business savings. Sufficient data are not yet available for accurately determining business savings for 1938 but it appears likely that they will be negative, and that the national income

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will be somewhat below the 64.2 billion dollars of total income payments.

The compensation of employees during 1938 totalled 42.1 billion dollars as against 45.4 billion dollars received by employees in 1937, representing a decline of 7 percent. The income of employees attached to the commodity-producing industries dropped 18 percent from 1937 as a result of the sharply reduced level of industrial production. Salaries and wages in the transportation and public utilities group of industries were 6 percent lower than in 1937, accounted for largely by the sharp drop in the compensation of steam-railroad employees. Payrolls in trade and finance were off only 3 percent and in the service industries (including government) were only fractionally below the 1937 level.

The 25 percent decline in dividend disbursements in 1938 was the sharpest drop for any type of income payment. The extent of this decline may be accounted for in part by the change in the undistributed profits tax. In contrast, interest payments were only fractionally lower than in 1937. Relief and benefit payments of all types, including work relief, direct relief, and unemployment-insurance benefits totalled 3.8 billion dollars, a gain of nearly a billion dollars over 1937. Social Security benefits alone were 374 million dollars higher in 1938 than in 1937. Payments of these types constituted about 6 percent of total income receipts of individuals during 1938 as compared with 4 percent a year earlier.

The Bureau's seasonally adjusted index of income payments advanced from 83.6 (1929 = 100) for November to 84.5 for December, as compared with the year's low of 80.4 for May. The index in December was less than 2 percent below a year ago, and with the cost of living about 4 percent lower than in December of 1937, an increased flow of real income was indicated over the corresponding month of 1937. The seasonally adjusted index for December 1938 was nearly 60 percent above the depression low recorded in

March 1933.

After adjustment for the usual seasonal movement, the index of employees' compensation rose to 86.3 in December from 84.6 in November, this increase being the most pronounced of the current recovery movement. As a result of the sustained improvement in recent months, the index for December was slightly higher than in the final month of 1937, and within 5 percent of the recovery high of 90.8 recorded in August 1937.

INCOME PAYMENTS

	Months			Years			
	Dec. 1938	Nov. 1938	Dec. 1937	1938	1937	1933	1929
Total (millions of dollars)	5,945	5,296	6,454	64,184	68,973	45,921	78,574
Adjusted Index - Total (1929 = 100)	84.5	83.6	85.8	81.7	87.8	58.4	100.0
Employees' Compensation (millions of dollars)	3,708	3,669	3,659	42,080	45,364	29,591	51,478
Adjusted Index - Employees' Compensation (1929 = 100)	86.3	84.6	85.1	81.7	80.1	57.5	100.0
Dividends and Interest (millions of dollars)	1,079	450	1,595	8,186	9,563	7,088	11,331
Entrepreneurial withdrawals and net rents and royalties (millions of dollars)	1,030	1,055	1,103	12,348	13,040	8,634	15,717
Social Security Benefits & direct relief (millions of dollars)	128	122	97	1,570	1,006	608	48

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UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF FOREIGN AND DOMESTIC COMMERCE

INCOME

IN THE

UNITED STATES

1929 - 37

November 1938

10 Cents

Research Activities of the

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

One of the chief functions of the Bureau is research and analysis of the various aspects of American industry, commerce, and trade. The activities of the following divisions of the Bureau are essentially concerned with the collection, analysis, and dissemination of a broad range of statistical and economic material of interest to businessmen, editors, government officials, economists, and statisticians.

THE DIVISION OF BUSINESS REVIEW prepares and issues regularly analyses of general business conditions. The compilation and publication of current business data include the preparation of the weekly and monthly issues and the biennial supplement of the "Survey of Current Business". Current analyses of the broad trends and changes in the foreign trade of the United States are issued regularly. Through the periodical "Domestic Commerce" and the "Business Information Service," the Division provides a current flow of basic business data. (The Division of Business Review was established in August 1938 through the consolidation of certain sections of the Divisions of Economic Research, Marketing Research, and Foreign Trade Statistics.)

THE DIVISION OF ECONOMIC RESEARCH includes in its activities both the compilation of statistical data and the analysis of economic relationships, particularly in connection with domestic commercial and industrial problems of a broad economic character. At present its activities include investigations in the following general fields: National income, long-term debt, urban real property and construction, and analytical studies of productive capacity, character of integration, and similar aspects of selected industries.

THE MARKETING RESEARCH DIVISION is engaged in activity of three types: Marketing research, collection of current trade statistics, and the dissemination of marketing information. Research activities include marketing studies in the fields of consumption, retailing, and manufacturing. Attention is given to markets for industrial and consumers' goods. Studies are also made in the field of distribution costs and operating methods and problems. Monthly sales and credit statistics are collected and published, general market data are compiled, and statistics on installment and open credit, accounts receivable and outstanding are collected and disseminated.

THE FINANCE DIVISION, which in 1922 began the preparation of the annual report on the balance of international payments of the United States, has within the past 3 years undertaken a series of special research studies relating to the international balance and the creditor-debtor position of the United States. The publication in 1937 of a report, "Foreign Investments in the United States," was followed in 1938 by a study, "American Direct Investments in Foreign Countries," and the Division is currently engaged in the preparation of a statistical analysis of foreign dollar bond repatriations. Also in process are several special studies relating to various forms of invisible trade, such as tourist expenditures and remittances.

THE DIVISION OF FOREIGN TRADE STATISTICS compiles the data on the movement of exports and imports of the United States. Statistics are compiled and published on a monthly and annual basis for approximately 1,700 export commodities by customs district of shipment and country of destination and for approximately 3,500 import commodities by country of production and customs district of importation. About 200 mimeographed reports on general imports and exports of leading commodities and 330 special typewritten statements on trade in commodities of restricted interest are issued each month. Statistics showing the entrance and clearance of vessels and drawback paid on imports are published in an annual report.

THE DIVISION OF REGIONAL INFORMATION is occupied mainly with research into basic economic conditions and policies in foreign countries. Its statistical work is best illustrated by the Foreign Commerce Yearbook, an annual compilation of all the principal statistics of population, agricultural, mineral, and industrial production, transportation and communication, trade, and finance for foreign countries and their important colonies. Analyses and interpretations of economic developments of a nonstatistical nature are made periodically and published in the annual World Economic Review, the weekly Commerce Reports, and occasional processed circulars. The Division also maintains voluminous files for reference in furnishing information to inquirers on specific topics.

U. S. DEPARTMENT OF COMMERCE
Daniel C. Roper, Secretary

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
Alexander V. Dye, Director

INCOME IN THE UNITED STATES, 1929-37

By

ROBERT R. NATHAN
Chief, National Income Section
Division of Economic Research

November 1938

Price 10 cents

FOREWORD

This bulletin is one of a series of publications prepared by the Department of Commerce on the subject of income in the United States. The original study in this series was undertaken in the Division of Economic Research of the Bureau of Foreign and Domestic Commerce in response to a Senate resolution. The results appeared in National Income, 1929-32 (S. Doc. 124, 73d Cong., 2d sess.). In addition to brief summaries of the annual estimates which have appeared in the Survey of Current Business the Department has also published a large volume entitled "National Income in the United States, 1929-35," and a bulletin entitled "National Income, 1929-36." The present publication presents summary estimates of income by industrial source and by type of payment, along with a brief discussion of the concepts and the general methods involved in the preparation of the estimates.

This bulletin was prepared in the Income Section of the Division of Economic Research. This work is under the supervision of N. H. Engle, Assistant Director of the Bureau of Foreign and Domestic Commerce. The estimates presented herein were prepared under the general direction of Lowell J. Chawner, Chief of the Division of Economic Research, and under the immediate supervision of Robert R. Nathan, Chief of the Income Section, with the assistance of Richard H. Crawford. Estimates in the various fields were compiled by the following members of the staff of the Income Section: Oswald Nielsen, Frederick M. Cone, Herman Lasken, John W. Barrett, Jean L. Bennett, Anna C. Downey, Gladys Greer, and Helen E. Reed.

Grateful acknowledgement is made to numerous public and private organizations, as well as individuals, for their splendid cooperation. Special assistance was rendered by the Income Tax Unit of the Bureau of Internal Revenue; the Bureau of the Census; the Bureau of Labor Statistics; the United States Employment Service; the Interstate Commerce Commission; the Federal Communications Commission; the Maritime Commission; and the Division of Statistical and Historical Research of the Bureau of Agricultural Economics.

Alexander V. Dye

Alexander V. Dye, Director,
Bureau of Foreign and Domestic Commerce.

November 1938.

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SUMMARY

It is suggested that the reader refer to Chapter I of this bulletin, where the terms are defined and the concepts explained. Chapter II contains a detailed analysis of the statistics.

The national income, which represents the net value of all goods and services produced in the United States, increased from 63.5 billion dollars in 1936 to 69.8 billion dollars in 1937, a gain of 10 percent. The 1937 level of national income was nearly 30 billion dollars above the 1932 total, but was approximately 11 billion dollars below the record total of 81.1 billion dollars estimated for 1929. All major industrial categories, except that of government service, contributed to the increase in 1937. The moderate decline in government service was a result of a 25-percent curtailment in work-relief wages.

The national income on a per capita basis was $540 in 1937, as compared with $494 in 1936 and the low of $320 in 1932. The record level of 1929 was $668. These averages are obtained by dividing the annual estimates of the national income by the official midyear population estimates of the Bureau of the Census.

Fluctuations in the quantity of goods and services produced, although not subject to precise measurement, were obviously of much less magnitude than the variations in dollar income. The decline of 50 percent in the national income from 1929 to 1932 was accompanied by a 32-percent drop in the Bureau of Labor Statistics wholesale-price index and a 20-percent drop in the Bureau of Labor Statistics cost-of-living index. Also, subsequent to 1932, wholesale prices and living costs increased along with the gain in income. In 1937 the national income was 14 percent below that of 1929, as compared with declines of 9 percent in wholesale prices and 15 percent in the cost of living. These indicate real income in 1937 closely approximating that of 1929. It should be noted, however, that the population of the United States increased by nearly 8 million, or 6 percent, from 1929 to 1937.

Commodity-producing industries, which include manufacturing, agriculture, mining, contract construction, and electric light and power and manufactured gas, accounted for less than 40 percent of the total national income in 1937. The commodity-handling industries, which include transportation and trade, contributed nearly 20 percent to the national total. The service-creating industries, including communication, finance, government service, and miscellaneous, accounted for the balance.

The incidence of the depression from 1929 to 1932, as well as the recovery subsequent to 1932, was most pronounced in the commodity-producing industries. The manufacturing industry accounted for 24 percent of the national income in both 1929 and 1937, as compared with only 14.1 percent in 1932. Government service, excluding work-relief activities, contributed 8.1 percent in 1929, 16.8 percent in 1932, and 10.9 percent in 1937.

The national income, or income produced, was slightly greater than income paid out in 1937, thus revealing positive business savings. The fluctuations in the national income are generally wider than those in income paid out. From 1929 to 1932 income paid out fell slightly less than 30 billion dollars; whereas income produced declined 41 billion dollars. In 1929 positive business savings of 2¼ billion dollars were recorded, as compared with negative business savings of 9 billion dollars in 1932.

An analysis of the fluctuation of income paid out, by type of payment, indicates the greatest variations in dividends and the smallest variations in interest payments. Compensation of employees varied somewhat less than did dividend payments. In 1937 total income paid out was 12 percent below that of 1929, as compared with declines of 9 percent in the compensation of employees, 16 percent in dividends, and 10 percent in interest.

Total compensation of employees accounted for 67.4 percent of income paid out in 1937. This compares with 65.6 percent in 1929 and 64.4 percent in 1932. The proportion which interest represents of the national income increased substantially from 1929 to 1932, and then decreased to approximately the same proportion in 1937 as in 1929. Dividends, on the other hand, declined substantially in relative importance from 1929 to 1933 and increased thereafter.

The relative importance of compensation of employees in total income paid out varies considerably from industry to industry. In 1937 labor income accounted for more than 75 percent of total income paid out in government, transportation, contract construction, and manufacturing. On the other hand, the compensation of employees represented 39 percent of income paid out in electric light and power and manufactured gas, 33 percent in finance, and 17 percent in agriculture. The low percentage in finance is accounted for in part by inclusion of all net rents and royalties in that field. In agriculture, entrepreneurial income is the largest contributing element. Because of huge plant and equipment investment in the electric light and power and manufactured-gas industry, dividends and interest are of relatively great importance in this field.

The per capita income of employees, converted to a full-time basis, varied closely with the cost of living throughout the period from 1929 through 1937. While this indicates that the average annual real income did not vary considerably for full-time employees, it should be noted that there was considerable unemployment and part-time employment throughout the period and that only a portion of total employables continued in full-time employment.

Monthly estimates of income payments, which vary somewhat from the estimates of income paid out, indicate a peak in the flow of income to individuals in October 1929. The low point of the depression was recorded in March 1933, when the adjusted index declined to 56.1 percent on a 1929 base. This index increased to 90.2 in August of 1937 and declined thereafter to 80.4 in May 1938. By October the index had risen to 83.7, and there is evidence that a further increase occurred in November 1938.

INCOME IN THE UNITED STATES, 1929-37

CHAPTER I

MEASUREMENTS OF INCOME IN THE UNITED STATES

There are few statistical measures of economic activities which are of greater significance, and which are at the same time subject to greater misunderstanding, than estimates of income. The widespread lack of understanding of these measures may be traced in part to the variety of concepts and the varying terminology adopted by different research workers in the field. Furthermore, the ever-increasing abundance of primary data results in constant improvement in existing estimates through revisions and extension of coverage, and in new income estimates based on different concepts. These frequent changes contribute to the confusion, but are nevertheless desirable as new source materials become available and as the theory of income develops. The discussion in this brief chapter can hardly deal with all of the problems in the field of income. It is included primarily to define the terms and to discuss the meaning, usefulness, and limitations of the estimates.

Income Concepts and Terminology

Income estimates may be prepared for a variety of purposes and, in accordance with the particular objectives, will differ in the items included and in the meanings which can be attached thereto. Thus, a measure of the total output of the entire economy will differ from a measure of the total national consumption or from an estimate of total current payments to individuals, or of the aggregate receipts of individuals. It is necessary to assign definitive terms to each measurement and further to describe the nature and scope of the resulting figures.

In this study, as in previous publications of the Department of Commerce on this subject, annual estimates are presented for both income produced and income paid out. In addition, annual estimates of income payments to individuals are shown for the first time.1/ Thus, the Department of Commerce now presents three estimates of income, each of which is distinctive in definition and all of which have important use.

Estimates of the "national income produced" — or what might better be termed merely the "national income" because it is the most inclusive concept — measure the net value of all commodities produced and all services rendered in the country in each year. This total can be described as representing the gross value of all goods and services produced, minus the value of all raw materials and capital equipment consumed in the processes of production. It may also be designated as the value of goods and services consumed plus the value of additions to the national wealth during the year.

1/ Estimates of income payments on a monthly basis appear currently in the Survey of Current Business.

In the production of commodities and services by business enterprises, 2/ personal services and capital are furnished by individuals 3/ or aggregates of individuals. 4/ In return for these services, the business enterprises pay out income to the individuals or aggregates of individuals in the form of wages, salaries, dividends, interest, entrepreneurial withdrawals, and net rents and royalties. The total of these items has been termed "income paid out" and may be described as the compensation paid to individuals for personal and capital services rendered. The term "income paid out" should be considered as an abbreviation of the more descriptive title, "income paid out by business enterprises or other economic enterprises to individuals or aggregates of individuals for services rendered."

In any one year, the national income, or the net value of the product of all business enterprises, may be larger or smaller than the total income paid out by all business enterprises. In years when the national income exceeds income paid out, the difference is called "positive business savings" and represents the proportion of the year's net product retained by business enterprises. In years when income paid out exceeds the national income, the difference is termed "negative business savings" and represents a decrease in the net worth of business enterprises as a result of the current year's operations. Later in this chapter there is further discussion of these measurements and their limitations.

While income paid out, as defined above, represents a rough approximation of the total flow of income to ultimate consumers, it has numerous defects for this purpose. In an attempt to overcome these shortcomings, estimates of "income payments to individuals" have been developed, and they have been prepared on a monthly as well as an annual basis. The "income paid out" concept is designed to measure income paid out by business enterprises to individuals for personal or capital services currently rendered, while the concept of "income payments to individuals is designed to measure the current flow of income to ultimate consumers, regardless of whether such income represents a return for services rendered. While it would be desirable in this new series to include all payments currently flowing to individuals and exclude all accruals which do not flow into the hands of individuals at once, available data do not permit such adjustments in every instance. The estimates of income payments, however, involve numerous departures from the estimates of income paid out.

2/ The term "business enterprises", as used in this study, includes business or other economic enterprises, such as corporations, partnerships, independent entrepreneurs, cooperatives, self-employed persons, government agencies, and all other producing units.

3/ The term "individuals" includes all persons who contributed their personal efforts (salaried workers, wage earners, professional practitioners, tradesmen, etc.) or who furnish capital (stockholders, bondholders, mortgagees, landlords, etc.) to business enterprises and to whom enterprises pay out income. It is synonymous with the term "ultimate consumers."

4/ The term "aggregates of individuals" includes organizations, such as savings banks, life insurance companies, building and loan associations, and charitable and educational foundations, which are considered as associations of individuals organized to manage their collective savings. Estimates of income paid out include income paid out by business enterprises to aggregates of individuals, as well as directly to individuals.

Included in the estimates of income payments are direct-relief and public-assistance disbursements, for which no services are rendered and which, therefore, are not included in income paid out by producing units. Payments to World War veterans under the provisions of the adjusted service certificates (soldier's bonus), are also included in income payments. Presumably, when legislation was enacted providing for these certificates, they represented belated compensation for a service rendered at the time of the war, and the actual payment represented the liquidation or disposition of an asset. Both the loans on certificates made in 1931 and thereafter and the final payment of balances made in 1936 and subsequent years represented original receipts of the veterans and are included in income payments. Direct relief and payments on adjusted service certificates have been substantial factors in the flow of purchasing power to individuals in recent years.

Another major difference between the estimates of income paid out and income payments relates to the treatment of Social Security contributions or assessments and Social Security benefits. Both employee and employer contributions under the Social Security Act are included in income paid out. Employee contributions are included with regular salaries and wages. Employer contributions, shown as a separate item of labor income, are also treated as payments for services rendered, accruing to the benefit of employees through the Social Security programs and therefore included in income paid out. These payments, however, are not actually received currently by employees and are not available for expenditures. Therefore, in order to measure actual payments to the employees, both employee and employer contributions are deducted from income paid out, and benefit payments currently made under the Social Security programs are added to income paid out. Similar adjustments have been made for the Railroad Retirement program and for the Federal Government employee retirement plan. This procedure has not been followed for private pension plans in various industries because of the lack of necessary source material, and therefore both income paid out and income payments include pension payments to former employees. The resulting error in the estimates of income paid out, which should include contributions to pension plan reserve funds rather than payments from the reserve funds, is probably small. Similarly, compensations for injuries are represented in both income paid out and income payments by actual payments to injured workers; whereas income paid out should include only contributions to reserve funds for this purpose, and income payments should include only benefits paid to injured workers.

Even with the above changes, estimates of income payments are deficient in a number of respects as a measure of the current flow of purchasing power to ultimate consumers. Several of the items listed in the following section as having been excluded from the income estimates, particularly realized capital gains, are for many persons, substantial factors in income available for expenditure. On the other hand, the estimates of income payments still include large disbursements of dividends, interest, and net rents and royalties to aggregates of individuals. Thus, the estimates include dividend and interest flowing into life-insurance companies, rather than that proportion of benefits flowing out of life-insurance companies which represents income rather than return of funds invested. More data than are now available will be required to trace this indirect flow of income through associations of individuals and to determine actual payments to individuals, as distinct from accruals.

At this point it might be well to summarize each of the three concepts of income developed in this study in a simple formula. Only those differences between income paid out and income payments of which account has been taken in the estimates are listed:

NATIONAL INCOME or INCOME PRODUCED equals:
Gross income of all producing units
Minus raw materials consumed by all producing units
Minus depreciation and obsolescence (capital equipment consumed by all roducing units).

INCOME PAID OUT equals:
National income
Minus business savings.

INCOME PAYMENTS TO INDIVIDUALS equals:
Income paid out
Minus employer and employee contributions to Social Security programs
Minus employer and employee contributions to the Federal Government employees retirement plan
Minus contributions under the Railroad Retirement Act
Plus direct-relief and public-assistance disbursements
Plus Social Security benefits
Plus Federal Government retirement plan payments
Plus Railroad Retirement Act payments
Plus payments to veterans on adjusted service certificates.

Items Include and Excluded

In accordance with this formula the national income is equal to the aggregate income paid out plus positive or negative business savings. Income paid out consists of wages, salaries, and other labor income, dividends, interest, entrepreneurial withdrawals, and net rents and royalties. Other labor income consists primarily of pensions paid to individuals, compensation payments for injuries, and employers' contributions under the Socia Security programs. Entrepreneurial withdrawals represent the amounts which employers and self-employed individuals withdraw from their business enterprises as compensation for their own efforts. Net rents and royalties represent gross rents less costs incidental to the ownership of property.

There are additional income items which might well be included but for the lack of primary data necessary for making reasonably accurate estimates. One of the exclusions which obviously represents a part of income is the aggregate of earnings from odd jobs. This would include remuneration for such activities as the sale of newspapers, canvassing by independent sales persons, receipts from mowing of lawns, shoveling of snow, or similar odd jobs performed by individuals and for which no records are available. In addition there are various minor groups of individuals or activities, primarily independent hand trades, for which data are not available from censuses and other sources used in the preparation of income estimates. Most earnings from illegal pursuits are also excluded. In the aggregate these omissions are probably of relatively moderate importance particularly in influencing the accuracy of the trend of the estimates from year to year.

Also excluded from the income estimates is imputed income derived from the use of owned durable consumers' goods, such as homes, automobiles, and furniture. With the development of more satisfactory data on the value of owned homes and upon gross and net rents, it may be possible in the future to prepare satisfactory estimates for the imputed income from this item. No attempt has been made to estimate the value of housewives' services, although the aggregate utility yielded by housewives in the home no doubt represents a substantial contribution to the total production of economic goods. Other types of domestic activities, such as the repairing of property, shaving oneself, washing and repairing one's own car, and similar functions performed within and about the home, are not represented in the figures. These same services, however, when procured in the market are generally covered in the estimates. These exclusions should be taken into account when comparing income estimates at different stages of the business cycle and over long periods of time. Many services rendered in the home during periods of depression are purchased in the market place during periods of prosperity. Also, as evidenced by the expansion of the service industries over the past several decades, there has been a substantial transfer of activities from the home to the market place.

Realized gains or losses from the sale of assets by individuals or by business enterprises are not included in the income estimates. While such gains or losses are important factors in the income of individual recipients or of business enterprises, and exert a significant influence on the distribution of income by size and upon net profits or losses, presumably they result from the capitalization of present or future changes in net income which are already (or will appear) in the estimates, and their inclusion would represent duplication. However, profits or losses derived from the sale of assets by professional security dealers are included, since they presumably represent the value of the marketing services rendered by these individuals.

There are numerous transfer items which are not included in the national income estimates, but which represent income to the individual recipients. Thus, gifts provide the same command over goods to those who receive the gifts as do other receipts. On the other hand, they are deductions from income or are transfers of wealth, from the point of view of the giver. Similarly, inheritances may be considered as income from the point of view of the recipient, but are in effect merely a transfer from the estate of the deceased person to the beneficiaries. Also, bad debts are final transfers from the creditor to the debtor. These transfer items must be given consideration in any studies of the distribution of income among various classes or groups of individuals; but they should not be included in the category of income paid for services rendered, or income payments, since duplication would result.

As previously pointed out, income payments to individuals are estimated for the primary purpose of determining the purchasing power currently flowing to individuals. The deduction of certain items from income paid out and the substitution of others, as well as the inclusion of new items in the measurement of income payments, have been explained in the preceding section.

Sources and Methods of Estimation

If complete accounting records were available for all producing units, it would be possible to make direct estimates of the national income by deducting from the gross income of each producing unit the value of all tangible raw materials (material for fabrication or resale) and intangible raw materials (services of transportation, advertising, communication, banking, government, and other producing units) and the value of capital equipment consumed in the process of production. Independently determined estimates of income paid out would then be deducted from the national income to arrive at estimates of business savings. Available source materials permit this direct approach only in agriculture. For other areas of the economy, similar information is not available, and it is necessary to resort to an indirect method of estimating income produced. This indirect method involves the independent determination of income paid out and of business savings. The national income is derived by adding positive business savings to or deducting negative business savings from income paid out. This method should yield the same results as would the direct approach. Estimates of business savings are derived primarily from income tax returns submitted to and compiled by the Bureau of Internal Revenue.

Since estimates of the national income cover practically every phase of our economic activity, it is necessary to resort to a wide variety of source materials for deriving the data necessary for the development of the most accurate figures. For wages and salaries, the various industrial censuses of the Bureau of the Census provide excellent basic data. The reports of other Federal agencies, such as the Federal Communications Commission, the Interstate Commerce Commission, the Bureau of Mines, the Office of Education, the Bureau of Agricultural Economics, and the Works Progress Administration, are also of great value. Monthly employment and pay-roll indexes of the Bureau of Labor Statistics permit the preparation of estimates for intercensal years and also the extrapolation of basic data for recent periods.

Figures of dividend and interest payments are based on data reported in corporation income tax returns and published annually in Statistics of Income, by the Bureau of Internal Revenue. The figures of dividend and interest payments include only payments to individuals or aggregates of individuals." A breakdown of dividend and interest payments between those which flow to individuals or aggregates of individuals and those which flow to other business enterprises cannot be obtained from available source material. It is necessary, therefore, to resort to indirect methods, and the estimates are arrived at by deducting dividend and interest receipts of corporations from dividend and interest payments by corporations. The result for each industry represents dividends and interest originating in the particular industry, and the aggregate represents all dividends and interest payments to individuals or to aggregates of individuals.

For nearly all industries except professional service, entrepreneurial withdrawals are estimated by assuming that annual withdrawals per entrepreneur are the same as average annual salaries or wages in the same industry. In the independent professional groups, questionnaire surveys have been conducted by the Department of Commerce in order to arrive at net incomes. It is assumed that the entire net income is withdrawn by the independent professional practitioner, and business savings are nil. Therefore, the entrepreneurial withdrawals in this group are assumed to be the same as net income. For other industries, business savings of entrepreneurs are determined primarily on the basis of the estimates of business savings of corporations.

Since the reports of the Bureau of Internal Revenue are usually not available until two or three years following the year covered, current figures are based on compilations by the Department of Commerce of data from approximately 3,000 published corporation reports. Therefore, the estimates of dividends, interest, and business savings for 1936 and 1937 are preliminary and subject to revision.

Estimates of work-relief wages are obtained from the Works Progress Administration and those of other relief and public-assistance disbursements from the Bureau of Research and Statistics of the Social Security Board. Estimates of net rents and royalties have been prepared from the rental data presented in the 1930 Census of Population and in the Statistics of Income.

Estimates presented in this bulletin vary only slightly from those shown in the publication entitled "National Income, 1929-36", released late in 1937 and now out of print. Most of the revisions are confined to the service industries and result from a thorough review of the source material and methods of estimation. Because of the lack of primary data, the figures for service industries require intensive investigation, and frequent revisions are made as new data become available. The availability of income tax data for 1935 permitted the correction of property income and business savings estimates for 1935 and 1936. The estimates included herein provide a detailed break-down of the figures that appeared in a special article in the June 1938 issue of the Survey of Current Business.

Changes in Federal Revenue Acts have resulted in the elimination of consolidated income tax returns for 1934 and subsequent years for all except railroad corporations. Prior to 1934, corporations had been permitted to submit either consolidated or unconsolidated returns. For 1934 a total of 27,376 returns was filed by individual corporations for which 7,101 consolidated returns had been filed for 1933. In number, these corporations accounted for only 5.2 percent of all returns in 1934, but in terms of total taxes paid by corporations they accounted for 37.6 percent.

This change had two marked effects on the comparability of the statistics for 1934 and subsequent years with those for 1933 and earlier years. In the first place, many items increased in size because of the fact that "intercompany eliminations" occur in the consolidation of returns. However, for the items essential to the preparation of income estimates, receipts by corporations increased correspondingly with payments by corporations. Thus, dividends received by all corporations rose correspondingly with dividends paid by all corporations, so that the estimates of dividends paid to individuals were not affected by the change. The same is substantially true of interest payments to individuals; but, under the method of estimating this item, intercorporate interest receipts from long-term obligations do not exactly offset intercorporate payments of interest, and some minor changes in the total interest item occurred on this account.

A more important effect of the change in the Revenue Act was the shift in the industrial classification of corporations. In classifying consolidated returns industrially, the corporation was assigned to an industry on the basis of the predominant industrial activity of the consolidated group. When separate returns were filed in 1934 for each subsidiary or affiliate, each was classified according to its own predominant industrial activity, which in many instances differed from the predominant industrial activity of the affiliated group of corporations of which it was a member. Special tabulations of the 1934 returns were prepared by the Bureau of Internal Revenue for the Department of Commerce showing the 1934 returns classified industrially as they had been in 1933 on the consolidated basis. This permitted showing the 1934 unconsolidated returns classified industrially as they were in 1933 when consolidated.

In the estimates of dividends, interest, and corporate savings, considered separately, there were marked differences in the two sets of 1934 estimates in several industrial groups. For more detailed industrial subgroups than those shown in this publication, there were differences of greater relative importance. Adjustments necessary to make the series comparable for each item in each industry require arbitrary procedure. Therefore, separate estimates for 1934 are shown in this bulletin for both dividends and interest. For total business savings, total national income, and total income paid out, the two sets of 1934 estimates were averaged, and only the resulting average is shown. The influence of this procedure on the trend in the major industrial categories is very slight. Further analysis may permit the development of a procedure whereby adjustments can be made for specific items within each minor industrial group on a reasonable basis.

Generally, the sources and derivations of the estimates do not differ greatly from those described in considerable detail in the publication, National Income in the United States, 1929-35. For descriptions of estimates for specific types of payments and for specific industries, the reader is referred to Appendix C in the above-mentioned publication of the Bureau of Foreign and Domestic Commerce.

Limitations of the Estimates

Income statistics such as those presented in this publication are useful in many ways. Estimates of the national income tend to reflect the magnitude and trend of output of the economy and of its component elements. Figures of income paid out reveal the distribution of income by producing units to the various factors of production for all industrial categories, separately and in the aggregate. Income payments measure the current flow of income to individuals, which is the primary source of their purchasing power. These data permit analyses of secular and cyclical changes in the output of the economy, as well as the source and distribution of this output and the varying incidence of economic forces upon the different segments of our economic system; also relative movements of the different estimates may be particularly important in analyzing short-term fluctuations in economic activity. The value of the estimates for analytical purposes, however, depends upon a full realization of their nature, as well as their statistical defects, and limitations of the basic data.

Despite the marked growth in the collection and tabulation of statistical information in recent years, there are numerous gaps in the source materials essential to the development of accurate income estimates. Many areas of economic activity, such as water transportation, motor trucking, domestic service, professional service, brokerage, real estate, and government, have not been adequately covered by industrial censuses, and it has been necessary to resort to sample questionnaire surveys and to indirect and sometimes arbitrary methods of estimation in these fields. In most of the branches of finance the only source of primary data is the 1935 Census of Business, the results of which are subject to the limitations incident to all first attempts in such large undertakings. Estimates for large parts of the service industry are based on data compiled in the 1933 and 1935 censuses of business establishments, and deficiencies in coverage are apparent in some areas. Inadequacy of data sometimes makes necessary certain procedures involving assumptions not wholly defensible. Notwithstanding these shortcomings, it is probable that the margin of error is slight for the estimates of labor income.

Dividends for the years 1929 to 1935, inclusive, are based on data from the annual Statistics of Income and are substantially accurate. However, it should be kept in mind that the figures, as explained in the preceding section on sources and methods, show net dividends originating in each industry, rather than payments by each industry to individuals or to aggregates of individuals. For the years 1936 and 1937, the estimates of dividends and of interest are preliminary, having been based on trends indicated in a sample of approximately 3,000 published corporation statements.

Estimates of interest included in the income figures are confined to interest on long-term obligations. Interest on short-term obligations is regarded as payment to other business enterprises, primarily banks, for an intangible raw material — namely, the use of credit. It is an inter-industrial payment, and as such is eliminated in arriving at a net unduplicated national income figure. The corporate sample is used to derive average interest rates, which are applied to corporate funded debt and mortgage figures taken from Statistics of Income. It is assumed that there are no funded-debt of mortgage obligations of unincorporated business enterprises. This assumption is not entirely substantiated in fact, but the resulting error is undoubtedly small. Interest received by corporations, which is deducted from interest paid by corporations to arrive at net interest originating in corporations, is taken from Statistics of Income and is confined to tax-exempt interest received by corporations. Interest received on tax-exempt obligations is the only item shown separately in the Statistics of Income for long-term interest received, and is used as total long-term interest received on the assumption that long-term debt holdings of corporations are confined to government obligations. It is apparent that this is a questionable assumption, and studies to determine necessary corrections are contemplated.

Of the various types of income payments, the estimates of entrepreneurial income are subject to the widest margin of error. Available data on this type of income are meager, making necessary many broad assumptions. For professional practitioners, questionnaire surveys yield satisfactory data. Material from the Bureau of Agricultural Economics provides fairly accurate figures for farm operations. Farm operators and professional practitioners are the most important entrepreneurial groups, accounting for more than half of all entrepreneurial income. The trade and miscellaneous service groups account for most of the remainder. Except for agriculture and professional service, entrepreneurial net income is generally estimated by assuming the same ratios of net to gross income for unincorporated enterprises as for corporations.

Equally doubtful are the estimates of entrepreneurial withdrawals, which supposedly represent what the entrepreneur takes in cash and in kind from his enterprise as compensation for his own services. These estimates of entrepreneurial withdrawals and of business savings of unincorporated enterprises are subject to both statistical and theoretical difficulties. There are practically no data available on these items, and it has been necessary to assume in most instances that per capita withdrawals are equal to the per capita salaries or wages in the same industries. In the groups for which entrepreneurial net income is estimated independently, the estimates of business savings are arrived at by deducting withdrawals from net income. For other groups, business savings of entrepreneurs are assumed to vary closely with corporate savings. Largely as a result of these assumptions, wide fluctuations in positive and negative business savings appear. In agriculture, net income of farm operators shows wide variations, whereas withdrawals, being based on the assumption of average wages equaling average withdrawals, fluctuate much less widely. As a result of this procedure, greatly exaggerated fluctuations appear in the estimates of business savings in agriculture.

From a theoretical point of view, there are arguments favoring the break-down of entrepreneurial net income into withdrawals and business savings, as in this study, as well as arguments favoring the use of net income as withdrawals and regarding business savings of entrepreneures as nil. It is true that the treatment accorded these items in this study superimposes an artificial and unrealistic, but seemingly logical, accounting procedure on entrepreneurial operations; but the fact is established that, during periods of prosperity, assets are built up by leaving savings in the business, while during periods of depression assets are reduced by withdrawals in excess of net income. On the other hand, it is argued that the entrepreneur and his enterprise are inseparable, that he withdraws all of his net income, that during prosperity the entrepreneur, in the role of an individual, is reinvesting in his business, and that during depressions he is compensating himself only to the extent of his net income, and that additional amounts withdrawn represent disposition of assets by him as an individual, similar to the sale of securities by a stockholder. According to these arguments, savings of entrepreneurs are more closely related to savings of individuals than to corporate savings. The theoretical and practical difficulties involved in this problem are not easily overcome and they are the subject of continuing thought and analysis.

Another series for which relatively little source material is available is that of net rents and royalties . For many industries data are not readily available on rental payments, and efforts are now being made to prepare estimates for these fields. A most difficult problem involves the determination of satisfactory estimates of costs incidental to the ownership of rental property, which are essential for arriving at estimates of net rents as distinguished from gross rents. Relatively little quantitative work has been done in the field of determining the magnitude and fluctuations in net rent as compared with gross rent.

In addition to the limitations attaching to estimates of the various types of income and business savings of unincorporated enterprises, the figures on corporate business savings are also subject to some degree of error. This results not so much from the lack of statistics on corporate activities as from the inability to make satisfactory adjustments for accounting techniques which do not coincide with the objectives of those engaged in estimating the national income. Particularly significant are the effects of the revaluing of inventories and the determining of depreciation deductions designed to reflect actual consumption of capital equipment. The revaluation of inventories arises from price fluctuations and is not directly related to the production of goods and services. In periods of depression, business enterprises which follow the conservative accounting practice of valuing inventories at cost or market, whichever is lower, will show substantial inventory losses, purely as a result of price declines. The opposite will be true during periods of prosperity, when some companies revalue inventories upward as a result of rising prices. Also depreciation and obsolence charges do not generally vary from year to year in accordance with actual consumption of capital equipment, and this introduces further inaccuracies in the estimates of corporate savings and of national income.

Interpretation of the Estimates

In the use of the income estimates thus far presented by the United States Department of Commerce, there have been numerous evidences of a lack of understanding of their meaning, with the result that unwarranted interpretations and constructions are placed on the figures. A few of the more glaring abuses will be discussed briefly at this point. In interpreting the estimates of national income as measures of changes in the national welfare, the reader should note that the estimates do not include the product of most activities outside the market place, which, however, are utilities in the social sense. Also, the estimates are in terms of current dollars and, therefore, do not measure changes in the quantitative output of goods and services. Thus, the national income produced in terms of current dollars declined by one-half from 1929 to 1932. During this same period there was a marked decline in the general price level; therefore, it is apparent that the quantity of goods and services produced in 1932 was much more than one-half of the 1929 output. Unfortunately, satisfactory price indexes for the deflation of the dollar figures are not available; but in the discussion of the estimates in the next chapter, an attempt is made to indicate the extent of the influence of price trends on the national income.

Changes in the national income totals have relatively limited meaning without an understanding of changes which occur in their distribution and composition. Estimates in this publication provide break-downs of the national income by various industrial categories and of income paid out both by type of payment and by industrial origin. Of equal importance are studies of the number of family or individual incomes by various size groups, a field not covered in this report. Such additional inquiries should provide information on the character of the distribution, changes in the degree of inequality in the distribution, and information on the composition of incomes at different levels. The national income may be substantially influenced by the size distribution of income, since the character of the distribution definitely affects the market valuation of different goods and services, especially luxuries. The first official estimates of the size distribution of family incomes for the entire population appeared recently in a publication of the National Resources Committee entitled "Consumer Incomes in the United States." It is hoped that some provision will be made for the preparation of current estimates of income distribution, by size, by a Government agency as a part of its regular research activities.

Some of the problems involved in the use of income estimates as measures of purchasing power were discussed in the first section of this chapter. While the estimates of income payments shown herein and prepared on a monthly basis by this Department are perhaps the closest approximation to purchasing power of ultimate consumers now available, numerous items are inappropriately excluded. Also, the theoretical difficulty of defining purchasing power should make the reader cautious in his use of these estimates. There are many items which provide individuals with purchasing power, which are not part of the national income, but which might, by another definition, be part of the aggregate income receipts of individuals. Some are mere transfer of income from one recipient to another; others result from an expansion of credit through the banking system; still others represent receipts from the transfer of assets from one individual to another or from individuals to business enterprises. The net effect upon the total purchasing power of all individuals or upon the purchasing power of certain classes of individuals by such changes may be very significant.

Perhaps more than any other single item shown in the income estimates, that of business savings has caused the most controversy and has been subject to the most misunderstanding. This item is admittedly subject to some degree of error as a result of the practice of revaluing inventories and of defects in the determination of depreciation and obsolescence allowances, as well as the unsatisfactory estimates for unincorporated enterprises. Granting these statistical limitations, the estimates are still useful as indicating the extent to which part of the net product is retained by business enterprises during periods of prosperity and the extent to which reductions of net worth result from current operations during periods of depression.

On the other hand, the figures do not show that business enterprises pay out more money than they receive during periods of depression, nor do they show that business enterprises receive more money than they pay out during business expansion. The receipt and disbursement of cash funds is obviously important in business-cycle analysis; but the fact that a business enterprise has more cash on hand at the end than at the beginning of a period does not preclude negative business savings by that company. The disposition of assets, the borrowing of money, the failure to maintain plant and equipment commensurate with depreciation, and various other factors might well bring about an increase in liquid assets at the same time that negative business savings are occurring. Similarly, positive business savings may be accompanied by reductions in cash and other liquid assets. Further, positive savings during periods of prosperity do not necessarily make corporations less subject to failure nor more able to maintain income payments during periods of depression.

Liquidity of assets is important in determining the ability of corporations to withstand economic strain, and the existence of positive or negative business savings is not necessarily related to the liquidity of assets. It is often stated that dividends paid out during depressions come from surpluses built up during prosperity. In the first place, it may be noted that a very substantial portion of dividends paid out during periods of depression is paid out by corporations with net incomes available for disbursement, as compared with corporations sustaining losses. Also, it is important to consider the ability of corporations to pay dividends while showing losses in relation to the character of their assets, as well as to the existence of a surplus account.

While business savings measure the accumulation and reduction of assets by business enterprises as a result of current operations, they do not indicate changes in the total assets of business enterprises nor in the total wealth of the country. Assets of business enterprises can be increased by new borrowing or by security flotations as well as by business savings, and can be decreased by the repayment of loans and retirement of securities, as well as by negative business savings. Changes in the national wealth are very substantially influenced by savings of individuals, as well as by savings of business enterprises.

For more detailed discussions of concepts, scope, sources, methods, and limitations of the estimates, the reader is again referred to the first two chapters and the appendix of National Income in the United States, 1929-35.

CHAPTER II

INCOME TRENDS, 1929-37

Although the reader may desire to pass over all of the discussion of concepts, scope, and limitations and go direct to the figures, it is suggested that he read at least the first part of chapter I, in which the terms are defined. He should note, in particular, the difference between the national income (or income produced), income paid out, and income payments to individuals. The latter concept is new to the readers of these annual bulletins.

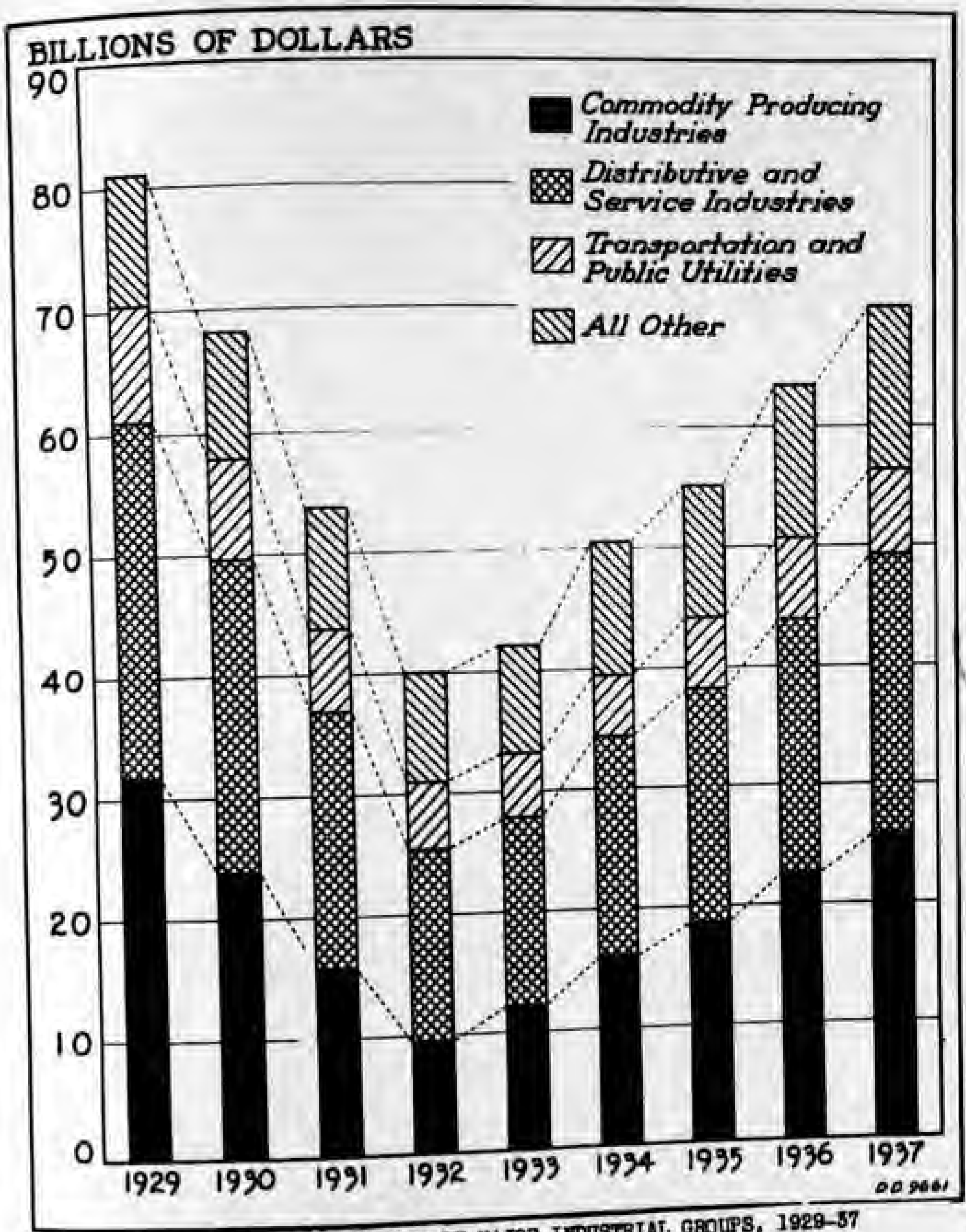
NATIONAL INCOME

In 1937 the national income of the United States was 69.8 billion dollars, representing a 10-percent increase over the 1936 total of 63.5 billion dollars. Despite the marked decline in primary production in the final quarter of the year, the national income in 1937 was higher than in any year since 1929. From 1932 to 1937 the national income increased nearly 30 billion dollars, or 75 percent. The gain for the year 1937 alone was in excess of 6 billion dollars. The national income, or net value of goods and services produced in 1937, however, was 11.3 billion dollars below the record total of 81.1 billion dollars in 1929.

The per capita income of every man, woman, and child in the United States was $540 in 1937, as compared with $494 in 1936 and the low of only $320 in 1932. The record level of 1929 was $668. These figures are obtained by dividing the annual estimates of the national income by the official midyear population estimates of the Bureau of the Census.

It is important to note that the income estimates are presented in terms of current dollars and that some of the fluctuations are the result of changes in the value of this unit of measurement. Thus, the 10-percent increase in the dollar value of national income in 1937 did not reflect a proportionate increase in the quantity of goods and services produced, since prices also increased. The Bureau of Labor Statistics indexes showed a rise of 7 percent in wholesale prices and of 3 percent in the cost of living in 1937. Unfortunately, neither of these price indexes is sufficiently comprehensive to permit a correction for the influence of changes in the value of the dollar on the size of the national income. The wholesale price index is a measure of changes in the wholesale price of commodities only and does not reflect changes in the price of services. The Bureau of Labor Statistics cost-of-living index, as now computed, indicates changes only in the living costs of urban wage-earner families. The movements of these price series may be studied, however, in order to appraise the general effect which changes in prices may have exerted upon the trend of the national income.

Total national income in 1937 in terms of current dollars was 13.9 percent below that of 1929. For the same period, wholesale prices were 9.4 percent lower, and the living costs of urban wage-earner families had declined 15.3 percent. These series suggest that the quantity of goods and services produced in 1937 was nearly the same as in the peak year, 1929. This is substantiated by the fact that the Federal Reserve index of industrial production and the Bureau of Labor Statistics estimates of total nonagricultural employment were only slightly lower in 1937 than in 1929. In many non-commodity producing segments of our economy, especially in government, the services created in 1937 were at record levels. In view of the 6-percent increase in



18856 Figure 1. INCOME PRODUCED BY MAJOR INDUSTRIAL GROUPS, 1929-37

TABLE 1. - NATIONAL INCOME, BY INDUSTRIAL DIVISIONS 1/
(In Millions of dollars)

	1929	1930	1931	1932	1933	1934 2/	1935	1936	1937
Total national income	81,128	68,308	53,402	40,014	42,256	50,052	55,186	63,466	69,817
Agriculture	7,263	5,681	3,706	2,442	3,316	4,388	5,189	5,883	6,223
Mining	1,789	1,237	687	478	534	920	954	1,212	1,456
Electric light and power, and manufactured gas	1,268	1,195	1,139	1,011	935	1,015	1,080	1,080	1,150
Manufacturing	19,310	14,205	9,600	5,601	7,735	10,014	11,802	14,261	16,744
Contract construction	3,272	2,850	1,799	978	666	730	852	1,221	1,475
Transportation	7,040	6,108	4,942	3,649	3,611	3,832	4,137	4,780	5,057
Communication	1,045	1,011	907	781	638	675	735	825	878
Trade	10,955	9,108	7,330	5,183	5,815	6,841	7,362	7,562	8,693
Finance	8,835	7,781	6,354	5,123	4,575	4,970	5,410	5,944	6,518
Government, including work-relief wages	6,540	6,780	6,847	6,727	6,907	7,945	8,247	9,785	9,445
Government, excluding work-relief wages	6,540	6,780	6,847	6,727	6,238	6,460	6,817	7,323	7,585
Work-relief wages					669	1,485	1,430	2,462	1,860
Service	9,722	8,859	7,485	5,698	5,378	6,185	6,766	7,524	8,382
Miscellaneous	4,089	3,542	2,992	2,350	2,146	2,585	2,724	2,696	2,956
Social Security contributions of employers						3	7	250	583
	Percentages of 1929								
Total national income	100.0	84.2	65.8	49.3	52.1	61.7	68.0	78.2	86.1
Agriculture	100.0	78.2	51.0	33.6	45.7	60.4	71.4	81.0	85.7
Mining	100.0	69.1	38.4	26.7	29.8	51.4	53.3	67.7	81.4
Electric light and power, and manufactured gas	100.0	94.2	89.8	79.7	73.7	80.4	85.2	85.2	90.7
Manufacturing	100.0	73.6	49.8	29.1	40.1	51.9	61.1	73.9	86.7
Contract construction	100.0	87.1	55.0	29.9	20.4	22.3	26.0	37.3	45.1
Transportation	100.0	86.7	70.2	51.8	51.3	54.4	58.8	67.9	71.8
Communication	100.0	96.7	86.8	69.0	61.1	64.6	70.3	78.9	84.0
Trade	100.0	83.1	66.9	47.3	53.1	62.4	67.2	69.0	79.4
Finance	100.0	88.1	72.0	58.0	51.8	56.3	61.2	67.3	73.7
Government, including work-relief wages	100.0	103.7	104.7	102.9	105.6	121.5	126.1	149.6	144.4
Government, excluding work-relief wages	100.0	103.7	104.7	102.9	95.4	98.8	104.2	112.0	116.0
Work-relief wages						-	-	-	-
Service	100.0	91.1	77.0	58.5	55.3	63.6	69.6	77.4	86.2
Miscellaneous	100.0	86.6	73.2	56.4	52.5	61.8	66.6	65.9	72.3
Social Security contributions of employers						-	-	-	-
Bureau of Labor Statistics wholesale-price index	100.0	90.7	76.6	68.0	69.2	78.6	83.9	84.8	90.6

1/ The grand totals in this and the following tables are obtained by an addition of the totals for each industrial field. The income subtotals by industrial fields are primarily in thousands of dollars. The subtotals entered in tables included in this bulletin are in millions of dollars. These subtotals do not, therefore, always add up exactly to the grand totals given.
2/ Estimates of dividends and interest and corporate savings for 1934 and for subsequent years are based on a different industrial classification than are the estimates of those items for earlier years because of a change in the Revenue Act of 1934. Special tabulations of the Bureau of Internal Revenue permitted the making of estimates for 1934 on the earlier basis. Tables 7, 8, 20, 23, 24, and 25 show the two sets of estimates for 1934. For specific items in certain industries the variations are substantial, but for total income, the changes were small and the two estimates were averaged.

TABLE 2 - PERCENTAGE DISTRIBUTION OF NATIONAL INCOME, BY INDUSTRIAL DIVISIONS

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total income produced	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	8.9	8.3	6.9	6.1	7.8	8.8	9.4	9.3	8.9
Mining	2.2	1.8	1.3	1.2	1.3	1.8	1.7	1.9	2.1
Electric light and power, and manufactured gas	1.6	1.8	2.1	2.5	2.2	2.0	2.0	1.7	1.6
Manufacturing	23.8	20.8	17.9	14.1	18.3	20.0	21.4	22.5	24.0
Contract construction	4.0	4.2	3.3	2.4	1.6	1.5	1.6	1.9	2.1
Transportation	8.7	8.9	9.2	9.1	8.6	7.7	7.5	7.5	7.3
Communication	1.3	1.5	1.7	1.8	1.5	1.3	1.3	1.3	1.3
Trade	13.5	13.3	13.6	13.0	13.8	13.7	13.3	12.5	12.5
Finance	10.9	11.4	11.8	12.8	10.8	9.9	9.8	9.4	9.3
Government, including work-relief wages	8.1	9.8	12.7	16.8	16.3	15.9	15.0	15.4	13.5
Government, excluding work-relief wages	8.1	9.8	12.7	16.8	14.7	12.9	12.4	11.5	10.9
Work-relief wages	-	-	-	-	1.6	3.0	2.6	3.9	2.6
Service	12.0	13.0	13.9	14.2	12.7	12.4	12.3	11.9	11.9
Miscellaneous	5.0	5.2	5.6	6.0	5.1	5.0	4.9	4.2	4.2
Social Security contributions of employers	-	-	-	-	-	-	-	.5	1.3

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population from 1929 to 1937, the per capita quantity output of goods and services in the latter year continued substantially below that of 1929.

Table 1 indicates that income originating in each of the major industrial categories, except government, recorded significant gains in 1937. The decline in income originating in government service was occasioned by a 25-percent decrease from the 1936 total in work-relief wage payments. Most pronounced gains occurred in the contract construction, the mining, and the manufacturing industries. Despite the large percentage increase in the contract construction industry, the 1937 net value of output in this industry remained at less than half the 1929 level. The transportation group also lagged in the recovery movement, as a result of the continued unfavorable situation of the railroads.

Table 2 shows the relative importance of the various major industrial groups in the Nation as indicated by the net value of product of each industry. In 1929, approximately 40 percent of the national income originated in the commodity-producing industries, manufacturing alone contributing nearly one-fourth of the total. The commodity-handling and the service-creating industries contributed the remainder, of which the trade, service, and finance groups each accounted for more than 10 percent of the national total. The relative proportions contributed by the different industries changed substantially from 1929 to 1932. By 1932 the contribution of the commodity-producing industries fell to only slightly more than one-fourth, with manufacturing accounting for 14 percent. During this same period, government more than doubled in relative importance.

As a result of the greater increases after 1932 in those industries which had suffered the most pronounced declines, there was a tendency by 1937 for most industries to show approximately the same proportions to the total as existed in 1929. Continued depressed conditions in the contract construction industry and the steam-railroad branch of the transportation industry resulted in smaller percentage shares for these groups in 1937 than in 1929. The 1937 percentages presented in table 2 are understatements for the industries covered by the Social Security programs, since employers' contributions under these programs are shown in the aggregate and are not distributed by industrial source.

BUSINESS SAVINGS

As pointed out in chapter I, the difference between the national income, or income produced, and income paid out are designated as "business savings", which are positive when national income exceeds income paid out and are negative when income paid out is greater than the national income. As revealed by the estimates presented in table 3, business savings fluctuate violently from year to year. In 1929 the national income exceeded income paid out by approximately 2½ billion dollars. The marked decline in national income in 1930 was much larger than the decline in income paid out, resulting in negative business savings of nearly 5 billion dollars in that year. This sum increased to 9 billion dollars in the year 1932, when negative business savings accounted for nearly one-fifth of income paid out. The recovery period beginning in 1933 brought about a marked reversal in the trend of business savings, and from 1933 to 1936 the national income increased substantially more than did income paid out. In 1935 the national income and income paid out were nearly equal. Positive business savings appeared in both 1936 and 1937, the level in the latter year being somewhat lower than in 1936.

TABLE 3 - BUSINESS SAVINGS, BY INDUSTRIAL DIVISIONS
(In millions of dollars)

	1929	1930	1931	1932	1933	1934 1/	1935	1936	1937
Total business savings	2,572	-4,989	-8,210	-9,010	-3,061	-1,458	49	880	447
Corporate savings	1,411	-3,912	-5,894	-6,373	-2,801	-2,170	-1,263	-765	-1,004
Business savings of entrepreneurs	1,161	-1,077	-2,316	-2,637	-260	712	1,312	1,645	1,451
Agriculture	1,108	167	-625	-825	221	976	1,447	1,894	1,783
Mining	-180	-418	-593	-345	-284	-191	-239	-146	-154
Electric light and power, and manufactured gas	-9	-478	-283	-290	-187	-174	-157	-157	-160
Manufacturing	1,295	-1,856	-2,822	-4,932	-718	-475	-96	-85	-204
Contract construction	-2	-174	-248	-335	-308	-153	-124	-114	-160
Transportation	373	-99	-302	-473	-132	-212	-264	1	-134
Communication	88	9	-31	-84	-97	-88	-59	-5	-16
Trade	103	-1,201	-1,728	-1,980	-358	-185	-127	-207	-171
Finance	-116	-357	-786	-769	-597	-503	-408	-351	-335
Service	-19	-364	-551	-739	-357	-282	-287	-207	-142
Miscellaneous	-70	-418	-391	-300	-258	-131	257	286	262

1/ Estimates of dividends and interest, and corporate savings for 1934 and for subsequent years are based on a different industrial classification than are the estimates of these items for earlier years because of a change in the Revenue Act of 1934. Special tabulations of the Bureau of Internal Revenue permitted the making of estimates for 1934 on the earlier basis. Tables 7, 8, 20, 23, 24, and 25 show the two sets of estimates for 1934. For specific items in certain industries the variations are substantial, but for total corporate savings, the changes were small and the two estimates for 1934 were averaged.

TABLE 4 - INCOME PAID OUT, BY INDUSTRIAL DIVISIONS
(In millions of dollars)

	1929	1930	1931	1932	1933	1934 1/	1935	1936	1937
Total income paid out	78,556	73,290	62,032	49,024	45,317	51,510	55,137	62,586	69,330
Agriculture	6,161	5,514	4,331	3,267	3,095	3,412	3,698	4,025	4,480
Mining	1,969	1,695	1,190	821	817	1,110	1,193	1,407	1,611
Electric light and power, and manufactured gas	1,278	1,473	1,422	1,302	1,122	1,154	1,177	1,237	1,287
Manufacturing	18,014	16,061	12,422	8,553	8,454	10,489	11,899	14,285	15,948
Contract construction	3,274	3,029	2,047	1,313	674	882	977	1,334	1,634
Transportation	6,661	6,201	5,263	4,121	3,744	4,045	4,401	4,778	5,191
Communication	956	1,002	939	805	735	752	778	830	894
Trade	10,852	10,308	9,057	7,102	6,186	6,986	7,489	8,170	8,884
Finance	8,951	8,138	7,090	5,893	5,172	5,574	5,812	6,299	6,865
Government, including work-relief wages	6,590	6,780	6,897	6,727	6,907	7,949	8,247	9,785	9,445
Government excluding work-relief wages	6,590	6,780	6,897	6,727	6,238	6,460	6,817	7,323	7,585
Work-relief wages					669	1,489	1,430	2,462	1,460
Service	9,741	9,234	8,040	6,431	5,775	6,447	6,993	7,731	8,464
Miscellaneous	4,155	3,960	3,383	2,690	2,438	2,657	2,467	2,410	2,694
Social Security contributions of employers						3	7	298	503
	Percentages of 1929								
Total income paid out	100.0	93.3	79.0	62.4	57.7	65.6	70.2	79.7	88.3
Agriculture	100.0	89.5	70.3	53.0	50.2	55.4	60.0	65.4	72.7
Mining	100.0	86.0	60.4	41.7	41.5	56.4	60.6	71.5	81.8
Electric light and power, and manufactured gas	100.0	115.3	111.3	101.9	87.8	90.3	92.1	96.8	100.7
Manufacturing	100.0	89.2	69.0	47.5	46.9	58.2	66.1	79.3	88.5
Contract construction	100.0	92.4	62.5	40.1	20.6	26.9	29.8	40.7	49.9
Transportation	100.0	93.1	79.0	61.9	56.2	60.7	66.1	71.7	77.9
Communication	100.0	104.8	98.2	84.2	76.9	78.7	81.4	86.8	93.5
Trade	100.0	95.0	83.5	65.4	57.0	64.4	69.0	75.3	81.7
Finance	100.0	90.9	79.2	65.8	57.8	62.3	64.9	70.3	76.7
Government, including work-relief wages	100.0	102.8	104.7	102.1	104.8	120.6	125.1	148.5	144.4
Government, excluding work-relief wages	100.0	102.8	104.7	102.1	94.7	98.0	103.4	111.1	116.0
Work-relief wages		-	-	-	-	-	-	-	-
Service	100.0	94.8	82.5	66.0	59.3	66.2	71.8	79.4	86.9
Miscellaneous	100.0	95.3	81.4	64.7	58.7	63.9	59.3	57.9	64.8
Social Security contributions of employers		-	-	-	-	-	-	-	-
Bureau of Labor Statistics cost-of-living index	100.0	97.5	89.1	80.2	76.2	79.1	81.1	82.1	84.7

1/ Estimates of dividends and interest, and corporate savings for 1934 and for subsequent years are based on a different industrial classification than are the estimates of these items for earlier years because of a change in the Revenue Act of 1934. Special tabulations of the Bureau of Internal Revenue permitted the making of estimates for 1934 on the earlier basis. Tables 7, 8, 20, 23, 24, and 25 show the two sets of estimates for 1934. For specific items in certain industries the variations are substantial, but for total income paid out, the changes were small and the two estimates for 1934 were averaged.

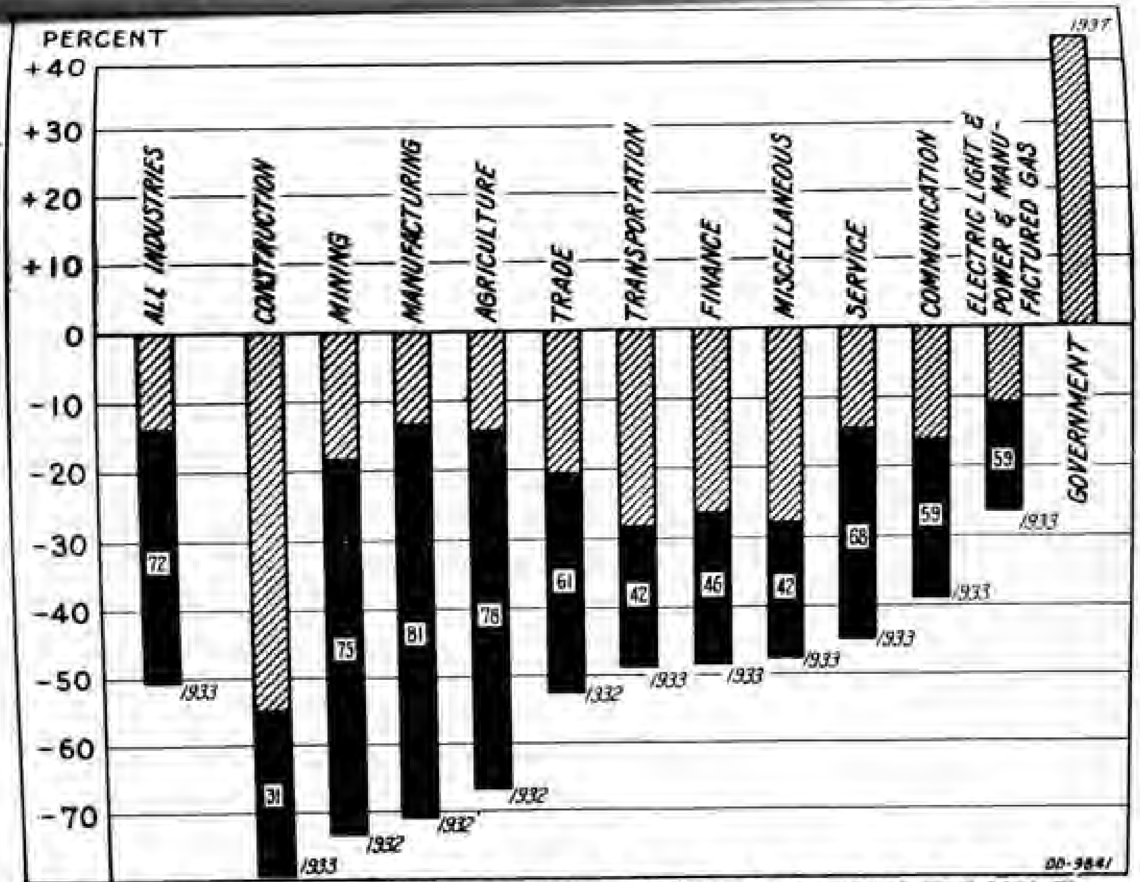

Figure 2. PERCENTAGE CHANGES IN INCOME PRODUCED BY INDUSTRIES FROM 1929 TO DEPRESSION LOW AND FROM 1929 TO 1937

(Black area represents proportion of decline recovered since low year)

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It is well to point out here again that the estimates of business savings of unincorporated enterprises are subject to considerable error because of the lack of source material necessary for their proper estimation. This is particularly true in the field of agriculture, where the net income of farm operators shows wide fluctuations; but the estimates of entrepreneurial withdrawals, based on the assumption that the average withdrawal of farm operators equals the average wage of hired workers, do not show great variations. For the early part of the period covered, business savings of entrepreneurs showed the same tendency as did corporate savings. In 1933, however, the estimates indicate a greater proportional decline in negative savings of entrepreneurs than in negative corporate savings. Positive savings of entrepreneurs appeared in 1934 and increased substantially through 1936, but corporate savings remained negative during these years.

A comparison of tables 1 and 3 reveals the extent to which part of the net value of product in the various industries was retained by business enterprises (positive business savings) in some years and the extent to which income paid out exceeded income produced (negative business savings) in other years. In manufacturing, negative business savings in 1932 were more than half as large as income produced and accounted for more than one-third of total income paid out in that industry.

In view of the limitations involved in the estimates of business savings of unincorporated enterprises, the preliminary nature of the estimates of corporate savings for 1936 and 1937, and the qualifications attaching to the estimates because of the influence of accounting procedures which are not always in accord with the economic concepts, the reader must use these estimates with caution. They do indicate, however, that there is a tendency during periods of prosperity for business enterprises to retain part of the net product and during periods of depression to disburse more than is produced, thereby reducing their net worth as a result of current operations. The large dividend disbursements and the absence of positive business savings of corporations in 1936 and 1937 may have been partly influenced by the undistributed profits tax.

INCOME PAID OUT

Tables 4 and 5 present estimates of income paid out, classified by industrial source and by type of payment. The movements in income paid out by the various industrial divisions show the same general tendencies as were revealed in table 1. By and large, the most substantial reductions in income paid out from 1929 to the low points of the depression occurred in the commodity-producing industries. Also, during the recovery period subsequent to 1933, the largest gains were recorded by these same industries. Government agencies and the electric light and power and manufactured-gas industry were the only two major categories in which income paid out in 1937 was greater than in 1929. The contract construction industry paid out only half as much in 1937 as in 1929.

Of the various types of income payments shown in table 5, interest fluctuated within the narrowest range, while dividends varied to a greater extent than did any other single type of payment. Dividends declined in 1933 to 37 percent of the 1929 level, and then increased steadily until 1937, when they were 84 percent of the 1929 total. Interest payments tended downward after 1930, and in 1936 and 1937 were 11 percent lower than in 1929. Total compensation of employees fell from 51.5 billion

TABLE 5 - INCOME PAID OUT, BY TYPE OF PAYMENT
(In millions of dollars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total income paid out	78,556	73,290	62,032	49,024	45,317	51,510	55,137	62,586	69,330
Total compensation of employees	51,509	47,551	40,188	31,563	29,596	34,051	36,679	41,906	46,728
Salaries (selected industries) 1/	5,606	5,645	4,694	3,425	2,947	3,379	3,574	3,935	4,593
Wages (selected industries) 1/	17,093	14,214	10,589	7,243	7,271	9,019	10,218	11,909	14,037
Salaries and wages (all other industries)	27,873	26,706	23,827	19,798	17,756	19,258	20,433	22,226	24,197
Work-relief wages 2/					669	1,489	1,430	2,462	1,850
Social Security contributions of employers						3	7	292	923
Other labor income	937	986	1,081	1,093	964	903	1,017	1,081	1,117
Total dividends and interest 3/	11,331	11,396	9,913	8,017	7,048	7,748	7,812	8,881	9,563
Dividends	5,978	5,801	4,339	2,745	2,209	2,793	3,038	4,284	5,010
Interest	5,202	5,393	5,295	5,015	4,710	4,862	4,725	4,652	4,656
Entrepreneurial withdrawals	12,296	11,581	9,848	7,887	7,214	8,581	8,729	9,565	10,441
Net rents and royalties	3,415	2,763	2,083	1,558	1,418	1,690	1,917	2,234	2,599
					Percentages of 1929				
Total income paid out	100.0	93.3	79.0	62.4	57.7	65.6	70.2	79.7	88.3
Total compensation of employees	100.0	92.3	78.0	61.3	57.5	66.1	71.2	81.4	90.7
Salaries (selected industries) 1/	100.0	100.7	83.7	61.1	52.6	60.3	63.8	70.2	81.9
Wages (selected industries) 1/	100.0	83.2	61.9	42.4	42.5	52.8	59.8	69.7	82.1
Salaries and wages (all other industries)	100.0	95.8	85.5	71.0	63.7	69.1	73.3	79.7	86.8
Work-relief wages 2/	-	-	-	-	-	-	-	-	-
Social Security contributions of employers	-	-	-	-	-	-	-	-	-
Other labor income	100.0	105.2	115.4	117.3	102.9	96.4	108.5	115.4	119.2
Total dividends and interest 3/	100.0	100.6	87.5	70.8	62.6	68.4	68.9	78.4	84.4
Dividends	100.0	97.0	72.5	45.9	37.0	46.7	50.8	71.7	83.8
Interest	100.0	103.7	101.8	96.5	90.5	93.5	90.8	89.4	89.5
Entrepreneurial withdrawals	100.0	94.2	80.1	64.1	58.7	69.8	71.0	77.8	84.9
Net rents and royalties	100.0	80.8	60.9	45.6	41.5	49.4	56.1	65.3	76.0
Bureau of Labor Statistics cost-of-living index	100.0	97.5	89.1	80.2	76.2	79.1	81.1	82.1	84.7

1/ Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.
2/ Includes pay rolls and maintenance of Civilian Conservation Corps employees and pay rolls of Civil Works Administration, Federal Emergency Relief Administration, and the Federal Works Program projects, plus administrative pay rolls outside of Washington, D.C., for all except the Federal Works Program. Area office employees and their pay rolls under the Federal Works Program are included with the regular Federal Government employment and pay roll figures.
3/ Includes also net balance of international flow of property incomes.

TABLE 6 - PERCENTAGE DISTRIBUTION OF INCOME PAID OUT, BY TYPE OF PAYMENT

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total income paid out	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total compensation of employees	65.6	64.9	64.7	64.4	65.3	66.1	66.5	66.9	67.4
Total salaries and wages	64.4	63.5	63.0	62.2	61.7	61.5	62.1	60.8	61.8
Work-relief wages 1/					1.5	2.9	2.6	3.9	2.7
Social Security contributions of employers								0.5	1.3
Other labor income	1.2	1.4	1.7	2.2	2.1	1.7	1.8	1.7	1.6
Total dividends and interest 2/	14.4	15.5	16.0	16.3	15.7	15.0	14.2	14.2	13.8
Dividends	7.6	7.9	7.0	5.6	4.9	5.4	5.5	6.8	7.2
Interest	6.6	7.4	8.5	10.2	10.4	9.4	8.6	7.4	6.7
Entrepreneurial withdrawals	15.6	15.8	15.9	16.1	15.9	15.6	15.8	15.3	15.1
Net rents and royalties	4.4	3.8	3.4	3.2	3.1	3.3	3.5	3.6	3.7

1/ Includes pay roll and maintenance of Civilian Conservation Corps employees and pay rolls of Civil Works Administration, Federal Emergency Relief Administration, and the Federal Works Program projects, plus administrative pay rolls outside of Washington, D.C., for all except the Federal Works Program. Area office employees and their pay rolls under the Federal Works Program are included with the regular Government employment and pay-roll figures.
2/ Includes also net balance of international flow of property incomes.

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dollars in 1929 to 29.6 billion dollars in 1933, a decline of 42.5 percent, and then rose to 46.7 billion dollars in 1937, or within 10 percent of the 1929 peak. In those industries in which salaries and wages could be segregated, the drop in wages from 1929 to 1932 was greater than the drop in salaries. The relatively larger increase in wages after 1932 resulted in approximately the same relationship between the items in 1937 as in 1929.

Entrepreneurial withdrawals varied closely with total compensation of employees from 1929 through 1935, but increased more moderately in 1936 and 1937. Net rents and royalties fell nearly 60 percent from 1929 to 1933 and then increased in 1937 to approximately three-fourths of the 1929 level.

Work-relief wages appear in the estimates for the first time in 1933. Prior to that year some wages were paid on work-relief projects by local agencies, but satisfactory data are not available for determining their magnitude. From a total of 700 million dollars in 1933, this type of payment increased to nearly 2¼ billion dollars in 1936. Increased business activity and expanding employment in private industries during most of 1937 led to a decline in work-relief wages of nearly one-fourth from the 1936 level.

Social Security contributions of employees are included in salaries and wages. Contributions of employers, which totaled nearly 300 million dollars in 1936 and nearly a billion dollars in 1937, are shown separately. These contributions were made under the unemployment compensation and old-age insurance provisions of the Federal Social Security Act and the State Unemployment Compensation Laws.

RELATIVE IMPORTANCE OF TYPES OF PAYMENTS

The estimates in table 6, showing the percentage distribution of income paid out by type of payment, are widely used. They indicate the proportion of total income paid out to each of the various factors of production and as such are of considerable value. It is important, however to note that the figures do not represent the actual receipts of specific groups within the total population, since many of the items represent accruals rather than actual payments and many income recipients receive more than one type of income. Salaries and wages include employees' contributions to Social Security, but employees have no control over this portion of their income. On the other hand, benefits paid under Social Security programs, soldiers' bonuses, and direct-relief disbursements are not included in income paid out, although they are actual receipts of specific groups within the population. Furthermore, the amount of dividends and interest paid by business enterprises to aggregates of individuals (such as life-insurance companies, savings banks, and building and loan associations) and the income disbursed by these agencies undoubtedly differ considerably from year to year. A discussion of the flow of income to aggregates of individuals is contained in chapter I in the section headed "Sources and Methods of Estimation."

Of the total income paid out, the compensation of employees represented 66.9 percent in 1936 and 67.4 percent in 1937. In this study all persons who worked for others on a salary, wage, or commission basis are classified as employees and, therefore, the compensation of corporate officers as well as that of manual laborers is

TABLE 7 - PERCENTAGES WHICH COMPENSATION OF EMPLOYEES REPRESENTS OF INCOME
PAID OUT, BY INDUSTRIAL DIVISIONS

	1929	1930	1931	1932	1933	1934 1/	1934 1/	1935	1936	1937
All Industries	65.6	64.9	64.8	64.4	65.3	66.1	66.2	66.5	67.0	67.4
Agriculture	21.3	20.2	18.7	16.1	16.0	15.2	15.2	15.0	16.3	16.6
Mining	77.8	80.9	82.5	82.5	83.7	83.7	77.8	79.0	76.2	75.0
Electric light and power, and manufactured gas	39.7	35.9	34.5	31.8	32.7	32.1	34.3	35.2	36.9	36.6
Manufacturing	82.4	80.3	81.0	82.7	84.0	84.2	85.2	83.8	79.2	79.5
Contract construction	84.2	81.8	80.7	80.5	79.6	80.5	80.4	80.5	82.8	82.6
Transportation	74.6	73.1	73.1	70.9	71.6	72.7	72.2	72.6	74.8	75.6
Communication	75.1	72.6	69.7	67.8	64.2	65.5	66.0	66.8	67.5	70.4
Trade	74.5	74.8	74.2	73.6	74.4	73.3	72.8	70.8	69.0	70.2
Finance	28.3	29.1	29.8	31.7	33.2	32.6	32.4	32.5	32.6	32.6
Government (excluding work-relief)	83.2	84.0	84.1	83.3	80.7	79.7	79.7	81.6	80.8	82.0
Government (including work-relief)	83.2	84.0	84.1	83.3	82.5	83.5	83.5	84.8	86.7	85.5
Service	67.7	66.5	66.0	65.9	69.3	69.5	69.4	69.3	65.0	65.7
Miscellaneous	53.0	58.6	52.8	52.7	54.4	54.6	54.4	62.6	70.5	70.4

1/ Estimates of dividends and interest, and corporate savings for 1934 and for subsequent years are based on a different industrial classification than are the estimates of these items for earlier years because of a change in the Revenue Act of 1934. Special tabulations of the Bureau of Internal Revenue permitted the making of estimates for 1934 on the earlier basis as well as on the new basis. The first column for 1934 presents the estimates on the basis of the old industrial classification and the second column shows the estimates on the new classification.

TABLE 8 - PERCENTAGES WHICH DIVIDENDS AND INTEREST REPRESENT OF INCOME
PAID OUT, BY INDUSTRIAL DIVISIONS

	1929	1930	1931	1932	1933	1934 1/	1934 1/	1935	1936	1937
All industries	14.4	15.5	16.0	16.4	15.6	15.0	15.0	14.8	14.2	13.8
Agriculture	5.3	5.3	5.9	6.2	6.6	6.1	6.1	5.5	5.4	5.0
Mining	20.5	17.5	15.2	14.4	13.6	14.2	20.3	19.1	22.1	23.3
Electric light and power, and manufactured gas	60.3	64.1	65.5	66.8	67.3	67.9	65.7	64.8	63.5	62.4
Manufacturing	15.5	17.8	17.1	15.3	14.1	14.1	13.0	14.6	19.4	19.2
Contract construction	2.5	2.9	2.8	2.6	3.4	2.5	2.5	3.0	2.7	3.2
Transportation	21.2	22.3	21.9	23.9	23.3	21.8	22.4	22.0	19.6	18.6
Communication	24.9	27.4	30.3	32.2	35.8	34.5	34.0	33.2	32.5	29.6
Trade	5.8	5.5	5.0	3.8	3.6	4.6	5.3	6.4	8.5	7.8
Finance	30.1	33.4	37.3	37.7	35.0	32.8	33.1	30.4	27.7	25.4
Government (excluding work-relief)	16.8	16.0	15.9	16.7	19.3	20.3	20.3	18.4	17.8	18.0
Government (including work-relief)	16.8	16.0	15.9	16.7	17.5	16.5	16.5	15.2	13.3	14.5
Service	3.6	3.9	3.5	3.1	2.1	2.0	2.2	2.2	2.2	2.1
Miscellaneous 2/	13.1	13.5	14.0	14.9	12.2	12.0	12.0	-1.3	-14.7	-13.4

1/ Estimates of dividends and interest, and corporate savings for 1934 and for subsequent years are based on a different industrial classification than are the estimates of these items for earlier years because of a change in the Revenue Act of 1934. Special tabulations of the Bureau of Internal Revenue permitted the making of estimates for 1934 on the earlier basis as well as on the new basis. The first column for 1934 presents the estimates on the basis of the old industrial classification and the second column for 1934 shows the estimates on the new classification.
2/ Includes also net balance of international flow of property income.

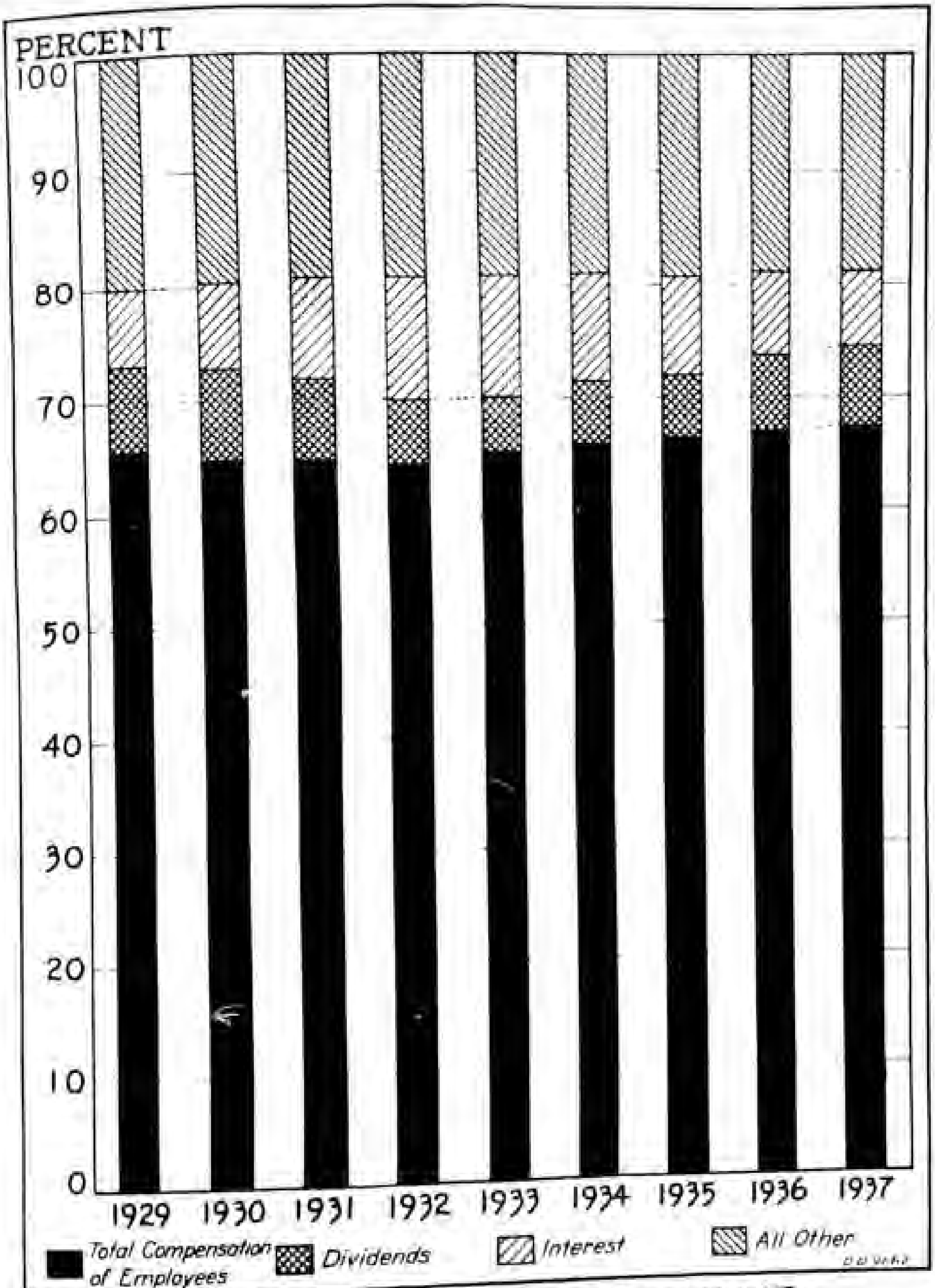

Figure 3. PERCENTAGE DISTRIBUTION OF INCOME PAID OUT, BY TYPE OF PAYMENT, 1929-37

included in labor income. The 1937 share of labor income was higher than in any previous year under review, comparing with 65.6 percent in 1929 and 64.4 percent in 1932. If work-relief wages and Social Security contributions of employers, which together accounted for 4 percent of total income paid out in 1937, are excluded from both total income paid out and from total compensation of employees, the proportion which employees' compensation bears to total income paid out is 65.5 in 1936 and 66.0 in 1937.

The aggregate of dividends and interest did not vary greatly in relative importance during the period covered, having increased moderately from 1929 to 1932 and having declined thereafter. However, when these two items are separated, sharply varying trends are revealed. From 1929 to 1933, dividends declined in proportion to income paid out from 7.6 percent to 4.9 percent, and increased thereafter to 6.8 percent in 1936 and 7.2 percent in 1937. Interest, on the other hard, increased from 6.6 percent of income paid out in 1929 to 10.4 percent in 1933, and subsequently declined to 6.7 percent in 1937. Entrepreneurial withdrawals changed only moderately in relative importance throughout the entire period. Net rents and royalties declined proportionately from 4.4 percent in 1929 to 3.1 percent in 1933, and increased only moderately thereafter.

For the entire period, labor income accounted for approximately two-thirds of the income paid out. Entrepreneurial withdrawals accounted for slightly less than one-sixth, and property income, including rents and royalties, accounted for more than one-sixth. The relative importance of these three major groups changed only moderately with changes in total income, indicating that generally the return to each of the various factors of production, as classified above, increases during periods of prosperity and decreases during periods of depression in nearly the same proportion.

Further evidence of the distribution of income paid out appears in tables 7 and 8, where the relative importance of the compensation of employees and of dividends and interest is shown for each industrial division. In 1937, labor income accounted for only one-sixth of income paid out in agriculture, an industry where entrepreneurial activities are predominant and where entrepreneurial withdrawals represent narly 80 percent of income paid out. Net rents and royalties are included entirely in the finance industry, and account — at least in part — for the low proportion of labor income to total income in that field. In the electric light and power and manufactured-gas industry, employees' compensation represented less than 40 percent of total income paid out in 1937, as compared with 75 percent or more in government, contract construction, manufacturing, transportation, and mining. In most industries, labor's share declined from 1929 to the low years of the depression, and increased thereafter. The most notable exceptions to this tendency were in mining, manufacturing, and finance, where labor income increased in relative importance during the period of declining total income and decreased in relative importance during the period of increasing total income.

As shown in table 8, the relative importance of dividends and interest originating in each industry varies greatly from one industry to another. Thus, in 1937 these two items accounted for 61.4 percent of income paid out by the electric light and power and manufactured-gas industry and 29.6 percent in the communication industry, both of which require huge capital outlays, as compared with 5 percent or less in the service, construction, and agriculture industries, in which personal effort is the predominant factor of production. Estimates for the miscellaneous group include also the net balance of international flow of property income, in which dividend and inter-

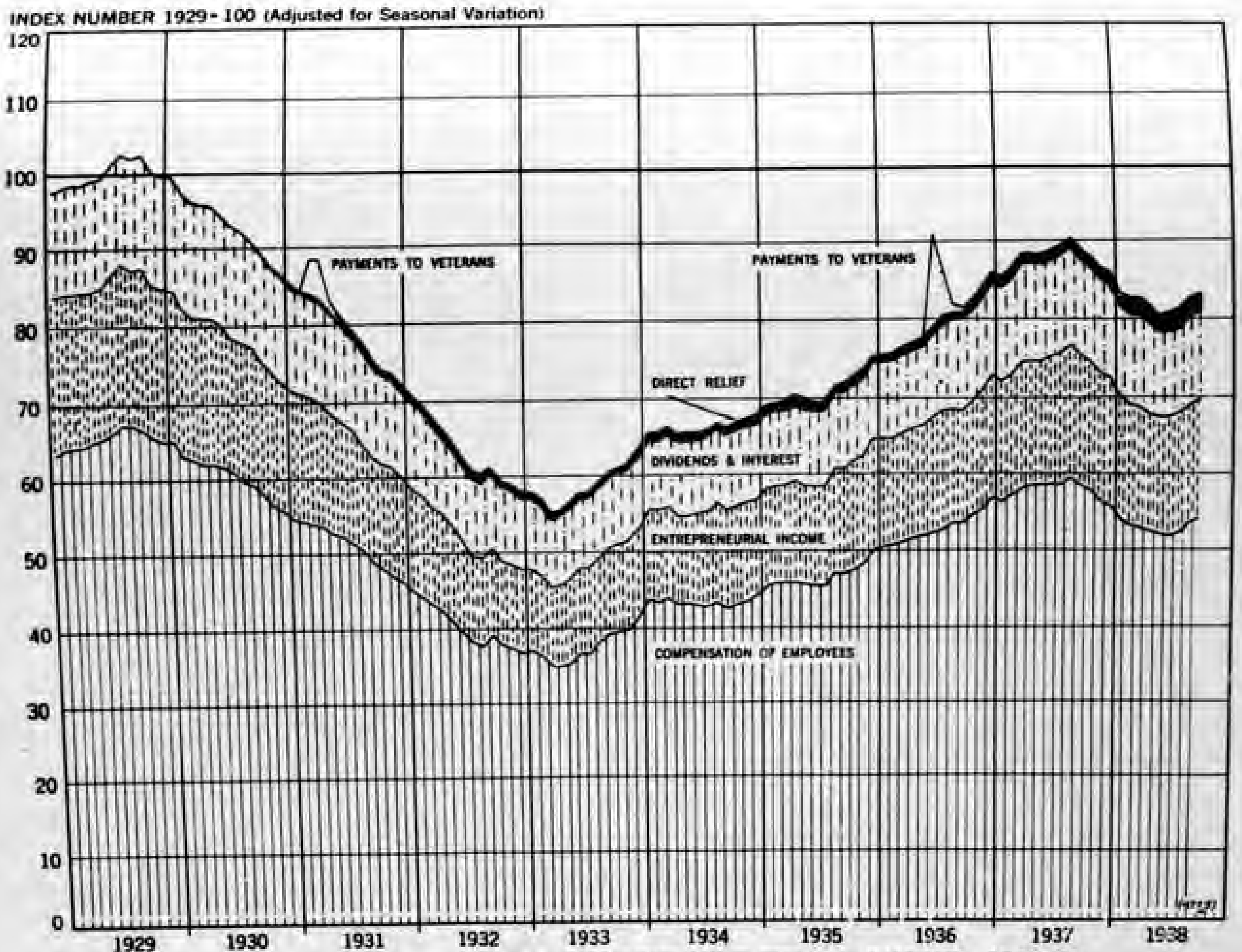

Figure 4. MONTHLY INCOME PAYMENTS, BY TYPE OF PAYMENT, 1929-38

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est receipts exceed dividend and interest payments in some years, so that a negative item appears for dividend and interest income. The electric light and power and manufactured-gas industry and the communication industry both showed marked increases in the relative importance of property income from 1929 to the low years of the depression and substantial declines in the relative importance of dividend and interest payments during the recovery period.

INCOME PAYMENTS

Table 9 presents the monthly estimates of income payments from January 1929 through August 1938, classified by types of payment, with a further break-down of compensation of employees by major industrial categories. The annual aggregates of these monthly figures differ in many aspects from the annual estimates of income paid out, but the magnitude of the net differences is not great. In 1936, the difference between total income paid out for services rendered and total income payments to individuals was larger than for any other year, the latter exceeding the former by nearly 2 billion dollars, or approximately 3 percent. In all other years the aggregates were within 2 percent of each other.

As indicated in chapter I of this report, income payments, in contrast to income paid out, include certain items which do not represent compensation for services currently rendered. Thus, direct relief disbursements and payments to veterans on their adjusted service certificates are included in income payments to individuals, but not in income paid out. The sum of these two items accounted for 2.1 billion dollars in 1936 and approximately 1 billion dollars in both 1935 and 1937. Except for the years 1936 and 1937, the items included in income paid out and excluded from income payments are relatively small. These comprise employee and employer contributions to the Federal Government employees' retirement fund and to the Railroad Retirement fund, as well as employee and employer contributions under the Social Security programs. In 1937, these deductions totaled approximately 1¼ billion dollars. Benefits under the Social Security programs, which are included in income payments, were relatively insignificant prior to 1938.

The general trend of income payments closely approximates that of income paid out. However, since the estimates of income payments are available on a monthly basis, a more precise analysis of the cyclical variations in the flow of income is possible. Except for the brief spurt in 1931 occasioned by loans on adjusted service certificates, total income payments declined almost uninterruptedly from the third quarter of 1929 to March 1933. The index of total payments, adjusted for seasonal variation, dropped 46 percent during this period. The adjusted index of the compensation of employees decreased approximately 48 percent over the same period. Total income payments rose sharply through the final three quarters of 1933, showing a gain of nearly one-fifth in this 9-month period. During the next 3 years, income payments increased steadily, with a particularly marked rise in the middle of 1936 occasioned in part by final payments on veterans' adjusted service certificates. The peak reached in the seasonally adjusted index of total income payments in August 1937 was 90.2 percent of the 1929 level. From August 1937 to May 1938, the index dropped 10 points. During this period all types of income payments fell off substantially. Subsequent to May, income payments increased in each month.

TABLE 9 - MONTHLY INCOME PAYMENTS

Year and month	Index of total income payments: Adjusted[1]	Index of total income payments: Unadjusted[2]	Total income payments	Compensation of employees: Index, Adjusted	Compensation of employees: Total	Manufacturing, mining, and construction	Transportation and public utilities	Trade and finance	Government, service, and other	Work relief	Dividends and interest	Entrepreneurial withdrawals, and net rents and royalties	Direct and other relief	Adjusted service certificate payments	Benefit payments under the Social Security Act
	1929=100		Mil. of dol.	1929=100	Millions of dollars										
1929															
January	97.9	101.9	6,673	97.0	4,009	1,474	478	808	1,300	------	1,286	1,355	4	------	------
February	98.2	93.8	6,113	97.7	4,104	1,541	463	807	1,300	------	736	1,269	4	------	------
March	98.3	95.1	6,294	99.1	4,104	1,538	489	816	1,326	------	864	1,252	4	------	------
April	98.2	99.0	6,462	98.8	4,241	1,604	493	815	1,332	------	990	1,268	4	------	------
May	99.0	97.8	6,408	99.4	4,235	1,612	499	822	1,303	------	816	1,257	4	------	------
June	99.8	100.4	6,674	100.3	4,303	1,659	506	827	1,410	------	962	1,267	3	------	------
July	101.1	126.4	8,020	101.3	4,377	1,698	530	838	1,327	------	1,232	1,691	4	------	------
August	102.9	97.8	6,384	102.7	4,390	1,687	530	850	1,317	------	708	1,347	4	------	------
September	102.7	101.3	6,631	102.4	4,431	1,674	512	849	1,393	------	879	1,377	4	------	------
October	105.8	107.7	7,051	103.0	4,515	1,694	522	857	1,443	------	1,042	1,497	4	------	------
November	100.2	100.0	6,545	100.4	4,353	1,598	500	835	1,420	------	898	1,290	4	------	------
December	100.0	100.7	6,591	99.8	4,394	1,580	490	899	1,497	------	981	1,311	3	------	------
Monthly average	------	100.0	6,546	100.0	4,399	1,586	501	834	1,480	------	944	1,310	4	------	------
1930															
January	99.6	104.7	6,856	97.0	4,055	1,431	483	834	1,212	------	1,494	1,371	8	------	------
February	97.4	92.9	6,082	96.3	4,046	1,465	481	819	1,205	------	826	1,202	6	------	------
March	96.1	94.2	6,145	95.4	4,070	1,455	481	830	1,214	------	910	1,129	7	------	------
April	95.9	95.0	6,269	94.6	4,087	1,450	480	819	1,023	------	1,081	1,102	7	------	------
May	95.7	94.7	6,203	94.8	4,122	1,434	480	822	1,020	------	974	1,201	8	------	------
June	94.7	96.2	6,299	94.2	4,101	1,440	477	818	1,066	------	1,018	1,172	8	------	------
July	93.1	96.1	6,293	92.8	3,987	1,377	479	788	1,263	------	1,314	1,168	6	------	------
August	92.3	87.7	5,744	91.3	3,855	1,305	473	782	1,230	------	734	1,179	6	------	------
September	91.1	89.0	5,832	90.3	3,906	1,367	464	772	1,303	------	755	1,237	6	------	------
October	89.4	88.6	5,803	88.0	3,922	1,345	447	773	1,334	------	842	1,209	9	------	------
November	87.9	87.3	5,716	86.7	3,793	1,294	437	768	1,299	------	775	1,185	9	------	------
December	86.8	88.9	5,980	84.3	3,676	1,200	436	764	1,281	------	985	1,130	10	------	------
Monthly average	------	93.4	6,112	90.2	3,968	1,387	460	799	1,309	------	930	1,190	7	------	------
1931															
January	83.1	89.5	5,869	82.0	3,499	1,129	432	797	1,201	------	1,252	1,100	13	------	------
February	84.4	80.1	5,248	82.9	3,490	1,146	425	783	1,197	------	710	1,037	16	3	------
March	83.6	82.4	5,657	82.4	3,517	1,144	424	786	1,212	------	769	1,067	17	307	------
April	86.4	83.2	5,764	81.9	3,510	1,135	415	729	1,228	------	875	1,038	18	452	------
May	83.1	82.0	5,580	80.3	3,505	1,124	430	731	1,226	------	729	1,028	17	93	------
June	81.0	82.3	5,397	79.8	3,480	1,097	411	721	1,243	------	894	980	18	29	------
July	79.8	82.0	5,373	78.3	3,266	1,049	414	698	1,128	------	1,061	993	17	22	------
August	77.0	74.1	4,850	73.0	3,222	1,036	404	673	1,107	------	853	981	15	19	------
September	78.4	74.7	4,891	73.0	3,265	1,038	394	672	1,161	------	679	938	16	17	------
October	74.2	78.1	5,114	73.2	3,262	977	392	673	1,197	------	859	960	17	22	------
November	72.8	73.4	4,806	72.1	3,131	923	390	670	1,167	------	808	949	19	22	------
December	72.4	72.9	4,777	70.9	3,089	906	384	674	1,124	------	769	938	22	27	------
Monthly average	------	80.3	5,290	78.0	3,347	1,055	404	708	1,180	------	849	994	17	79	------
1932															
January	70.6	74.4	4,872	69.0	2,985	833	350	638	1,084	------	1,067	884	27	15	------
February	69.7	65.6	4,297	67.7	2,943	825	339	613	1,069	------	575	848	33	12	------
March	69.0	66.7	4,360	66.0	2,870	805	338	605	1,024	------	657	835	33	10	------
April	68.4	68.5	4,429	64.4	2,794	773	325	584	1,021	------	733	820	32	10	------
May	66.7	64.0	4,166	63.4	2,734	741	323	580	1,079	------	815	806	34	8	------
June	62.8	64.0	4,191	60.6	2,640	708	313	563	1,060	------	787	781	34	9	------
July	60.7	62.8	4,101	56.4	2,452	673	301	542	938	------	930	747	31	21	------
August	60.2	57.0	3,720	57.0	2,419	675	299	537	913	------	539	748	33	28	------
September	61.1	58.9	3,856	58.0	2,508	697	298	530	953	------	586	773	36	11	------
October	58.4	62.9	4,077	58.6	2,570	714	291	537	1,028	------	674	762	40	8	------
November	59.1	58.4	3,820	57.4	2,499	683	291	530	995	------	524	731	43	8	------
December	58.0	58.2	3,811	56.4	2,453	654	289	524	981	------	590	734	50	8	------
Monthly average	------	63.1	4,133	61.5	2,658	738	315	566	1,018	------	688	787	37	13	------
1933															
January	57.8	61.7	4,038	56.4	2,283	626	277	508	853	21	905	718	60	6	------
February	58.9	53.8	3,520	55.7	2,248	644	266	502	816	24	469	653	59	5	------
March	58.1	53.3	3,480	53.2	2,287	609	273	488	851	36	507	652	56	4	------
April	55.2	54.5	3,730	53.4	2,285	616	270	473	804	38	589	880	59	3	------
May	56.2	55.5	3,634	54.0	2,337	642	270	476	909	40	614	711	67	3	------
June	57.6	58.2	3,814	56.3	2,453	667	282	483	909	47	900	713	65	3	------
July	57.9	58.8	3,916	56.3	2,384	718	302	482	853	48	771	729	61	4	------
August	59.1	55.0	3,602	58.7	2,478	778	297	504	848	50	432	780	58	3	------
September	60.2	58.3	3,853	60.2	2,604	813	294	524	888	44	488	771	39	3	------
October	57.6	64.8	4,261	60.8	2,681	812	301	543	865	61	648	885	41	3	------
November	61.2	60.9	3,982	60.9	2,642	779	293	561	837	73	630	772	32	3	------
December	62.0	62.6	4,103	62.7	2,748	757	303	537	880	328	821	738	63	3	------
Monthly average	------	58.4	3,837	57.5	2,498	707	286	506	910	98	661	730	56	3	------

[1] With adjustment for seasonal variations.
[2] Without adjustment for seasonal variations.

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TABLE 9 - MONTHLY INCOME PAYMENTS (Continued)

Year and month	Index of total income payments: Adjusted[1]	Index of total income payments: Unadjusted[2]	Total income payments	Compensation of employees: Index Adjusted	Compensation of employees: Total	Manufacturing, mining, and construction	Transportation and public utilities	Trade and finance	Government, service, and other	Work relief	Dividends and interest	Entrepreneurial withdrawals, and net rents and royalties	Direct and other relief	Adjusted service certificate payments	Benefit payments under the Social Security Act
	1929 = 100		Mill. of dol.	1929 = 100	Millions of dollars										
1934															
January	65.6	70.1	4,404	66.6	[illegible]	773	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
February	65.8	62.0	4,114	66.3	2,701	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
March	65.2	62.9	4,185	67.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
April	65.3	62.6	4,296	65.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
May	65.5	65.0	4,131	66.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
June	65.6	[illegible]	4,313	65.7	[illegible]	[illegible]	[illegible]	[illegible]	1,033	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
July	65.9	65.1	4,404	65.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
August	66.9	[illegible]	4,184	66.1	2,774	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
September	66.0	64.8	[illegible]	64.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
October	66.9	72.1	4,727	66.0	[illegible]	[illegible]	[illegible]	[illegible]	1,001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
November	67.2	[illegible]	[illegible]	66.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
December	67.8	69.8	[illegible]	67.5	2,913	[illegible]	[illegible]	[illegible]	1,018	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Monthly average		66.4	[illegible]	66.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
1935															
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Monthly average		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
1936															
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
December	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Monthly average		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
1937															
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,175	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Monthly average		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
1938															
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
September															
October															
November															
December															
Monthly average															

[1] With adjustment for seasonal variations.

[2] Without adjustment for seasonal variations.

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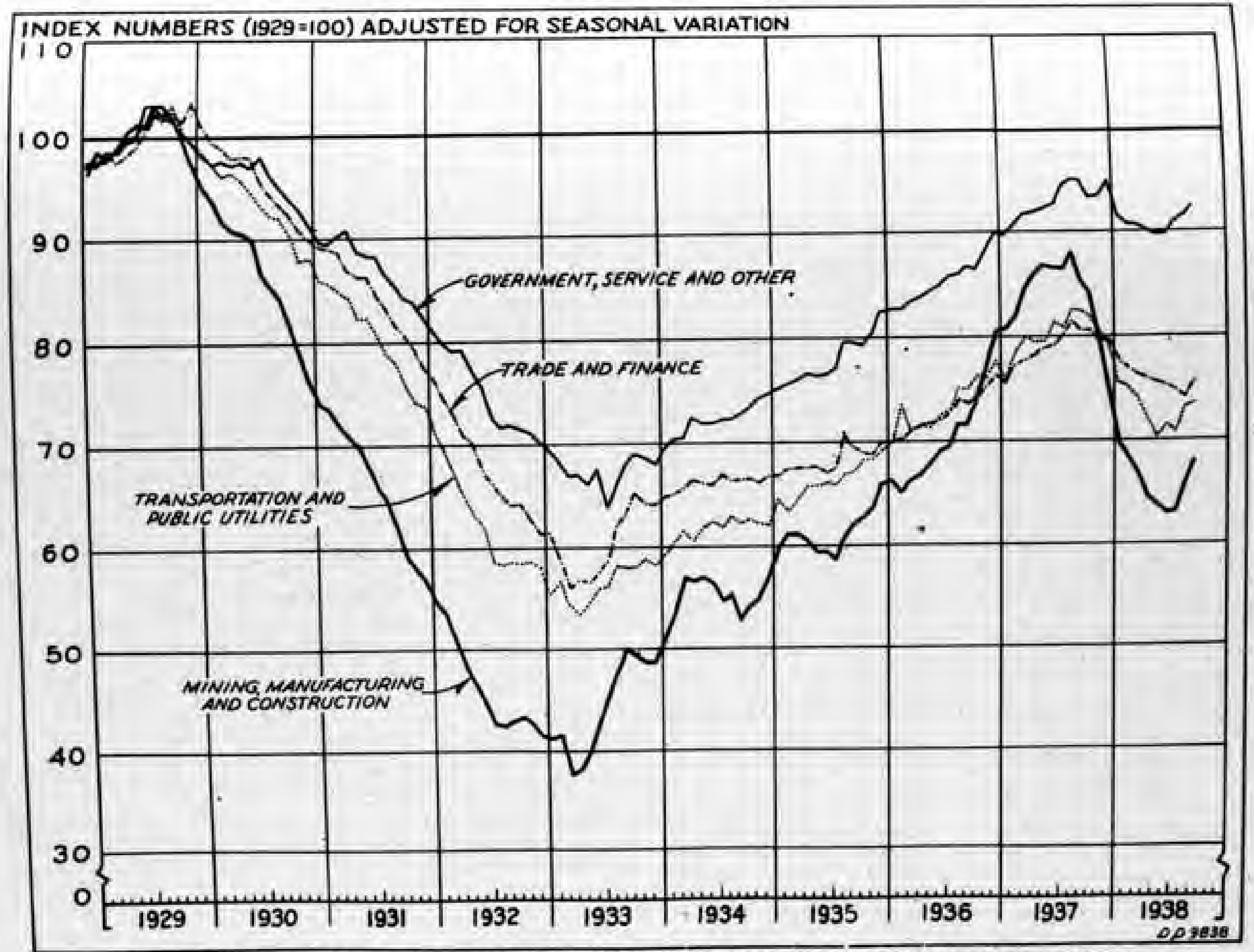

Figure 5. TREND OF EMPLOYEES' COMPENSATION, BY MAJOR INDUSTRIAL GROUPS, 1929-38

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NUMBER ENGAGED AND PER CAPITA INCOME

Tables 10 and 12 indicate the trends in the number of persons engaged, by type and by industrial groups. Unpaid family farm labor and employees engaged on work relief projects have not been included in the estimates. Also, the number of employees tends to represent full-time-equivalent employment rather than the total number of persons who worked at any time during the year. Thus, by using annual averages of monthly figures, two persons, each working 6 months during a year, represent one full-time-equivalent employee. In some industries, where separate employment and pay-roll records are maintained for those employed on a part-time basis, it is possible to make full-time-equivalent estimates for those working part of the week or month. Conversion to full-time equivalent for this type of employment is confined to very few industries, because of the lack of necessary data.

From 1929 to 1932 the total number of persons engaged declined nearly 20 percent. The number of entrepreneurs during this period remained approximately unchanged, while the number of employees declined more than one-fourth. In those industries where wage earners and salaried employees could be segregated, the drop in the number of wage earners from 1929 to 1932 was 39 percent, as compared with a 28-percent decline in salaried employees. The number of persons engaged was only 3 percent less in 1937 than in 1929. The number of entrepreneurs in 1937 was 9.2 percent higher than in 1929, while the number of employees in 1937 was 6.6 percent less than the 1929 total. The net decline from 1929 to 1937 of less than 1¼ million persons engaged should not be accepted as a measure of the number of persons unemployed in 1937, since there were perhaps 2 million persons unemployed in 1929 and there was a substantial increase in the number of employable persons between 1929 and 1937.

Cyclical variations in the number of persons engaged, by industrial divisions, varied closely with the fluctuations in income originating in the different industrial groups. The largest percentage declines from 1929 to the low years of the depression and the largest percentage increases thereafter occurred in the commodity-producing industries, with the exception of agriculture, in which the number of farm operators tended to increase during this period. A more detailed picture of the effects of the depression and recovery can be obtained from table 14, which shows the number of employees, by major and minor industrial divisions. This table reveals not only marked differences in employment fluctuations from one major industrial group to another, but also among subgroups of specific industries. Thus, in the manufacturing group, declines from 1929 to 1932 varied from 20 percent in the food and tobacco branch to more than 50 percent in the construction materials and furniture branch. Also, in the transportation group, a marked decline occurred during the depression in the railroad industry, as compared with only a moderate decline in motor transportation. The recovery period was similarly characterized by substantial variations within the subgroups in each industry.

The per capita income of full-time employees, shown in table 11, indicates a close relationship over the period from 1929 to 1935 between average income of all employees and the cost-of-living index of urban wage-earner families. It should be noted that the estimates of per capita income of employees are derived by dividing salaries and wages by the full-time-equivalent number of employees and that salaries and wages are before deductions for employees' contributions under the Social Security programs. The decline in the per capita income of employees from 1929 to 1933 was 25.8 percent, as

TABLE 10 - NUMBER OF PERSONS ENGAGED 1/
(In thousands)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total number engaged	44,859	42,844	39,435	36,081	36,248	38,579	39,775	41,703	43,467
All employees	34,863	32,857	29,427	26,022	25,973	28,043	29,034	30,833	32,546
Salaried employees (selected industries) 2/	2,191	2,183	1,903	1,577	1,458	1,601	1,658	1,775	1,916
Wage earners (selected industries) 2/	12,208	10,784	8,961	7,465	7,917	9,062	9,560	10,886	11,085
Salaried employees or wage earners (all other industries)	20,464	19,890	18,563	16,980	16,604	17,380	17,816	18,778	19,546
Entrepreneurs	9,997	9,987	10,018	10,058	10,875	10,537	10,741	10,870	10,921
	Percentages of 1929								
Total number engaged	100.0	95.5	87.9	80.4	80.8	86.0	88.7	93.0	96.9
All employees	100.0	94.2	84.4	74.6	74.5	80.4	83.3	88.4	93.4
Salaried employees (selected industries) 2/	100.0	99.6	86.9	72.0	66.5	73.1	75.7	81.0	87.4
Wage earners (selected industries) 2/	100.0	88.3	73.4	61.1	64.9	74.2	78.3	89.3	90.8
Salaried employees or wage earners (all other industries)	100.0	97.2	90.7	83.0	81.1	84.9	87.1	91.7	95.5
Entrepreneurs	100.0	99.9	100.2	100.6	108.8	105.4	107.4	108.7	109.2

1/ In this table and all subsequent tables relating to a number of persons employed or engaged, the annual estimates are averages for the calendar year. The numbers represent in some industries a full-time equivalent. Unpaid family farm labor and work-relief employees have not been included.
2/ Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

TABLE 11 - PER CAPITA INCOME OF EMPLOYEES AND THE COST OF LIVING

	1929	1930	1931	1932	1933	1934	1935	1936	1937
All employees, excluding work relief	1,451	1,417	1,329	1,171	1,077	1,129	1,179	1,235	1,316
Salaried employees (selected industries) 1/	2,560	2,588	2,467	2,171	2,030	2,111	2,156	2,217	2,398
Wage earners (selected industries) 1/	1,400	1,318	1,181	970	918	995	1,069	1,158	1,266
Salaried employees or wage earners (all other industries)	1,362	1,343	1,284	1,166	1,069	1,108	1,147	1,184	1,238
	Percentages of 1929								
All employees, excluding work relief	100.0	97.7	91.6	80.7	74.2	77.8	81.3	85.1	90.7
Salaried employees (selected industries) 1/	100.0	101.1	96.4	84.8	79.3	82.5	84.3	86.6	93.7
Wage earners (selected industries) 1/	100.0	94.1	84.4	69.3	65.6	71.1	76.4	82.7	90.4
Salaried employees or wage earners (all other industries)	100.0	98.6	94.3	85.6	78.5	81.4	84.2	86.9	90.9
Bureau of Labor Statistics cost-of-living index	100.0	97.5	89.1	80.2	76.2	79.1	81.1	82.1	84.7

1/ Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

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TABLE 12 - NUMBER OF PERSONS ENGAGED, BY INDUSTRIAL DIVISIONS
(In thousands)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total number engaged, excluding work-relief employees	44,059	42,064	38,439	36,081	36,098	38,579	39,775	41,703	43,467
Agriculture 1/	7,910	7,800	7,775	7,690	7,900	7,910	7,990	8,060	8,090
Mining	1,044	980	850	710	729	855	867	904	950
Electric light and power, and manufactured gas	346	357	331	288	273	290	298	313	331
Manufacturing	9,938	8,858	7,388	6,369	6,448	7,965	8,463	9,004	9,751
Contract construction	1,604	1,495	1,111	848	716	783	770	983	1,005
Transportation	3,193	2,985	2,631	2,276	2,201	2,304	2,352	2,585	2,663
Communication	383	324	450	408	374	371	348	376	398
Trade	6,456	6,436	5,734	5,191	5,183	5,390	5,475	5,673	5,853
Finance	1,452	1,397	1,304	1,093	1,200	1,289	1,215	1,296	1,308
Government, excluding work-relief employees	3,204	3,313	3,331	3,289	3,219	3,387	3,480	3,676	3,764
Service	7,093	6,836	6,480	5,980	5,808	6,301	6,605	6,978	7,859
Miscellaneous	2,145	2,081	1,973	1,858	1,683	1,914	1,943	2,006	2,057
	Percentages of 1929								
Total number engaged, excluding work-relief employees	100.0	95.5	87.5	80.4	80.8	86.0	88.7	93.0	96.9
Agriculture 1/	100.0	98.6	98.3	97.2	99.9	100.0	100.5	101.9	102.3
Mining	100.0	93.9	81.4	68.0	69.8	81.9	83.0	86.6	91.0
Electric light and power, and manufactured gas	100.0	103.2	95.7	83.2	78.9	83.8	85.0	90.5	95.7
Manufacturing	100.0	89.1	73.8	64.1	64.9	80.2	85.2	90.5	98.2
Contract construction	100.0	93.2	69.3	52.7	44.6	49.1	48.0	57.5	62.7
Transportation	100.0	93.5	82.4	71.3	68.9	72.2	73.6	75.1	83.4
Communication	100.0	98.3	86.0	76.9	71.5	70.9	69.8	72.5	76.1
Trade	100.0	96.6	88.8	80.4	79.6	83.5	84.8	87.9	91.3
Finance	100.0	96.3	89.9	89.7	82.7	84.7	83.7	89.9	90.1
Government, excluding work-relief employees	100.0	103.4	104.0	102.7	100.5	105.8	108.6	114.7	117.5
Service	100.0	96.9	91.0	83.9	82.3	89.3	93.4	98.9	102.5
Miscellaneous	100.0	97.0	92.0	86.6	86.9	89.2	90.6	93.5	95.9

1/ Does not include unpaid family labor.

TABLE 13 - PERCENTAGE DISTRIBUTION OF PERSONS ENGAGED, BY INDUSTRIAL DIVISIONS

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total number engaged, excluding work-relief employees	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture 1/	17.6	18.2	19.7	21.3	21.8	20.5	20.0	19.3	18.6
Mining	2.3	2.3	2.2	2.0	2.0	2.2	2.2	2.2	2.2
Electric light and power, and manufactured gas	.8	.8	.8	.8	.8	.7	.7	.8	.8
Manufacturing	22.1	20.7	19.1	17.7	18.9	20.6	21.3	21.6	22.4
Contract construction	3.6	3.5	2.8	2.3	2.0	1.9	1.9	2.2	2.3
Transportation	7.1	7.0	6.7	6.3	6.1	6.0	5.9	6.1	6.1
Communication	1.2	1.1	1.1	1.1	1.0	1.0	.9	.9	.9
Trade	14.4	14.5	14.5	14.4	14.1	14.0	13.8	13.6	13.6
Finance	3.2	3.3	3.3	3.4	3.3	3.2	3.1	3.0	3.0
Government, excluding work-relief employees	7.2	7.7	8.5	9.1	8.9	8.6	8.7	8.8	8.7
Service	15.7	16.0	16.3	16.6	16.0	16.3	16.6	16.7	16.7
Miscellaneous	4.8	4.9	5.0	5.2	5.1	5.0	4.9	4.8	4.7

1/ Does not include unpaid family labor.

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compared with a drop of 23.8 percent in the Bureau of Labor Statistics cost-of-living index. These two series varied closely for the next 2 years, but in 1936 and 1937 per capita incomes increased much more than the cost of living. Therefore, it appears that on the average, those employees engaged full time were enjoying greater real income in 1936 and 1937 than in 1929.

In selected industries where salaried employees and wage earners could be segregated, the index of average annual salaries declined less during the period of depression than did the cost-of-living index, whereas average annual wages declined substantially more than the cost of living. During the period of increase, average annual wages of full-time employed wage earners rose substantially more than per capita salaries in the same industries.

Table 16 shows the per capita incomes of full-time employed workers in approximately 40 industrial categories. The average earnings of workers varied substantially from industry to industry in 1937, with variations in the major groups from $580 in agriculture and $961 in service to $1,792 in finance and $1,532 in the communication industry. Within industrial subgroups marked variations occurred. In manufacturing industries, average annual full-time earnings in 1937 varied from $988 in the textiles and leather branch to $1,650 in the paper, printing, and publishing industry. Not only did the absolute average vary from industry to industry, but also the magnitude of the year-to-year fluctuations differed considerably from one area of economic activity to another. In many industries, per capita incomes declined approximately 50 percent from 1929 to the low years of the depression; whereas in others, per capita incomes remained practically stable. The significance of the per capita income estimates is limited by the fact that they are influenced by changes both in wage rates and in the proportions of workers at different wages scales. Thus, if an industry dismisses a relatively greater number of unskilled and low-income workers than of skilled workers, average annual earnings may increase, despite wage cuts among those who continue to be employed. On the other hand, average earnings may decrease much more than wage cuts where the incidence of unemployment falls relatively more heavily upon the high-income groups.

The tables from 18 to 25, inclusive, present further details of considerable interest to those who wish to study variations among different industrial categories. It is particularly interesting to note that fluctuations in the total compensation of corporate officers, shown in table 20, varied closely with changes in the total compensation of all employees, given in table 5. From 1929 to 1933, total labor income declined 43.3 percent and the compensation of corporate officers was reduced by 40.2 percent. In 1935, the latest year for which the figures are available, the compensation of corporate officers was 29.7 percent less than in 1929, whereas the compensation of all employees showed a 29.8 percent decline.

TABLE 14 - NUMBER OF EMPLOYEES (Full-time Equivalent), BY INDUSTRIAL DIVISIONS

	Absolute Numbers (In thousands)									Percentages of 1929								
	1929	1930	1931	1932	1933	1934	1935	1936	1937	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total number of employees	35,263	32,857	29,427	26,022	25,973	28,043	29,034	30,833	32,946	100.0	94.2	84.4	74.6	74.5	80.4	83.3	88.4	93.4
Agriculture 1/ - total	1,620	1,510	1,400	1,190	1,200	1,160	1,140	1,250	1,280	100.0	93.2	86.4	73.5	74.1	71.6	70.4	77.2	79.0
Mining - total	1,030	966	836	695	715	842	854	891	937	100.0	93.8	81.2	67.5	69.4	81.7	82.9	86.5	91.0
Anthracite	155	148	131	106	93	108	101	98	94	100.0	95.5	84.5	68.4	60.0	69.7	65.2	63.2	60.6
Bituminous coal	486	465	432	371	388	448	456	462	478	100.0	96.1	89.0	76.7	80.2	92.6	94.2	95.9	98.8
Metal	130	116	88	58	59	74	88	113	144	100.0	89.2	67.7	44.6	45.4	56.9	67.7	86.9	110.8
Non-metal	108	104	93	75	75	87	88	94	98	100.0	96.3	86.1	69.4	69.4	80.6	81.5	87.0	90.7
Oil and gas	153	133	93	85	100	125	121	117	123	100.0	86.9	60.8	55.5	65.4	81.7	79.1	76.5	80.4
Manufacturing - total	9,820	8,760	7,440	6,298	6,776	7,895	8,382	8,939	9,660	100.0	89.2	75.9	64.3	69.1	80.5	85.5	91.2	98.6
Food and tobacco	998	969	866	797	877	1,028	1,078	1,044	1,081	100.0	97.1	86.8	79.9	87.9	103.0	108.0	104.6	108.3
Paper, printing and publishing	843	840	751	663	646	721	744	771	813	100.0	99.6	89.1	78.6	76.6	85.5	88.3	91.5	96.4
Textiles and leather	2,263	2,028	1,898	1,708	1,930	2,074	2,198	2,243	2,287	100.0	89.6	83.7	75.8	85.3	91.6	97.1	99.1	101.1
Construction materials and furniture	1,295	1,064	806	617	678	793	881	968	1,037	100.0	82.2	62.2	47.6	52.4	61.2	68.0	74.7	80.1
Chemicals and petroleum refining	518	494	467	378	418	475	487	501	540	100.0	95.4	82.4	73.0	80.7	91.7	94.0	96.7	104.2
Metal and metal products	3,299	2,820	2,239	1,735	1,834	2,339	2,573	2,907	3,358	100.0	85.5	67.9	53.2	55.6	70.9	78.0	88.1	101.8
Miscellaneous and rubber	376	317	272	232	251	293	300	321	345	100.0	84.3	72.3	61.7	66.8	77.9	79.8	85.4	91.8
Central administrative offices	208	210	185	154	142	162	171	184	199	100.0	101.0	88.9	74.0	68.3	77.9	82.2	88.5	95.7
Contract construction - total	1,436	1,326	987	688	569	579	625	777	859	100.0	92.3	68.9	47.9	39.6	40.3	43.5	54.1	59.8
Transportation - total	2,969	2,752	2,412	2,070	1,997	2,082	2,115	2,266	2,391	100.0	92.8	81.3	69.8	67.4	70.2	71.3	76.4	80.6
Steam railroads, Pullman and express	1,886	1,690	1,406	1,155	1,088	1,123	1,113	1,193	1,255	100.0	89.5	76.2	62.6	58.7	60.8	60.3	64.6	68.0
Water transportation	288	273	235	206	225	234	245	261	290	100.0	94.8	81.6	71.5	78.1	81.3	85.1	90.6	100.7
Motor transportation and public warehouses	534	540	515	483	474	502	534	584	613	100.0	101.1	96.4	90.4	88.8	94.0	100.0	109.4	114.8
Street railways	269	251	228	203	188	194	191	193	196	100.0	93.3	84.8	75.5	69.9	72.1	71.0	71.7	72.9
Air transportation	3	5	6	5	6	6	8	10	11	100.0	166.7	200.0	166.7	200.0	200.0	266.7	333.3	366.7
Pipe lines	25	24	22	18	20	23	23	25	26	100.0	96.0	88.0	72.0	80.0	92.0	92.0	100.0	104.0
Electric light and power, and manufactured gas - total	346	357	331	288	273	290	294	313	331	100.0	103.2	95.7	83.2	78.9	83.8	85.0	90.5	95.7
Electric light and power	276	287	264	226	208	223	227	244	261	100.0	104.0	95.7	81.9	75.4	80.8	82.2	88.4	94.6
Manufactured gas	70	70	67	62	65	67	67	69	70	100.0	100.0	95.7	88.6	92.9	95.7	95.7	98.6	100.0
Communications - total	523	514	450	402	374	371	362	374	398	100.0	98.3	86.0	76.9	71.5	70.9	69.2	71.5	76.1
Telephone	427	420	369	334	308	299	292	300	321	100.0	98.4	86.4	78.2	72.1	70.0	68.4	70.3	75.2
Telegraph	96	94	81	68	66	72	70	74	77	100.0	97.9	84.4	70.8	68.8	75.0	72.9	77.1	80.2
Trade - total	5,419	4,988	4,502	3,987	3,931	4,099	4,124	4,493	4,501	100.0	93.8	86.4	76.5	73.9	78.7	79.2	82.7	86.4
Retail trade	3,739	3,573	3,234	2,853	2,809	2,872	2,875	2,993	3,133	100.0	95.6	86.7	76.3	75.3	77.0	77.1	80.3	84.0
Wholesale trade	1,440	1,415	1,268	1,134	1,122	1,227	1,249	1,290	1,368	100.0	98.6	89.7	78.8	78.8	82.9	84.4	87.2	94.6
Finance - total	1,380	1,326	1,236	1,174	1,136	1,166	1,152	1,183	1,243	100.0	96.1	89.6	85.1	82.3	84.5	83.5	85.7	90.1
Banking 2/	558	523	477	432	444	424	393	407	439	100.0	93.7	85.5	77.4	79.6	76.0	70.4	72.9	78.7
Insurance	528	532	517	533	509	510	509	525	532	100.0	100.8	97.9	100.9	96.4	96.6	96.3	99.4	100.8
Real estate	294	271	242	209	213	232	240	251	272	100.0	92.2	82.3	71.1	72.4	78.9	81.6	85.4	92.5
Government - total (excluding work-relief)	3,204	3,313	3,331	3,285	3,219	3,327	3,480	3,676	3,764	100.0	103.4	104.0	102.7	100.5	103.8	108.6	114.7	117.5
Federal	862	873	880	864	856	943	1,052	1,170	1,202	100.0	101.3	102.1	100.2	99.3	109.4	122.0	135.7	139.4
State	264	279	293	300	306	320	340	359	367	100.0	105.7	111.0	113.6	115.9	121.2	128.8	136.0	139.0
City	718	738	702	684	640	643	649	674	697	100.0	102.8	97.8	95.3	89.1	89.6	90.4	93.9	97.1
County, township and minor units	269	277	273	272	260	264	270	285	298	100.0	103.0	101.5	100.7	96.7	98.1	100.4	105.9	110.8
Public education	1,091	1,146	1,183	1,170	1,157	1,157	1,169	1,188	1,200	100.0	105.0	108.4	107.2	106.0	106.0	107.1	108.9	110.0
Service - total	5,839	5,609	5,178	4,674	4,515	4,936	5,177	5,496	5,749	100.0	96.0	88.7	80.0	77.3	84.5	88.7	94.1	98.5
Professional service 3/	1,024	1,041	1,024	998	982	996	1,031	1,076	1,118	100.0	101.7	100.0	97.5	95.9	97.3	100.7	105.1	109.2
Personal service 4/	1,704	1,646	1,551	1,425	1,376	1,555	1,660	1,774	1,834	100.0	96.6	91.0	83.6	80.8	91.3	97.5	104.1	107.6
Recreation and amusement 5/	264	240	195	171	166	180	195	210	220	100.0	90.9	73.9	64.8	62.9	68.2	73.9	79.5	83.3
Domestic service	2,257	2,108	1,888	1,621	1,540	1,740	1,806	1,958	2,075	100.0	93.4	83.7	71.8	68.2	77.1	80.0	86.8	91.9
Business service 6/	248	239	220	197	194	202	201	208	215	100.0	96.4	88.7	79.4	78.2	81.5	81.0	83.9	86.7
Miscellaneous service 7/	342	328	296	268	257	263	264	274	287	100.0	95.9	86.5	78.6	75.1	76.9	77.2	80.1	83.9
Miscellaneous - total	1,512	1,459	1,364	1,257	1,264	1,306	1,331	1,384	1,438	100.0	96.5	90.2	83.1	83.6	86.4	88.1	91.6	95.1

1/ Does not include unpaid family labor.
2/ Does not include certain miscellaneous financial institutions which have been included in "Miscellaneous".
3/ Includes religious, private educational, curative, legal, accounting, and engineering (consulting) activities.
4/ Includes hotels, restaurants, laundries, cleaning, and dyeing establishments, apartment houses, office buildings, etc.
5/ Includes motion picture-production and exhibition, radio broadcasting, and all other activities primarily providing entertainment.
6/ Includes advertising agencies, trade associations, Chambers of Commerce, and other enterprises serving business establishments.
7/ Includes various industries rendering services to automobiles, radios, elevators, watches and other commodities.

TABLE 25 - TOTAL COMPENSATION OF EMPLOYEES, BY INDUSTRIAL GROUPS, 1929-37

	Absolute Numbers (In millions of dollars)								
	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total compensation of employees 1/	51,508	47,552	40,188	31,563	29,986	34,052	36,679	41,906	46,729
Total salaries and wages	50,577	46,565	39,106	30,464	27,963	31,656	34,025	38,071	42,828
Agriculture - total	1,313	1,112	807	523	486	518	593	653	742
Mining - total	1,508	1,337	963	663	671	882	927	1,058	1,297
Anthracite	297	287	200	166	128	156	136	125	132
Bituminous coal	635	532	405	236	293	413	463	525	575
Metal	212	176	110	58	57	76	99	138	205
Non-metal	151	139	107	68	60	76	86	104	119
Oil and gas	493	284	145	115	127	163	169	158	195
Manufacturing - total	14,770	12,411	9,551	7,008	7,034	8,811	9,850	11,231	13,382
Food and tobacco	1,580	1,576	1,392	890	985	1,105	1,130	1,212	1,378
Paper, printing and publishing	1,338	1,349	1,204	1,003	906	1,042	1,111	1,196	1,342
Textiles and leather	2,700	2,058	1,980	1,439	1,575	1,850	2,046	2,117	2,299
Construction materials and furniture	1,706	1,356	935	550	578	712	862	1,033	1,194
Chemicals and petroleum refining	781	747	620	485	468	580	621	671	805
Metal and metal products	5,558	4,563	3,238	1,968	1,993	2,806	3,363	4,154	5,379
Miscellaneous and rubber	957	846	774	558	770	940	872	947	991
Central administrative offices	600	610	507	389	382	376	397	435	518
Contract construction - total	2,138	2,438	1,613	1,089	674	694	716	1,069	1,324
Transportation - total	4,866	4,452	3,767	2,862	2,606	2,895	3,113	3,493	3,833
Steam railroads, Pullman and express	3,487	2,850	2,333	1,686	1,561	1,690	1,811	2,097	2,293
Water transportation	473	463	376	286	277	320	376	434	514
Motor transportation and public warehouses	570	474	425	318	464	503	558	632	697
Street railways	485	429	380	327	270	285	259	308	326
Air transportation	8	11	14	14	14	14	18	21	24
Pipe lines	50	44	39	30	30	35	38	41	49
Electric light and power, and manufactured gas - total	500	521	486	399	360	385	407	444	498
Electric light and power	391	412	378	303	260	286	304	338	385
Manufactured gas	109	109	106	96	100	103	103	106	112
Communication - total	707	712	641	534	461	488	504	543	610
Telephone	590	597	536	458	393	413	423	459	518
Telegraph	117	120	105	76	68	73	77	84	92
Trade - total	8,073	7,695	6,721	5,216	4,489	5,093	5,293	5,631	6,211
Retail trade	5,076	4,840	4,264	3,903	2,801	3,156	3,210	3,427	3,778
Wholesale trade	3,043	2,855	2,449	1,313	1,688	1,937	2,083	2,204	2,433
Finance - total	2,431	2,302	2,138	1,814	1,709	1,805	1,880	2,044	2,028
Banking 2/	1,039	974	855	756	738	739	721	748	690
Insurance	909	935	905	850	736	758	835	882	929
Real estate	478	449	403	268	237	279	326	359	450
Government - total	4,799	4,960	4,970	4,777	4,363	4,501	4,832	4,758	5,410
Federal 3/	1,390	1,425	1,444	1,359	1,701	1,617	1,681	1,897	1,918
State	342	364	369	366	373	369	435	465	509
City	1,167	1,194	1,138	1,110	934	958	978	1,040	1,100
County, township and minor units	376	386	382	377	331	337	351	379	396
Public education	1,521	1,591	1,621	1,565	1,406	1,409	1,409	1,478	1,585
Service - total	4,565	4,107	3,774	3,707	3,782	4,100	4,334	4,590	5,067
Professional service 4/	1,312	1,241	1,170	1,075	988	992	1,039	1,104	1,161
Personal service 5/	2,114	1,980	1,737	1,331	1,200	1,427	1,575	1,756	1,985
Recreation and amusement 6/	478	433	368	299	259	283	316	347	390
Domestic service	1,480	1,324	1,172	880	773	866	931	1,118	1,326
Business service 7/	486	469	418	336	299	309	328	347	376
Miscellaneous service 8/	477	456	405	311	273	297	302	302	395
Miscellaneous - total	2,157	2,034	1,779	1,404	1,310	1,430	1,505	1,581	1,677
Work-relief wages	-	-	-	-	669	1,449	1,430	2,460	1,880
Employers' contributions to Social Security	-	-	-	-	-	3	3	292	989
Other labor income	937	986	1,082	1,099	964	953	1,017	1,083	1,117

	Percentages of 1929								
	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total compensation of employees 1/	100.0	92.3	78.0	61.3	57.5	66.1	71.2	81.4	90.7
Total salaries and wages	100.0	92.1	77.3	60.2	55.3	62.6	67.7	75.3	84.7
Agriculture - total	100.0	84.7	61.5	39.8	36.9	39.5	45.1	49.7	56.5
Mining - total	100.0	87.3	63.9	44.0	44.5	58.5	61.5	70.2	[illegible]
Anthracite	100.0	96.3	77.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bituminous coal	100.0	83.6	63.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Metal	100.0	83.0	51.9	27.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Non-metal	100.0	92.1	70.9	45.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oil and gas	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	76.0	[illegible]
Manufacturing - total	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Food and tobacco	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paper, printing and publishing	100.0	100.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Textiles and leather	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Construction materials and furniture	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chemicals and petroleum refining	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Metal and metal products	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Miscellaneous and rubber	100.0	101.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Central administrative offices	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Contract construction - total	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transportation - total	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Steam railroads, Pullman and express	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water transportation	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Motor transportation and public warehouses	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Street railways	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Air transportation	100.0	137.5	175.0	175.0	175.0	175.0	[illegible]	[illegible]	300.0
Pipe lines	100.0	88.0	78.0	60.0	60.0	70.0	76.0	82.0	98.0
Electric light and power, and manufactured gas - total	100.0	104.2	96.8	79.8	72.0	77.0	81.4	88.8	99.6
Electric light and power	100.0	105.4	96.7	77.5	66.5	73.1	77.7	86.4	98.7
Manufactured gas	100.0	100.0	97.2	88.1	91.7	94.5	94.5	97.2	[illegible]
Communication - total	100.0	101.4	90.7	[illegible]	[illegible]	69.0	[illegible]	[illegible]	[illegible]
Telephone	100.0	101.2	90.8	[illegible]	[illegible]	70.0	[illegible]	[illegible]	[illegible]
Telegraph	100.0	102.6	89.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trade - total	100.0	95.2	83.1	[illegible]	[illegible]	63.0	[illegible]	[illegible]	[illegible]
Retail trade	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wholesale trade	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance - total	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banking 2/	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Insurance	100.0	101.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Real estate	100.0	77.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government - total	100.0	103.5	103.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Federal 3/	100.0	101.9	103.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
State	100.0	106.4	112.6	112.3	109.3	112.3	[illegible]	[illegible]	[illegible]
City	100.0	102.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
County, township and minor units	100.0	102.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Public education	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Service - total	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Professional service 4/	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Personal service 5/	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Recreation and amusement 6/	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Domestic service	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Business service 7/	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Miscellaneous service 8/	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Miscellaneous - total	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Work-relief wages	-	-	-	-	-	-	-	-	-
Employers' contributions to Social Security	-	-	-	-	-	-	-	-	-
Other labor income	100.0	105.2	115.4	117.3	102.9	[illegible]	[illegible]	[illegible]	[illegible]

1/ Includes salaries and wages, work-relief wages, compensation for injuries, pensions granted under formal private plans, and contributions of employers to Social Security. The industrial classification covers only salaries and wages.
2/ Does not include certain miscellaneous financial institutions which have been included in "Miscellaneous".
3/ Does not include work-relief wages.
4/ Includes religious, private educational, curative, legal, accounting and engineering (consulting) activities.
5/ Includes hotels, restaurants, laundries, cleaning and dyeing establishments, apartment houses, and office buildings, etc.
6/ Includes motion-picture production and exhibition, radio broadcasting, and all other activities primarily providing entertainment.
7/ Includes advertising agencies, trade associations, chambers of commerce, and other enterprises serving business establishments.
8/ Includes various industries rendering services in automobiles, [illegible], elevators, watches and other commodities.

TABLE 16 - PER CAPITA INCOME OF EMPLOYEES (Full-time Equivalent), BY INDUSTRIAL DIVISIONS

	Absolute Numbers									Percentages of 1929								
	1929	1930	1931	1932	1933	1934	1935	1936	1937	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total number of employees	$1,451	$1,417	$1,329	$1,171	$1,077	$1,129	$1,179	$1,235	$1,315	100.0	97.7	91.6	80.7	74.2	77.8	81.3	85.1	90.7
Agriculture 1/ - total	812	736	576	439	405	447	485	522	580	100.0	90.6	71.1	54.2	49.8	55.2	59.9	64.4	71.6
Mining - total	1,465	1,382	1,153	953	938	1,047	1,088	1,188	1,277	100.0	93.0	78.7	65.1	64.0	71.5	74.1	81.1	87.2
Anthracite	1,661	1,666	1,523	1,379	1,371	1,425	1,346	1,377	1,303	100.0	100.3	91.7	83.0	82.5	86.0	81.0	73.9	78.4
Bituminous coal	1,313	1,140	930	793	757	988	972	1,107	1,160	100.0	87.0	70.8	56.6	57.6	70.8	74.0	84.3	88.3
Metal	1,636	1,548	1,247	989	985	1,028	1,115	1,287	1,437	100.0	94.6	76.2	60.5	60.0	62.6	68.2	73.0	87.8
Non-metal	1,394	1,337	1,158	930	877	877	953	1,104	1,209	100.0	95.9	83.1	66.7	62.9	62.9	68.4	79.2	86.7
Oil and gas	1,646	1,686	1,569	1,397	1,257	1,308	1,370	1,427	1,565	100.0	101.8	94.9	84.9	76.4	78.8	83.0	86.3	95.1
Manufacturing - total	1,507	1,469	1,393	1,132	1,038	1,118	1,180	1,296	1,389	100.0	97.2	89.1	75.1	68.9	74.2	78.3	83.3	92.2
Food and tobacco	1,503	1,516	1,380	1,182	1,036	1,079	1,108	1,161	1,275	100.0	99.5	93.6	80.4	68.9	71.8	73.7	87.6	94.8
Paper, printing and publishing	1,604	1,893	1,728	1,598	1,401	1,466	1,496	1,551	1,650	100.0	101.0	94.6	84.6	74.9	79.3	81.9	85.0	95.5
Textiles and leather	1,193	1,114	1,047	846	816	893	932	979	988	100.0	93.4	87.8	70.9	68.4	74.9	78.0	78.7	82.8
Construction materials and furniture	1,317	1,289	1,160	904	843	898	956	1,053	1,151	100.0	97.6	88.1	68.6	64.0	68.2	72.6	80.0	87.4
Chemicals and petroleum refining	1,508	1,516	1,453	1,276	1,160	1,222	1,275	1,380	1,529	100.0	100.6	96.5	84.6	77.3	81.0	84.5	88.9	101.4
Metal and metal products	1,605	1,604	1,409	1,121	1,087	1,190	1,307	1,412	1,521	100.0	95.3	83.5	66.5	64.6	71.1	77.6	85.0	95.0
Miscellaneous and rubber	1,528	1,512	1,375	1,153	1,075	1,169	1,239	1,333	1,420	100.0	101.3	93.2	76.5	72.6	77.3	82.2	88.4	99.3
Central administrative offices	2,882	2,907	2,745	2,401	2,279	2,316	2,526	2,371	2,598	100.0	100.9	95.2	83.3	79.1	80.4	87.7	82.3	90.1
Contract construction - total	1,495	1,838	1,709	1,497	1,185	1,220	1,277	1,349	1,459	100.0	97.0	90.2	79.0	68.5	69.3	74.7	78.2	88.7
Transportation - total	1,646	1,627	1,580	1,375	1,305	1,371	1,472	1,541	1,603	100.0	98.1	94.8	83.4	79.3	83.3	89.3	93.5	97.3
Steam railroads, Pullman and express	1,748	1,718	1,680	1,460	1,440	1,535	1,616	1,723	1,772	100.0	98.3	94.9	83.5	82.4	86.1	92.2	98.6	101.4
Water transportation	1,362	1,680	1,588	1,365	1,211	1,370	1,336	1,466	1,743	100.0	98.7	96.7	84.6	75.6	89.6	93.5	100.5	106.6
Motor transportation and public warehouses	1,714	1,698	1,212	1,073	958	1,065	1,046	1,088	1,137	100.0	99.5	96.7	89.6	76.6	80.9	83.3	86.5	95.7
Street railways	1,707	1,708	1,680	1,537	1,436	1,473	1,507	1,598	1,648	100.0	100.1	98.4	90.0	84.1	86.3	89.5	93.3	96.5
Air transportation	2,675	2,580	2,373	2,580	2,095	2,187	2,190	2,181	2,190	100.0	88.5	88.7	89.1	78.3	81.7	81.8	81.5	81.5
Pipe lines	1,572	1,466	1,456	1,730	1,476	1,557	1,663	1,646	1,495	100.0	93.5	93.1	87.7	75.0	79.0	81.7	83.5	94.1
Electric light and power, and manufactured gas - total	1,463	1,482	1,480	1,387	1,335	1,341	1,389	1,417	1,503	100.0	101.2	101.2	96.1	91.4	92.9	96.0	98.2	104.8
Electric light and power	1,413	1,436	1,430	1,346	1,256	1,280	1,339	1,388	1,477	100.0	101.6	101.3	95.1	88.7	90.7	94.8	97.8	104.5
Manufactured gas	1,558	1,566	1,568	1,547	1,505	1,534	1,542	1,562	1,600	100.0	100.4	102.5	99.3	97.5	98.5	99.0	99.0	102.8
Communication - total	1,350	1,395	1,423	1,327	1,232	1,317	1,352	1,451	1,532	100.0	103.2	105.3	98.2	91.1	97.4	103.0	107.3	113.3
Telephone	1,381	1,403	1,453	1,371	1,279	1,381	1,460	1,530	1,616	100.0	103.0	105.2	99.3	92.3	100.0	105.7	110.8	117.0
Telegraph	1,083	1,173	1,288	1,110	1,033	1,059	1,110	1,132	1,188	100.0	108.3	109.5	90.5	95.4	98.0	95.9	92.7	97.3
Trade - total	1,553	1,543	1,491	1,306	1,147	1,243	1,283	1,315	1,380	100.0	99.3	96.1	84.3	73.8	80.1	82.7	84.8	89.0
Retail trade	1,356	1,355	1,318	1,158	1,033	1,099	1,117	1,165	1,206	100.0	99.6	96.8	85.1	75.9	80.7	82.1	85.2	88.6
Wholesale trade	2,029	2,017	1,930	1,687	1,504	1,579	1,668	1,705	1,778	100.0	99.4	95.1	83.1	74.1	77.8	82.2	84.2	87.6
Finance - total	1,835	1,781	1,705	1,580	1,504	1,567	1,657	1,728	1,790	100.0	97.1	92.9	86.5	82.0	85.3	88.9	94.2	97.7
Banking 2/	1,882	1,882	1,796	1,774	1,730	1,746	1,833	1,886	1,934	100.0	100.1	97.4	94.3	93.9	94.7	99.5	102.3	105.0
Insurance	1,751	1,765	1,780	1,557	1,486	1,558	1,603	1,679	1,746	100.0	100.8	99.4	88.9	84.9	89.0	91.9	95.9	99.7
Real estate	1,971	1,698	1,457	1,283	1,110	1,153	1,390	1,577	1,694	100.0	86.1	73.9	65.0	56.3	58.0	68.5	80.0	86.0
Government - total (excluding work-relief)	1,496	1,497	1,492	1,450	1,345	1,353	1,388	1,426	1,437	100.0	100.1	99.7	97.1	89.9	90.4	92.8	95.4	96.1
Federal	1,620	1,632	1,640	1,573	1,427	1,503	1,598	1,621	1,595	100.0	100.6	101.1	97.0	88.0	92.7	98.6	99.9	98.5
State	1,796	1,809	1,818	1,881	1,820	1,800	1,880	1,752	1,778	100.0	100.7	101.2	96.6	94.2	92.4	98.1	96.6	98.9
City	1,605	1,618	1,601	1,606	1,499	1,483	1,504	1,543	1,581	100.0	99.6	99.8	99.5	93.8	92.5	93.6	95.0	97.3
County, township and other units	1,397	1,393	1,401	1,393	1,275	1,275	1,297	1,368	1,326	100.0	99.7	100.3	99.7	91.3	91.3	92.8	93.8	94.9
Public education	1,366	1,388	1,371	1,380	1,265	1,218	1,295	1,294	1,373	100.0	100.1	98.9	99.2	92.3	87.8	88.5	89.8	91.8
Service - total	1,129	1,090	1,018	902	828	869	876	908	962	100.0	97.0	90.6	80.1	73.4	77.0	77.6	80.4	85.9
Professional service 3/	1,143	1,198	1,150	1,078	1,056	956	1,007	1,066	1,099	100.0	100.8	97.2	94.1	89.6	83.6	88.1	86.7	87.8
Personal service 4/	1,241	1,200	1,120	962	872	918	980	989	1,068	100.0	96.7	90.2	77.5	70.3	74.0	76.8	79.7	86.5
Recreation and amusement 5/	1,611	1,872	1,658	1,712	1,563	1,503	1,619	1,659	1,775	100.0	101.1	102.2	96.5	86.6	88.6	89.6	91.6	98.0
Domestic service	757	706	631	526	470	508	532	572	638	100.0	90.8	77.9	69.5	62.0	62.5	66.4	71.8	80.1
Business service 6/	1,590	1,540	1,583	1,721	1,536	1,609	1,633	1,673	1,747	100.0	99.6	97.6	87.2	78.8	82.5	83.6	89.8	89.6
Miscellaneous service 7/	1,397	1,331	1,394	1,189	1,082	1,129	1,169	1,174	1,237	100.0	95.6	96.9	85.1	73.9	80.8	80.0	85.0	88.5
Miscellaneous - total	1,456	1,422	1,301	1,108	1,033	1,095	1,144	1,214	1,321	100.0	97.8	89.5	76.0	71.0	75.3	78.6	83.5	90.8
Bureau of Labor Statistics cost-of-living index										100.0	97.5	89.1	80.0	76.0	78.1	80.1	82.1	85.7

1/ Does not include unpaid family labor.
2/ Does not include certain miscellaneous financial institutions which have been included in "Miscellaneous".
3/ Includes religious, private educational, curative, legal, accounting and engineering (consulting) activities.
4/ Includes hotels, restaurants, laundries, cleaning and dyeing establishments, apartment houses and office buildings, etc.
5/ Includes motion picture-production and exhibition, radio broadcasting, and all other activities primarily providing entertainment.
6/ Includes advertising agencies, trade associations, Chambers of Commerce and other enterprises serving business establishments.
7/ Includes various industries rendering services to automobiles, radios, elevators, watches and other commodities.

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TABLE 17 - NUMBER OF SALARIED EMPLOYEES AND WAGE EARNERS, SELECTED INDUSTRIAL DIVISIONS
(In thousands)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Selected industries:									
Total salaried employees	2,191	2,183	1,903	1,577	1,452	1,601	1,658	1,775	1,916
Total wage earners	12,808	10,784	8,961	7,465	7,917	9,052	9,560	10,886	11,089
Mining:									
Salaried employees	57	58	60	50	48	58	55	58	63
Wage earners	963	899	776	645	663	783	799	833	874
Manufacturing:									
Salaried employees	1,491	1,501	1,322	1,099	1,019	1,162	1,283	1,333	1,405
Wage earners	6,309	7,240	6,118	5,199	5,757	6,783	7,159	7,686	8,235
Contract construction:									
Salaried employees	163	168	125	91	68	64	67	83	98
Wage earners	1,274	1,159	821	597	501	515	557	695	767
Transportation 1/:									
Salaried employees	471	446	396	337	313	317	313	321	336
Wage earners	1,663	1,486	1,246	1,084	996	1,040	1,049	1,133	1,208
	Percentages of 1929								
Total salaried employees	100.0	99.6	86.9	72.0	66.3	73.1	75.7	81.0	87.4
Total wage earners	100.0	88.3	73.4	61.1	64.9	74.2	78.3	89.3	90.8
Mining:									
Salaried employees	100.0	101.5	89.6	74.6	77.6	86.6	88.1	86.6	94.0
Wage earners	100.0	93.4	80.6	67.0	68.8	81.3	83.0	86.5	90.8
Manufacturing:									
Salaried employees	100.0	100.7	88.7	73.7	68.3	77.9	88.0	88.1	95.4
Wage earners	100.0	87.1	73.6	62.6	69.3	80.9	86.8	91.8	99.1
Contract construction:									
Salaried employees	100.0	103.1	76.7	55.8	41.7	39.3	41.1	50.8	56.4
Wage earners	100.0	91.0	64.4	46.9	39.3	40.4	43.7	54.8	60.2
Transportation 1/:									
Salaried employees	100.0	94.7	84.1	71.6	66.5	67.3	66.5	68.8	71.3
Wage earners	100.0	89.4	74.9	51.6	59.9	62.5	62.8	68.1	72.6

1/ Includes only steam railroads, Pullman, railway express, and water transportation.

TABLE 18 - SALARIES AND WAGES PAID, SELECTED INDUSTRIAL DIVISIONS
(In millions of dollars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Selected Industries:									
Total salaries	5,606	5,645	4,694	3,403	2,947	3,379	3,574	3,936	4,593
Total wages	17,093	14,214	10,585	7,043	7,271	9,019	10,218	11,909	14,037
Mining:									
Salaries	161	157	134	100	94	110	109	120	132
Wages	1,347	1,161	830	563	577	771	818	934	1,065
Manufacturing:									
Salaries	3,980	4,045	3,364	2,444	2,128	2,493	2,636	2,886	3,431
Wages	10,790	8,766	5,627	4,558	4,906	6,319	7,256	8,346	9,990
Contract construction:									
Salaries	476	504	370	240	161	164	176	234	270
Wages	2,246	1,935	1,248	789	514	531	590	831	1,043
Transportation 1/:									
Salaries	989	939	886	639	564	613	653	696	760
Wages	2,710	2,393	1,881	1,333	1,273	1,398	1,559	1,796	1,979
	Percentages of 1929								
Total salaries	100.0	100.7	83.7	61.1	52.6	60.3	63.8	70.8	81.9
Total wages	100.0	83.8	61.9	42.4	42.5	52.8	59.8	69.7	82.1
Mining:									
Salaries	100.0	97.5	83.2	62.1	58.4	68.3	67.7	74.5	82.0
Wages	100.0	86.2	61.6	41.8	42.8	57.2	60.7	69.3	79.1
Manufacturing:									
Salaries	100.0	101.6	84.5	61.4	53.5	62.6	66.2	72.5	86.2
Wages	100.0	81.2	52.1	42.2	45.5	58.6	67.2	77.3	92.6
Contract construction:									
Salaries	100.0	105.9	77.7	50.4	33.8	34.5	37.0	49.2	56.7
Wages	100.0	86.2	55.6	35.1	22.9	23.6	26.3	37.0	46.4
Transportation 1/:									
Salaries	100.0	94.9	89.5	64.6	57.0	62.0	66.0	70.4	76.8
Wages	100.0	88.3	69.4	49.2	47.0	51.6	57.3	66.2	73.0

1/ Includes only steam railroads, Pullman, railway express, and water transportation.

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TABLE 19 - PER CAPITA SALARIES AND WAGES (Full-Time Equivalent), SELECTED INDUSTRIAL DIVISIONS

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Selected industries:									
Total salaries	$2,559	$2,586	$2,467	$2,171	$2,030	$2,111	$2,156	$2,217	$2,398
Total wages	1,400	1,318	1,181	970	918	995	1,069	1,158	1,266
Mining:									
Salaries	2,423	2,317	2,248	2,008	1,811	1,886	1,983	2,060	2,098
Wages	1,399	1,291	1,069	872	870	985	1,024	1,127	1,218
Manufacturing:									
Salaries	2,670	2,694	2,545	2,223	2,087	2,146	2,196	2,198	2,407
Wages	1,299	1,211	1,083	877	892	940	1,014	1,094	1,208
Contract construction:									
Salaries	2,986	3,003	2,951	2,642	2,367	2,590	2,620	2,816	2,995
Wages	1,764	1,670	1,519	1,320	1,025	1,032	1,059	1,197	1,360
Transportation 1/:									
Salaries	2,101	2,105	2,086	1,896	1,806	1,935	2,086	2,170	2,264
Wages	1,630	1,583	1,510	1,301	1,278	1,344	1,488	1,584	1,638
	Percentages of 1929								
Total salaries	100.0	101.1	96.4	84.8	79.3	82.5	84.3	86.6	93.7
Total wages	100.0	94.1	84.4	69.3	65.6	71.1	76.4	82.7	90.4
Mining:									
Salaries	100.0	95.6	92.8	82.9	74.7	77.8	81.8	85.0	86.6
Wages	100.0	92.3	76.4	62.3	62.2	70.4	73.2	80.6	87.1
Manufacturing:									
Salaries	100.0	100.9	95.3	83.3	78.2	80.4	81.7	82.3	90.1
Wages	100.0	93.2	83.4	67.5	68.6	72.4	78.1	84.2	93.0
Contract construction:									
Salaries	100.0	100.6	100.9	90.3	80.9	86.8	89.5	96.2	100.6
Wages	100.0	94.7	86.1	74.5	58.1	58.5	60.0	67.9	77.1
Transportation 1/:									
Salaries	100.0	100.2	99.3	90.3	86.0	92.1	99.3	103.3	107.8
Wages	100.0	97.1	92.6	79.8	78.4	82.5	91.3	97.2	100.5
Bureau of Labor Statistics cost-of-living index	100.0	97.5	89.1	80.2	76.2	79.1	81.1	82.1	84.7

1/ Includes only steam railroads, Pullman, railway express, and water transportation.

TABLE 20 - COMPENSATION OF CORPORATE OFFICERS, BY INDUSTRIAL DIVISIONS
(In thousands of dollars)

	1929	1930	1931	1932	1933	1934 3/	1934 3/	1935
Total compensation of corporate officers	3,336,799	3,138,846	2,697,904	2,132,597	1,994,961	2,173,058	2,173,058	2,344,355
Agriculture and related industries	24,391	24,099	15,982	16,202	15,192	17,087	16,900	18,618
Mining	56,310	50,856	44,976	38,411	37,628	42,911	41,570	42,439
Electric light and power, and manufactured gas	17,082	17,232	16,182	14,926	12,611	16,483	13,967	16,009
Manufacturing	1,171,888	1,095,929	935,348	734,144	706,412	771,008	753,805	812,046
Contract construction	163,933	158,401	129,629	88,061	67,732	68,688	69,738	76,576
Transportation	74,963	72,241	66,989	58,180	56,777	61,228	62,677	68,797
Communication	5,908	4,371	3,558	2,759	2,429	4,023	3,877	2,591
Trade	957,239	888,319	775,307	616,341	600,299	671,907	684,027	744,891
Finance 1/	497,705	470,080	390,561	303,604	207,461	260,505	261,416	270,295
Service 2/	215,092	218,694	195,200	157,414	146,626	163,718	165,499	182,385
Miscellaneous	146,798	138,724	120,172	102,101	90,864	95,905 5/	99,882	110,306
	Percentages of 1929						Percentages of 1934	
Total compensation of corporate officers	100.0	94.1	80.5	63.9	59.8	65.1	100.0	107.9
Agriculture and related industries	100.0	94.8	78.7	63.8	59.7	67.3	100.0	110.2
Mining	100.0	90.3	79.5	68.8	66.8	76.8	100.0	108.6
Electric light and power, and manufactured gas	100.0	100.9	94.7	87.4	73.7	96.5	100.0	117.1
Manufacturing	100.0	93.5	79.8	62.6	60.3	65.8	100.0	107.7
Contract construction	100.0	96.6	79.1	53.7	41.3	41.9	100.0	109.8
Transportation	100.0	96.4	89.4	77.6	75.7	81.7	100.0	109.7
Communication	100.0	74.0	60.2	46.7	41.1	68.1	100.0	69.5
Trade	100.0	92.8	81.0	64.4	62.7	70.2	100.0	108.9
Finance 1/	100.0	94.4	78.5	61.0	41.7	52.3	100.0	103.4
Service 2/	100.0	99.6	88.5	71.8	66.8	74.5	100.0	110.2
Miscellaneous	100.0	94.5	81.9	69.6	61.9	65.4		110.4

1/ "Other finance" included in miscellaneous.
2/ Includes "Radio broadcasting".
3/ Estimates of compensation of corporate officers in the second column for 1934 and for subsequent years are based on a different industrial classification than are the estimates in the first column of 1934 and earlier years. The lack of comparability is a result of a change in the Revenue Act of 1934.
5/ Includes $2,446,000 of compensation of officers paid by establishments whose 1933 industrial activity could not be determined.

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TABLE 21 - NUMBER OF ENTREPRENEURS, BY INDUSTRIAL DIVISIONS
(In thousands)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Total entrepreneurs	9,977	9,967	10,018	10,058	10,279	10,537	10,741	10,870	10,903
Agriculture	6,290	6,290	6,379	6,500	6,700	6,750	6,810	6,810	6,810
Mining, manufacturing, and contract construction	316	292	266	243	233	238	240	244	250
Transportation	228	233	219	206	204	222	236	259	272
Trade	1,045	1,048	1,032	1,004	1,138	1,083	1,131	1,166	1,168
Finance	72	71	68	69	64	63	63	63	66
Service	1,214	1,232	1,242	1,249	1,287	1,365	1,429	1,480	1,506
Miscellaneous	633	622	610	591	595	608	612	622	625
	Percentages of 1929								
Total entrepreneurs	100.0	99.9	100.4	100.8	103.0	105.6	107.7	108.7	109.3
Agriculture	100.0	100.0	101.4	103.3	106.5	107.3	108.3	108.3	108.3
Mining, manufacturing, and contract construction	100.0	92.7	84.4	77.1	74.0	75.6	76.2	77.4	79.4
Transportation	100.0	102.2	96.1	90.4	89.5	97.4	103.5	113.6	119.3
Trade	100.0	100.3	99.0	96.7	95.7	103.7	108.5	111.6	111.8
Finance	100.0	98.6	94.4	95.8	88.9	87.5	87.5	87.5	91.7
Service	100.0	101.5	102.3	102.6	106.0	112.4	117.7	122.1	124.1
Miscellaneous	100.0	98.3	96.4	93.4	94.0	96.1	96.7	98.3	98.7

TABLE 22 - PER CAPITA WITHDRAWALS OF ENTREPRENEURS, BY INDUSTRIAL DIVISIONS

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Average withdrawal	$1,230	$1,160	$ 984	$ 784	$ 702	$ 761	$ 813	$ 880	$ 956
Agriculture	718	653	512	390	359	398	432	464	516
Mining, manufacturing, and contract construction	2,680	2,752	2,279	1,725	1,431	1,507	1,561	1,806	2,034
Transportation	1,228	1,222	1,188	1,044	935	993	1,007	1,035	1,091
Trade	1,718	1,633	1,531	1,334	1,140	1,191	1,265	1,319	1,400
Finance	4,283	4,142	3,710	3,516	3,539	3,763	3,658	4,141	4,422
Service	2,306	2,218	1,974	1,603	1,464	1,531	1,589	1,711	1,810
Miscellaneous	2,225	2,129	1,843	1,473	1,372	1,468	1,561	1,715	1,856
	Percentages of 1929								
Average withdrawal	100.0	94.3	80.0	63.7	57.1	61.9	66.1	71.5	77.7
Agriculture	100.0	90.9	71.3	54.3	50.0	55.4	60.2	64.6	71.9
Mining, manufacturing, and contract construction	100.0	102.7	85.0	64.4	53.4	56.2	58.2	67.4	75.9
Transportation	100.0	99.5	96.7	85.0	76.1	80.9	82.0	84.3	88.8
Trade	100.0	95.1	89.1	77.6	66.4	69.3	73.6	76.8	81.5
Finance	100.0	96.7	86.6	82.1	82.6	87.9	85.4	96.7	103.2
Service	100.0	96.2	85.6	69.5	63.5	66.4	68.9	74.2	78.5
Miscellaneous	100.0	95.7	82.8	66.2	61.7	66.0	70.2	77.1	83.4

TABLE 23 - DIVIDEND AND INTEREST PAYMENTS ORIGINATED, BY INDUSTRIAL DIVISIONS
(In millions of dollars)

	1929	1930	1931	1932	1933	1934 2/	1934 2/	1935	1936	1937
Total dividend and interest payments	11,331	11,396	9,913	8,017	7,088	7,748	7,748	7,812	8,881	9,563
Agriculture	327	294	254	204	205	207	207	203	216	225
Mining	441	290	181	119	111	152	234	228	311	376
Electric light and power, and manufactured gas	771	944	931	895	756	838	759	760	786	806
Manufacturing	2,785	2,857	2,119	1,308	1,190	1,483	1,360	1,741	2,770	3,249
Contract construction	81	87	56	35	30	22	22	29	37	53
Transportation	1,412	1,381	1,153	985	873	880	910	967	937	958
Communication	438	524	285	250	263	254	858	858	876	855
Trade	604	549	449	859	225	319	372	475	696	691
Finance	2,691	2,714	2,640	2,221	1,812	1,821	1,844	1,786	1,749	1,793
Government	1,099	1,074	1,086	1,183	1,206	1,314	1,314	1,257	1,302	1,369
Service	368	364	283	197	120	129	143	156	170	179
Miscellaneous 1/	544	553	473	401	297	319	390	-31	-356	-362
	Percentages of 1929						Percentages of 1934			
Total dividend and interest payments	100.0	100.6	87.5	70.8	62.6	68.4	100.0	100.8	114.6	123.4
Agriculture	100.0	89.9	77.7	62.4	62.7	63.3	100.0	96.1	104.3	108.7
Mining	100.0	70.6	44.0	29.0	27.0	37.0	100.0	97.4	132.9	160.1
Electric light and power, and manufactured gas	100.0	122.4	120.8	116.1	98.1	108.7	100.0	100.4	103.6	105.8
Manufacturing	100.0	102.6	76.1	47.0	42.7	53.2	100.0	128.0	203.7	238.9
Contract construction	100.0	107.4	69.1	43.2	37.0	27.2	100.0	131.4	168.8	240.9
Transportation	100.0	97.8	81.7	69.8	61.8	62.3	100.0	106.3	103.0	106.4
Communication	100.0	119.1	115.7	108.8	110.5	110.5	100.0	100.0	104.7	108.7
Trade	100.0	90.5	72.0	43.1	36.1	41.1	100.0	126.0	187.1	185.8
Finance	100.0	100.9	98.2	82.5	67.3	67.7	100.0	99.6	94.4	96.3
Government	100.0	97.7	98.4	108.2	109.7	119.6	100.0	95.7	99.0	104.2
Service	100.0	104.6	81.3	56.6	34.5	37.1	100.0	109.1	118.9	125.2
Miscellaneous 1/	100.0	101.3	85.9	73.7	54.6	58.6	100.0	-	-	-

1/ Includes International Balance of Property Income.
2/ Estimates of dividends and interest in the second column for 1934 and for subsequent years are based on a different industrial classification than are the estimates in the first column of 1934 and earlier years. This lack of comparability is a result of a change in the Revenue Act of 1934.

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TABLE 24 - DIVIDEND PAYMENTS ORIGINATED, BY INDUSTRIAL DIVISIONS
(In millions of dollars)

	1929	1930	1931	1932	1933	1934 1/	1934 1/	1935	1936	1937
Total dividends originated	5,978	5,801	4,335	2,745	2,209	2,793	2,793	3,038	4,284	5,010
Agriculture	20	13	17	6	-	17	17	19	20	25
Mining	365	249	138	82	75	115	190	185	270	335
Electric light and power, and manufactured gas	413	565	506	449	324	316	387	382	424	459
Manufacturing	2,573	2,613	1,894	1,116	1,009	1,294	1,221	1,580	2,622	3,107
Contract construction	64	70	42	23	20	16	18	24	31	48
Transportation	788	738	521	351	287	331	348	438	439	480
Communication	168	202	217	192	191	187	188	192	208	212
Trade	566	497	386	214	179	275	339	438	657	654
Finance	741	633	577	370	212	267	261	277	319	350
Service	155	154	100	56	34	45	54	64	80	92
Miscellaneous	165	90	-45	-113	-123	-69	-430	-561	-786	-758
	Percentages of 1929						Percentages of 1934			
Total dividends originated	100.0	97.0	72.5	45.9	37.0	46.7	100.0	108.8	153.4	179.4
Agriculture	100.0	65.0	85.0	30.0	-	85.0	100.0	111.8	117.6	147.1
Mining	100.0	68.2	37.8	22.5	20.5	31.5	100.0	97.4	142.1	176.4
Electric light and power, and manufactured gas	100.0	136.8	122.5	108.7	78.5	76.5	100.0	98.7	109.6	118.6
Manufacturing	100.0	101.5	73.6	43.3	39.2	50.3	100.0	129.4	214.7	254.5
Contract construction	100.0	109.4	65.6	35.9	31.3	25.0	100.0	133.3	172.2	266.7
Transportation	100.0	93.7	66.1	44.5	36.4	42.0	100.0	125.9	126.1	137.9
Communication	100.0	120.2	129.2	114.3	113.7	111.3	100.0	102.1	110.6	112.8
Trade	100.0	87.8	68.2	37.8	31.6	48.6	100.0	129.2	193.8	192.9
Finance	100.0	85.4	77.9	49.9	28.6	36.0	100.0	106.1	122.2	134.1
Service	100.0	99.4	64.5	36.1	21.9	29.0	100.0	118.5	148.1	170.4
Miscellaneous	100.0	54.5	-	-	-	-	-	-	-	-

1/ Estimates of dividend payments in the second column of 1934 and for subsequent years are based on a different industrial classification than are the estimates in the first column of 1934 and earlier years. This lack of comparability is a result of a change in the Revenue Act of 1934.

TABLE 25 - INTEREST PAYMENTS ON LONG-TERM DEBT ORIGINATED, BY INDUSTRIAL DIVISION
(In millions of dollars)

	1929	1930	1931	1932	1933	1934 1/	1934 1/	1935	1936	1937
Total interest payments originated	5,202	5,393	5,295	5,019	4,710	4,862	4,862	4,725	4,652	4,656
Agriculture	307	281	237	198	205	190	190	184	196	200
Mining	46	41	43	37	36	37	43	42	41	37
Electric light and power, and manufactured gas	358	379	425	447	432	521	372	380	362	347
Manufacturing	210	244	225	192	181	189	139	161	148	142
Contract construction	17	17	14	12	10	6	4	5	5	5
Transportation	624	643	631	634	587	549	563	528	498	488
Communication	70	72	67	67	73	77	70	66	61	53
Trade	59	68	63	55	46	43	33	37	39	37
Finance	1,949	2,081	2,064	1,852	1,599	1,555	1,587	1,490	1,425	1,393
Government	1,099	1,074	1,086	1,123	1,206	1,314	1,314	1,257	1,301	1,369
Service	193	210	183	142	86	85	89	93	90	87
Miscellaneous	270	283	254	262	251	295	458	481	484	499
	Percentages of 1929						Percentages of 1934			
Total interest payments originated	100.0	103.7	101.8	96.5	90.5	93.5	100.0	97.2	95.7	95.8
Agriculture	100.0	91.5	77.2	64.5	66.8	61.9	100.0	96.8	103.2	105.3
Mining	100.0	89.1	93.5	80.4	78.3	80.4	100.0	97.7	95.3	86.0
Electric light and power, and manufactured gas	100.0	105.9	118.7	124.9	120.7	145.5	100.0	102.2	97.3	93.3
Manufacturing	100.0	116.2	107.1	91.4	86.2	90.0	100.0	115.8	106.5	102.2
Contract construction	100.0	100.0	82.4	70.6	58.8	35.3	100.0	125.0	125.0	125.0
Transportation	100.0	103.0	101.1	101.6	94.1	88.0	100.0	93.8	88.5	86.7
Communication	100.0	102.9	95.7	95.7	104.3	110.0	100.0	94.3	87.1	75.7
Trade	100.0	115.3	106.8	93.2	78.0	72.9	100.0	112.1	118.2	112.1
Finance	100.0	106.8	105.9	95.0	82.0	79.8	100.0	93.9	89.9	87.8
Government	100.0	97.7	98.8	102.2	109.7	119.6	100.0	95.7	99.0	104.2
Service	100.0	108.8	94.8	73.6	44.6	44.0	100.0	104.5	101.1	97.8
Miscellaneous	100.0	104.8	94.1	97.0	93.0	109.3	100.0	105.0	105.7	109.0

1/ Estimates of interest payments in the second column of 1934 and for subsequent years are based on a different industrial classification than are the estimates in the first column of 1934 and earlier years. This lack of comparability is a result of a change in the Revenue Act of 1934.

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February 11, 1939

It is proposed that an analysis be made of certain fundamental factors related to the shorter term objective of an $80 billion national income and upon the longer term objective of full employment and a steadily rising national income. Specific recommendations based on the findings of this study will be made. The analysis will be focused on two broad subjects:

I - The ascertainment of existing deterrents to private enterprise and the measures that may be taken to remove them and to stimulate recovery.

II- Anticipatory action that may be taken to prevent the emergence of factors that would endanger an orderly and sustained approach to full recovery.

Basic Questions

In order to determine the necessity and magnitude of additional steps to attain the stated objectives, it is first desirable to answer three basic questions:

1. What levels of production, consumption and capital investment would prevail (a) with an $80 billion national income, (b) with full employment, taking into account probable price changes?

2. What level of employment would prevail with an $80 billion national income, taking into account probably price changes?

3. How far, on the basis of existing programs and expectations, is the national income likely to increase in the next two years?

I

A. Existing Deterrents to Private Enterprise and Their Removal.

1. Lagging Industries.

Which industries and branches of agriculture have lagged in the recovery, and why? What specific things (other than those indicated below) might

be done to increase the anticipated volume of capital expenditures in: (a) the railroads, (b) the utilities, (c) building, (d) other durable goods fields?

2. Excess Capacity.

To what extent is the existence of idle plant acting as a deterrent to new capital expenditures? How much increase in consumer demand would absorb idle capacity in various fields? How far can an increase in consumer demand be brought about by:

a. an excess of government cash expenditures over receipts?,
b. changes in the tax structure,
c. changes in the types of government expenditures?

3. Taxes.

What elements of our Federal, state or local tax structures, bearing on property, individual or corporate income, payrolls or sales, have particularly adverse effects on consumption or new investment? What modifications in the type and methods of assessment and collection of various taxes might stimulate capital investment? Would the abolition or restriction of tax exempt securities encourage new private capital expenditures?

4. Excess Saving.

Have our savings been geared to a higher rate of growth in population, technological advance, emergence of new industries, foreign lending, etc., than we now possess? If so, has this acted as a drag on recovery? What measures are appropriate to meet this situation, if it exists?

5. Availability of capital.

Insofar as the difficulty in securing loans and equity money for expansion appears to be a deterrent, to what extent could this be remedied through:

a. provision of better underwriting facilities,
b. changes in the Securities Exchange Act or regulations of the S.E.C.,
c. the establishment of a new type of government capital supplying agency,
d. the R.F.C.,

e. changes in state laws governing investment of insurance and trustee funds,
f. further reductions in mortgage and other interest rates on loans to ultimate borrowers,
g. further modification of laws and regulations relating to bank loans and investments?

6. Monopolistic Practices.

Is the existence of monopolistic elements, such as price, production and patent controls, retarding investment or consumption? If so, how might such controls be removed, modified or offset?

7. Prices.

Are present price relationships and trends acting as deterrents? What action might be taken with reference to prices in certain fields that would stimulate recovery?

8. Profit Margins.

In which industries, if any, are inadequate or excessive profit margins acting as deterrents?

9. Labor.

Are particular wage rates acting as deterrents? Are certain labor practices, such as trade union apprenticeship and membership requirements, and output controls, acting as deterrents? Is labor legislation, such as the Wages and Hours Act and the National Labor Relations Act, acting as a deterrent? What action in respect to these factors might be taken that would be in the interests of both labor and of recovery?

10. Agriculture.

Insofar as present agricultural price and production policies and the carryover of agricultural commodities are acting as deterrents, what changes or additional measures appear appropriate?

11. Marketing Legislation.

Insofar as existing legislation in the marketing fields with reference to retail price maintenance, fair trade laws, etc., acts as a deterrent, what changes appear appropriate?

12. Private debt Burden.

Are excessive debt structures as in the railroads and utilities, or defaulted debt as in the mortgage field, retarding new investment? How might the deterrent effects, if any, arising from these sources be moderated?

13. Social Insurance.

To what extent, if at all, does the present social insurance program constitute a drag on recovery? What changes might be made in the program which, while retaining the contributory principle, would aid in the attainment of a higher national income?

14. Government Competition.

To what extent, if any, are private capital expenditures being deterred by uncertainty over the future role which is to be played by Government activities of a nature competitive with private enterprise? To what extent could this deterrent, if it exists, be lessened or removed by a further clarification of the Government's policy on these matters?

15. Foreign Developments.

What are the existing deterrents to recovery arising from conditions abroad? How might these deterrents be alleviated or removed? How can our foreign trade be increased?

16. Budget.

How far, if at all, is the existence of an unbalanced budget a psychological deterrent? If the deterrent exists, is it sufficiently serious to warrant an increase in taxes or a decrease in expenditures, or both, in order to balance the budget? To what extent could this deterrent, if it exists, be modified by the introduction of private business concepts into Government accounting?

17. Other Governmental policies.

To what extent, if at all, have other governmental policies in the fiscal, monetary, railroad, utility and other fields not mentioned above, acted to deter long term investment?

B. <u>Other Measures to Stimulate Recovery</u>

1. <u>Fiscal Policy</u>.

(a) What measures could the government take, either independently, or in cooperation with state and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?

(b) How might the maximum volume of desirable investment by local bodies be secured with the minimum charge on the Federal budget?

2. <u>Monetary Policy</u>.

Can any further steps be taken in the field of monetary policy to stimulate recovery?

II

THREATS TO ORDERLY AND SUSTAINED RECOVERY

1. <u>Monopolistic Practices</u>.

In which industries and at what level of production will monopolistic practices and controls result in excessive price advances? How may this be prevented or relieved?

2. <u>Bottlenecks in Productive Capacity</u>.

In which industries and at what level of production will be the lack of adequate plant capacities retard expansion? How may this be prevented or relieved?

3. <u>Labor Shortages and Disputes</u>.

At what points and at what level of increased production will the lack of adequate skilled labor retard expansion? How may this be prevented or relieved? What devices promise more amicable relations between employers and labor?

4. <u>Over-Production of Inventories</u>.

How far might the collection and publication of current information on inventories, new and unfilled orders, etc., lessen the danger of over-accumulation of inventories?

5. Speculation.

Are present controls sufficient to prevent disastrous stock and commodity speculation?

6. Adverse Developments Abroad.

What steps can be taken to protect our economy from possible adverse developments associated with:

a. foreign exchange developments,
b. foreign trade and exchange policies of foreign governments,
c. war,
d. international capital movements,
e. business recession abroad?

7. Deficiency of Consumer Buying Power.

Is there a danger that recovery will be checked by a deficiency of consumer buying power (i.e., by the tendency of savings to increase faster than the demand for new capital)? If so, what action can be taken to forestall this danger?

8. Excessive Swings in Consumer Credit.

Is there a danger that the orderly character of the recovery will be threatened by excessive changes in the outstanding volume of consumer credit?

9. Faulty Timing of Monetary and Fiscal Operations.

(a) Is there a danger that recovery may be checked through higher interest rates? What bearing does this have on Treasury and Federal Reserve monetary policies and Treasury financing policies?

(b) How rapid a reduction in net government expenditures would be consistent with a continuation of private recovery?

III

SUPPLEMENTARY QUESTIONS

1. Danger of Inflation or Deflation.

Is there any foreseeable danger of (a) inflation, (b) deflation arising from the fiscal and monetary policies currently being followed? What changes in our monetary, banking and fiscal mechanisms and

controls can be made to improve the adequacy and effectiveness of monetary policy and the timing of fiscal operations to avoid inflation and deflation?

2. Public Credit.

Would a substantial increase in the public debt have any important effect on the public credit?

3. Public Debt Burden.

What is the burden and incidence of the public debt?

4. Trend of Interest Rates.

What are the more important considerations bearing on the future course of long term interest rates?

5. Trend of Price Level.

What would be the most desirable trend in the general price level in the next few years?

6. Changes in Basic Underlying Conditions.

To what extent have the outlets for private capital expenditures and the possibilities for sustained full employment been affected by the slackening in the growth of population and by other modifications in basic underlying factors conditioning our economic growth?

February 11, 1939

It is proposed that an analysis be made of certain fundamental factors related to the shorter term objective of an $80 billion national income and upon the longer term objective of full employment and a steadily rising national income. Specific recommendations based on the findings of this study will be made. The analysis will be focused on two broad subjects:

I - The ascertainment of existing deterrents to private enterprise and the measures that may be taken to remove them and to stimulate recovery.

II- Anticipatory action that may be taken to prevent the emergence of factors that would endanger an orderly and sustained approach to full recovery.

Basic Questions

In order to determine the necessity and magnitude of additional steps to attain the stated objectives, it is first desirable to answer three basic questions:

1. What levels of production, consumption and capital investment would prevail (a) with an $80 billion national income, (b) with full employment, taking into account probable price changes?

2. What level of employment would prevail with an $80 billion national income, taking into account probable price changes?

3. How far, on the basis of existing programs and expectations, is the national income likely to increase in the next two years?

I

A. Existing Deterrents to Private Enterprise and Their Removal.

1. Lagging Industries.

Which industries and branches of agriculture have lagged in the recovery, and why? What specific things (other than those indicated below) might

be done to increase the anticipated volume of capital expenditures in: (a) the railroads, (b) the utilities, (c) building, (d) other durable goods fields?

2. <u>Excess Capacity</u>.

To what extent is the existence of idle plant acting as a deterrent to new capital expenditures? How much increase in consumer demand would absorb idle capacity in various fields? How far can an increase in consumer demand be brought about by:

a. an excess of government cash expenditures over receipts?,
b. changes in the tax structure,
c. changes in the types of government expenditures?

3. <u>Taxes</u>.

What elements of our Federal, state or local tax structures, bearing on property, individual or corporate income, payrolls or sales, have particularly adverse effects on consumption or new investment? What modifications in the type and methods of assessment and collection of various taxes might stimulate capital investment? Would the abolition or restriction of tax exempt securities encourage new private capital expenditures?

4. <u>Excess Saving</u>.

Have our savings been geared to a higher rate of growth in population, technological advance, emergence of new industries, foreign lending, etc., than we now possess? If so, has this acted as a drag on recovery? What measures are appropriate to meet this situation, if it exists?

5. <u>Availability of capital</u>.

Insofar as the difficulty in securing loans and equity money for expansion appears to be a deterrent, to what extent could this be remedied through:

a. provision of better underwriting facilities,
b. changes in the Securities Exchange Act or regulations of the S.E.C.,
c. the establishment of a new type of government capital supplying agency,
d. the R.F.C.,

e. changes in state laws governing investment of insurance and trustee funds,
f. further reductions in mortgage and other interest rates on loans to ultimate borrowers?,
g. further modification of laws and regulations relating to bank loans and investments?

6. Monopolistic Practices.

Is the existence of monopolistic elements, such as price, production and patent controls, retarding investment or consumption? If so, how might such controls be removed, modified or offset?

7. Prices.

Are present price relationships and trends acting as deterrents? What action might be taken with reference to prices in certain fields that would stimulate recovery?

8. Profit Margins.

In which industries, if any, are inadequate or excessive profit margins acting as deterrents?

9. Labor.

Are particular wage rates acting as deterrents? Are certain labor practices, such as trade union apprenticeship and membership requirements, and output controls, acting as deterrents? What action in respect to these factors might be taken that would be in the interests of both labor and of recovery? Is labor legislation, such as the Wages and Hours Act and the National Labor Relations Act, acting as a deterrent?

10. Agriculture.

Insofar as present agricultural price and production policies and the carryover of agricultural commodities are acting as deterrents, what changes or additional measures appear appropriate?

11. Marketing Legislation.

Insofar as existing legislation in the marketing fields with reference to retail price maintenance, fair trade laws, etc., acts as a deterrent, what changes appear appropriate?

12. Private debt Burden.

Are excessive debt structures as in the railroads and utilities, or defaulted debt as in the mortgage field, retarding new investment? How might the deterrent effects, if any, arising from these sources be moderated?

13. Social Insurance.

To what extent, if at all, does the present social insurance program constitute a drag on recovery? What changes might be made in the program which, while retaining the contributory principle, would aid in the attainment of a higher national income?

14. Government Competition.

To what extent, if any, are private capital expenditures being deterred by uncertainty over the future role which is to be played by Government activities of a nature competitive with private enterprise? To what extent could this deterrent, if it exists, be lessened or removed by a further clarification of the Government's policy on these matters?

15. Foreign Developments.

What are the existing deterrents to recovery arising from conditions abroad? How might these deterrents be alleviated or removed? How can our foreign trade be increased?

16. Budget.

How far, if at all, is the existence of an unbalanced budget a psychological deterrent? If the deterrent exists, is it sufficiently serious to warrant an increase in taxes or a decrease in expenditures, or both, in order to balance the budget? To what extent could this deterrent, if it exists, be modified by the introduction of private business concepts into Government accounting?

17. Other Governmental policies.

To what extent, if at all, have other governmental policies in the fiscal, monetary, railroad, utility and other fields not mentioned above, acted to deter long term investment?

5. Other Measures to Stimulate Recovery

1. Fiscal Policy.

(a) What measures could the government take, either independently, or in cooperation with state and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?

(b) How might the maximum volume of desirable investment by local bodies be secured with the minimum charge on the Federal budget?

2. Monetary Policy.

Can any further steps be taken in the field of monetary policy to stimulate recovery?

II

THREATS TO ORDERLY AND SUSTAINED RECOVERY

1. Monopolistic Practices.

In which industries and at what level of production will monopolistic practices and controls result in excessive price advances? How may this be prevented or relieved?

2. Bottlenecks in Productive Capacity.

In which industries and at what level of production will be the lack of adequate plant capacities retard expansion? How may this be prevented or relieved?

3. Labor Shortages and Disputes.

At what points and at what level of increased production will the lack of adequate skilled labor retard expansion? How may this be prevented or relieved? What devices promise more amicable relations between employers and labor?

4. Over-Production of Inventories.

How far might the collection and publication of current information on inventories, new and unfilled orders, etc., lessen the danger of overaccumulation of inventories?

5. Speculation.

Are present controls sufficient to prevent disastrous stock and commodity speculation?

6. Adverse Developments Abroad.

What steps can be taken to protect our economy from possible adverse developments associated with:
- a. foreign exchange developments,
- b. foreign trade and exchange policies of foreign governments,
- c. war,
- d. international capital movements,
- e. business recession abroad?

7. Deficiency of Consumer Buying Power.

Is there a danger that recovery will be checked by a deficiency of consumer buying power (i.e., by the tendency of savings to increase faster than the demand for new capital)? If so, what action can be taken to forestall this danger?

8. Excessive Swings in Consumer Credit.

Is there a danger that the orderly character of the recovery will be threatened by excessive changes in the outstanding volume of consumer credit?

9. Faulty Timing of Monetary and Fiscal Operations.

(a) Is there a danger that recovery may be checked through higher interest rates? What bearing does this have on Treasury and Federal Reserve monetary policies and Treasury financing policies?
(b) How rapid a reduction in net government expenditures would be consistent with a continuation of private recovery?

III

SUPPLEMENTARY QUESTIONS

1. Danger of Inflation or Deflation.

Is there any foreseeable danger of (a) inflation, (b) deflation arising from the fiscal and monetary policies currently being followed? What changes in our monetary, banking and fiscal mechanisms and

controls can be made to improve the adequacy and effectiveness of monetary policy and the timing of fiscal operations to avoid inflation and deflation?

2. Public Credit.

Would a substantial increase in the public debt have any important effect on the public credit?

3. Public Debt Burden.

What is the burden and incidence of the public debt?

4. Trend of Interest Rates.

What are the more important considerations bearing on the future course of long term interest rates?

5. Trend of Price Level.

What would be the most desirable trend in the general price level in the next few years?

6. Changes in Basic Underlying Conditions.

To what extent have the outlets for private capital expenditures and the possibilities for sustained full employment been affected by the slackening in the growth of population and by other modifications in basic underlying factors conditioning our economic growth?

February 18, 1939.

My dear Governor Eccles:

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Sincerely yours,

Secretary of the Treasury

The Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

Enclosure
ESD:hp

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My dear Mr. Delano:

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Enclosure
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Sincerely yours,

Secretary of the Treasury

Mr. Isador Lubin,
Commissioner of Labor Statistics,
Department of Labor,
Washington, D. C.

Enclosure
ESD:hp 2.17.39

February 18, 1939

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Enclosure
ESD:hp

220

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The Honorable Harry L. Hopkins,

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Enclosure
ESD:hp

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February 17, 1939

It is proposed that an investigation be made of fundamental factors which may stand in the way of attaining full employment and a steadily increasing national income. Specific recommendations based on the findings of these investigations should be made so that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed. (Questions marked *** are urgent, requiring immediate study, those marked ** are less urgent, and those marked * are least urgent.)

*** 1. What are the prospects for continued recovery in 1939 and 1940? How soon may we expect the national income to reach a level of $80 billion a year? What are the threats to continued recovery?

*** 2. Which important industries lagged in the 1933-38 period, making less than a reasonable contribution to the increase in the national income during that period? Which industries were foremost in the recovery? What can be done to stimulate lagging industries, increasing their contribution to the national income?

* 3. How far is the claim that new investment is being seriously blocked by specific Government measures justified?

* 4. To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets, (b) borrowing, (c) sale of equity securities? Is this capital raised through (a) organized security exchanges, (b) individuals, (c) banks, (d) other institutional investors? How do these figures compare with the 1923-29 period and what is their significance?

* 5. To what extent are depreciation reserves not being reinvested?

** 6. Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital in satisfactory form? If so, what can be done about it?

** 7. To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our national economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location or function -- the field of investment activity to which it proposes to confine itself?

*** 8. What elements of our tax structure -- Federal, State, or local -- serve substantially to retard the growth of the national income through their effect on consumption or new investment? What modifications which would stimulate the growth of the national income could be made in (a) upper bracket personal surtaxes, (b) loss carryovers, (c) averaging of income, (d) capital gains taxation, (e) consolidated corporation returns, (f) taxation of dividends, (g) corporation undistributed profits, capital stock or excess profits taxation, (h) depreciation allowances, (i) payroll taxes, (j) sales and other excise taxes?

* 9. Would the attainment and maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?

* 10. To what extent would a redistribution of our national income contribute to the attainment and maintenance of a higher national income?

** 11. The claim is made that private industry by itself can not profitably absorb current savings. Were this true, a continued high national income would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?

* 12. Is there justification for the claim that Government spending on public works or WPA projects results in a decrease in spending in behalf of private enterprise?

*** 13. What measures could the Government take, either directly or in cooperation with State and local governments to increase government investments in self-liquidating enterprises without adding to the budgetary deficit?

* 14. Which types of Federal Government expenditures operate to increase the national income most and which least? To what extent is it possible to shift from those that increase income least to those that increase income most?

*** 15. How large a volume of unemployment must we expect to make provision for during the next five years, and what means should be used?

*** 16. To what extent, if at all, does the present social insurance program constitute a drag on recovery? What changes could be made that would aid in the attainment of a higher national income?

* 17. Is there a foreseeable danger of inflation or deflation arising from current fiscal or monetary policies? What changes in our monetary, banking, and fiscal mechanisms and controls can be made to improve the adequacy and effectiveness of monetary and fiscal policy and the timing of operations to avoid inflation or deflation?

* 18. Is there a danger that recovery may be checked by higher interest rates? What bearing does this possibility have on Treasury and Federal Reserve monetary policies and on Treasury financing policies?

* 19. How far, if at all, is the existence of an unbalanced budget a psychological deterrent to recovery? If the deterrent exists, is it sufficiently serious to warrant an increase in taxes, a decrease in expenditures, or both in order to balance the budget? To what extent could this deterrent, if it exists, be modified by the introduction of private business concepts into Government accounting?

* 20. How rapid a reduction in net Government expenditures would be consistent with a continuation of private recovery?

* 21. Would a substantial increase in the public debt have any important effect on the public credit?

* 22. What is the burden and incidence of the public debt?

** 23. Are monopolistic practices such as price, production, and patent controls retarding investment or consumption? If so, how might such controls be removed, modified, or offset?

** 24. Would the collection and publication of current information on inventories, new and unfilled orders, etc., lessen the danger of over-production which results only in excessive inventory accumulation?

** 25. To what extent, in what fields and with what effects on our national income has the Government contributed to an uneconomic price structure, and, if there are harmful effects, how can they be eliminated?

* 26. Is expansion being retarded by lack of skilled labor? If so, how can we correct the situation?

* 27. Are particular wage rates, labor laws, or labor practices -- such as union apprenticeship, membership requirements, or output controls -- acting as deterrents on recovery?

*** 28. For what specific products can we expect a substantial increase or decrease in exports during the next two years? What, if any, removable obstacles lie in the path of important increases in our total exports?

** 29. What steps can be taken to protect our economy from possible adverse developments abroad arising from (a) foreign exchange developments, (b) trade and exchange policies of other Governments, (c) war, (d) international capital movements, (e) business recession abroad?

RE NATIONAL INCOME AND RECOVERY
(Fiscal and Monetary Advisory Board)

February 13, 1939.
10:15 a.m.

Present: Mr. Eccles
Mr. Delano
Mr. Ruml
Mr. Currie
Mr. Thorp
Mr. Henderson
Mr. Hanes
Mr. White
Mr. Haas
Mr. Duffield

H.M.Jr: Has everybody read this one that was gotten out by the N.A.M., which was in yesterday's papers, along the same lines as this?

Currie: I got that, yes.

H.M.Jr: Do you want to read it? I think it's very interesting.

Eccles: Gotten out by whom?

H.M.Jr: The National Association of Manufacturers. Doing exactly the same thing.

Delano: What?

H.M.Jr: Exactly the same thing.

Eccles: Come to a different answer.

H.M.Jr: Some of them are very interesting, and I think it's a very broad-minded piece of work.

(Currie reads entire article attached hereto, entitled "U. S. Policies Block Upturn, N.A.M. Finds")

H.M.Jr: Hanes, do you want to sit up here?

(Hanes moves up)

I thought it was very interesting.

Eccles: Yes, that's - it certainly is.

H.M.Jr: I'd like to get the full report.

Eccles: They certainly have covered the field.

H.M.Jr: It's a very interesting report.

Ruml: Should have gone back to '29 to make it complete.

H.M.Jr: Well ....

Eccles: Yes.

H.M.Jr: I think the more people - the more business men, the more people in government that can be thinking along those lines, the better.

White: The full report would be the interesting and important one, if we could get it quickly. Is it supposed to be available for publication?

H.M.Jr: You can wire for half a dozen copies and sign my name - a dozen copies.

Duffield: They have an office here.

H.M.Jr: That's right. Will you get a dozen copies and see that each one of these gentlemen gets one?

White: They have enumerated about everything that anybody has ever said has contributed to it, and doubtless some of the things should be weighted heavily, some of the things less so, possibly some of the things not at all. One couldn't tell without seeing the amount of evidence and supporting discussion that they have. But they have managed to include everything they don't like as well as anything they have said ....

Delano: They had to do that to get it through their group.

White: Should make a very interesting complete report.

H.M.Jr: Now, Mr. Delano, how would you suggest that we proceed this morning?

Delano: Well, that's a big order. I think the committee has done a very good job of getting these questions grouped and all that. But my feeling, and my colleague Mr. Ruml feels the same way, is that while this is a very important research problem that ought to be looked into, it might take thirty or sixty days to get very far with it, and in the meantime we need to be considering action, because it seems to me that the next thirty or sixty days are going to be very important in making decisions.

H.M.Jr: Well, may I ....

Delano: In other words, this is an investigation, really, and seems to be answering a lot of questions, and this thing done by the manufacturers is going to be helpful in considering those questions....

H.M.Jr: Could I answer that - your thought very frankly, if I may, and then - I mean not as chairman but as an individual, I would personally very much like to do this thing whether it takes thirty days, sixty days, or ninety days. My great trouble as Secretary of the Treasury - it's always today's crisis, today's situation; and I'd like to approach this particular problem, unless the rest of you feel otherwise, whether it's sixty, ninety, or 120 days, and give it plenty of time and not be under the pressure that because the New York Times business index has fallen off a couple weeks that we've got to do something tomorrow.

But I've been working like that - you don't mind my being very frank - I've been working like that ever since I came here, and I'd like to now do a job, not under pressure but very deliberately and with the help of the technicians, just as conscientiously and scientifically as possible. I mean that's the way I'd like to approach it. Now, if you and Mr. Eccles and Henderson and Dr. Thorp disagree, why, I'm open to argument. But I would once like to be a part of a committee where we felt that time wasn't of the essence, but that the results - there wasn't a pressure of getting it out tomorrow.

Currie: One of the points, Mr. Secretary, I think the committee would like guidance on is, one, whether the Board would like to have - various possibilities: One is to get full agreement among the technicians before any material is presented to the Board; or, two, whether successive materials as completed should be put up to the Board and presented, rather than wait for the conclusion of the complete report; or, three, whether there is any particular thing which, as Mr. Delano says, action may be taken on in a few weeks, that attention should be first directed to, and thus vary the schedule in working these things up. Those were various points that arose.

H.M.Jr: I've stated my philosophic state of mind. I hope I won't be rushed. I'd like to know how Mr. Eccles feels about it.

Eccles: I agree that this whole thing should be studied. However, I do feel that, for instance, if we should take ninety days to complete a report and in the meantime Congress is a long way advanced and maybe certain legislation has passed, it may have a very vital effect upon what this report would indicate should be done.

For instance, the Social Security is pending now. In the meantime they may have legislation advanced or developed, or it may even have passed, and it may be very contrary to what this report would indicate. The same thing may be true with reference to certain questions of taxation, railroad legislation; and it seems to me we've got to do both: that there are certain things we know of now that are in the mill, and I think that the immediate problem should be - we should get a report, possibly, on that within a period of thirty days.

And then on the longer range or the more complete problem which you have suggested I agree with you that we should take such time as is necessary to get a complete picture of the situation, but not neglecting some of these other matters that we could agree on.

For instance, we talked about this railroad equipment matter. Now, if anything is going to be done on that something ought to be started within, say, thirty days if it's got to go through Congress at all.

And the same thing may be true with - I think of that one particular thing, but the same thing may be true with one or two other aspects of the problem which we would all readily agree on.

H.M.Jr: Well, do you or Mr. Delano or anybody else want to indicate priority, what you think is more important?

Eccles: Well, I ....

H.M.Jr: Don't misunderstand. I'll give all the time that any of you people wish. I mean I've got all - this is number one as far as I'm concerned, so I'm available any time. It's not a question of not enough hours with me; I'll give all the hours that anybody else will give. But I just don't want to be rushed.

Eccles: Don't you think we might ask the committee to make up a list, or a report of those matters that they feel should be given priority and that may require - may be made the first part of the report, for instance, that they might get out within a period of thirty days, referring other matters to a later period, reducing to a minimum those items that they feel are of such urgency that - because of possible Congressional action or needed Congressional action. I don't - I don't know - I don't have in mind just what those items may consist of. I happened to think of the railroads, and I know there are several other things that we possibly should get started before ninety days.

H.M.Jr: Well, the one - as far as we're concerned, the only one which is immediate is Social Security, where we're right up against that.

Eccles: Yes, and that's very important.

H.M.Jr: We're right bang up against that.

Hanes: May I make a suggestion there? Right after that Social Security legislation is finished, we're almost right bang up against the open tax hearings, which will probably start within thirty days, say, or shortly after the March 15 returns are in; and it seems to me that if there were going to be any priority, looking at it purely selfishly, from my standpoint, I'd like to have this committee's judgment on the tax problems before we up before that Committee. I'd hate to go up there with a program which this committee would be out of sympathy with.

H.M.Jr: Well, then, as far as the Treasury is concerned, Social Security first and taxes are second. What?

Eccles: They're both made a - they're rather an important part of this report, both of them, and they're also mentioned in this manufacturers' report in several different places as being vital. So it would seem that on items of that sort, and there may be others, we could all agree that we should try to get a preliminary report out within thirty days.

Henderson: Mr. Secretary, ...

H.M.Jr: Please.

Henderson: .. it seemed to me that anything which is done on Social Security and taxes, and on the other ad hoc items that come up for consideration, ought to be set against some kind of a forecast of economic activity and some kind of an organized and well-rounded basis of the existing status of economic activity. Now, this may be getting into the range of the crystal-gazing, or things like that, but it would seem to me highly desirable to do in the next, say, thirty days the best conspectus that is possible on these questions. These are not entirely new questions at all, and throughout the Government on nearly every one of them somebody has been doing something; and, given a critical situation, you always rely on somebody for the best possible answer you can get on those.

It would seem to me that, even if it is entirely tentative, a fairly well-rounded statement from your committee as to what is the best belief right at the present time on most of these questions would be the point of departure. Now, in nearly every one of those cases it would indicate, I believe, a necessity for going much deeper and much further in the fact-finding and filling in the gaps. And nobody would need to be particularly ashamed if the fact-finding happened to make whatever the temporary and current guess was look a little bit silly, provided you had done the best you could. I think that if you went into this thing, you felt that there would be rising activity throughout this year, that the critical situation was the early part of 1940, that the situation might be one of bottlenecks, price, or it might be of lagging durable goods industries - that if we saw that or we saw that the Government was withdrawing too much from the stream of purchasing power, or withdrawing it too fast, that would guide in large measure, it seemed to me, your determinations on Social Security and taxes and railroads and housing and things like that.

H.M.Jr: And if I may just add: an annual appropriation for the unemployed, when Colonel Harrington goes up for the third time this year. I mean now this thing that you're talking about interests me tremendously, and I saw Harrington yesterday and now when Harrington goes up and asks the third time for his appropriation, he ought to have something like you're talking about to base it on, and say, "This is what the Administration needs for twelve months"and not another seven months' appropriation and go back again a couple times more. But he hasn't got anything and the Administration hasn't got anything to hand him and say, "This is what the Administration feels, this is the outlook, this is what everybody feels, this is what the President thinks, and the rest of them, and on that basis we need X dollars to carry us for the fiscal year '39 and '40. Right?

Henderson: You know, given a repetition of the most vigorous reemployment that we had since 1929, what the outside possibilities are of removal of people from the unemployed lists; you know that between now and, say, January and February, what the most optimistic forecast can be. Now, that's one datum upon which you could get a fairly good agreement.

And I think that as far as your lagging industries are concerned, that could be spelled out fairly quickly. We're fairly well along on some of those in Labor and

Commerce for our own Committee's purposes.

I make that as a suggestion. As I said, it looks like a little bit of reading of the tea leaves, but I don't see why the Government shouldn't do the same thing as an industry does.

White: I think that that point is very important. It ties up with what you said about a reasoned, well-rounded picture about which you don't want to be rushed. It appears to me that before any attempts at deciding on some of the more important steps are taken, you have to have a diagnosis of the patient, a general diagnosis; and otherwise it is extremely difficult to fit in the pieces, and otherwise many of the reports will be no different than many of the past reports; unless there is a more fundamental and over-all picture taken of what is before us and what the status is, I don't think we'll emerge with anything that will be very much different than the past or very much worth while.

And I think that's the reason why the first three questions, which sort of call for that - if one were to expand them and extend them and interpret them very broadly - were placed there. It is another way of asking, "Just where are we and just where are we going, and what may we expect in the next couple of years?" And that should be the initial task, though it need not be mutually exclusive; that is, you may proceed on several of these questions that seem to be more immediate at once, but that should be the general framework within which the specific discussions should be set.

And I would be strongly in favor of not rushing this thing, because if you come down to it, in the last analysis, the men available are not so very many, and the differences have to be ironed out, where they can be ironed out, and it's not a matter of - thirty days is pretty short.

H.M.Jr: Well, if I might just say one thing more, so you people know how I feel. In addition to analyzing why we had the troubles in '37 and '38, also taking care of some of the immediate problems that we have here: Social Security, taxation, any other problems which may come up; and also in addition to what Leon Henderson says: let's take a look into the future, I hope that out of this work will come some very positive recommendations as to what we can do to really get this country going on a better basis. I mean because the way I feel is, 1940 isn't so far off, and Mr. Roosevelt will have then been President for eight years, and if the eighth year that he's here - we've just got to solve some of these things, and the eighth year has got to be a prosperous year. Otherwise, all the excuses in the world aren't going to hold up, and if after eight years under a democratic form of government we can't make a success, the rest of the world will say, "Well, why lecture us? You've had eight years of democracy and what have you got to show for it?" And if our position in the world is going to be of any influence, I think we've just to solve some of these problems.

And I want to say again, as far as I'm concerned - I think I'm speaking for the people with me - that I don't know anything that is more important and I would just do anything that I can to assist really to solve some of these things, so that we can at the end of the eighth year have something to show for the time, and that we don't end the eighth year with just as many unemployed, and so forth and so on, and all the things that they can say.

So I do hope that out of this work will come some positive recommendations, things that the President could do to really cure some of our ills.

Eccles: I think that we'll find that it involves some legislation - I don't mean new legislation, necessarily, in some instances, but I think you'll find that it will require amendments to existing legislation and possibly some new legislation. The difficulty of that is if Congress gets through here in August, if they go that long - and the longer we have to wait the more legislation gets under consideration and the more opposition there is to taking up anything new; and then if Congress gets out, 1940 is the time when they're all going to want to get through pretty early, want to get through by June if they can; that's a very difficult year to get legislation, and it seems to me it might be too late, even if we got legislation in '40, for it really to be effective for the year '40. So even though we've got nearly two years of the present Administration to get something done, as a matter of fact we've only got a comparatively short time, if it requires legislation, which I feel sure to accomplish what is necessary to accomplish is going to require legislation.

Henderson: Just take the one question of the expansion of housing in sufficient quantities to make a real dent in unemployment or to maintain a level of activity next year. That legislation has got to be gotten within the next forty-five days; that is, my assumption is that there is a potential market for expansion of housing which we will not touch by the very satisfactory gains that we've been making under the existing set of arrangements. Now, if we want that, we know how long it requires for a given new policy to get into action, particularly if it affects durable goods and construction and things like that; and if we would look at the prospects of next year and see that we're only going to be down probably to, say, eight and a half million, nine million unemployed by that time, and that one of the areas in which you've got to really take action is housing, it would be seen very quickly, I believe, that something much more fundamental, something much different than has been done up to now needs to be organized as a policy to take that place. And as Marriner says, the only time for getting your enabling legislation is this period.

So I feel that if we went through these questions with the best available talent in this town and on the outside, and organized something which could be presented to your Committee, say, in an evening, so that you would then get the distillate of the best minds around here, you would have that as a basis for a determination; and that would not interfere with a long-time program; certainly, on any number of these questions, we're going to add to the body of knowledge, I believe, by intensive studies in our own Committee.

Currie: If I get your thought, Leon, then, it is to compromise the suggestions so as to take in, say, two and three on page one immediately, and then immediately after that Social Security, unemployment, and perhaps housing, whatever is coming up within this next month or two of decisions, and try to do those things right first.

White: But the point is, it seems to me, important to stress that your recommendations and your findings on these particular points will not have much validity or have much carrying power in convincing Congress or the President of the need of that type of legislation unless it is set in a framework, unless it is preceded by an analysis which indicates clearly, if it can indicate clearly, the necessity for doing substantially the kind of program that you're going to suggest. In other words, you have to drive home the necessity for drastic action if you find such action is necessary. You have to first meet the argument which will prevail everywhere: "Leave things alone; they're getting better now and they will continue to get better in 1940, and don't monkey with the machinery except for minor changes."

And that's why I think it is so important to take one, two, and three and make a very careful, comprehensive, and convincing picture of it, expanded; it doesn't quite cover the territory. Otherwise, you make a recommendation with regard to housing - so what? There have been any number of recommendations made in regard to housing. Suppose yours is a better one; they're not going to regard it as essential, they're not going to feel that things of that kind are called for in this administration.

Eccles: It seems that the study of these three things, as Harry indicates, is going to bring out as a background, without question, the fact that we're still going to have plenty of unemployed in 1940; it's also going to bring out the fact that the national income in '40 isn't likely to be 80 billion, that we've still got lots of room to move toward the thing that we want to be sure that we do have in 1940, that we should take such action now as will assure a vigorous, healthy, strong recovery during that period.

And in order to get anywhere with Congress or with the public, even though we may know of enough information to convince us that we can do a lot of these things, you've got to have a more complete picture to give to the public, you've got to let them know what the objectives are, and why they are what they are, and why you think in order to reach such objectives that certain things are necessary to be done. Otherwise, they're not going to be convinced.

Now, this manufacturers' report here is a fine report for an organization that doesn't have to take action. They have no specific action that they have responsibility for, such as the administrative branch of the Government or the legislative branch, and therefore they cover a pretty general broad field. But after you read it all - it's enlightening to get their views, but the whole question is, what specific things can be done to arrive at some result? Now, the result that we've got to get here in '40 is beginning, toward the end of a year, to go toward an 80 billion dollar national income. Now, we've set that, the President's set it, and we know that if we even get that, there are still going to be a very substantial number of unemployed people. Unless we have substantially less by the end of 1940, it doesn't seem to me that we've got, after a period of eight years, a very good record.

Now, therefore, we've got a very definite objective and we're primarily interested in setting the framework for such action as may be necessary and justified to get that kind of result. I think that's the primary thing we've got to think about, and time is rather of importance.

H.M.Jr: Excuse me a minute. (Talks aside with Mrs Klotz)

White: What that report apparently does is go right down the line and say, "This is bad and that's bad, and this should be so." I'm very eager to see their report. They may have done a lot of analytical work which may be very helpful to get their point of view and also they may have done a lot of statistical work. They were eighteen months on that job and had so many people; now, that report may be extremely helpful.

H.M.Jr: I'd like - if you're talking about the N.A.M., I'd like to find out who their technicians are who worked on it, and rub shoulders with them.

Henderson: You'll find that one of them was Wilford I. King.

Thorp: Ray Wester.

Henderson: And Gus Dyer, of Vanderbilt University. But King certainly. King told me when he was here in the summer that he was working on something like this.

H.M.Jr: Well, it would be interesting to get him down and rub shoulders with him and ...

Henderson: Like to rub a few other things, too.

(Hearty laughter)

Delano: Of course, there's one thing, Mr. Henderson, as I see it; I've seen N.A.M. in action for a number of years, and this is the most liberal thing I've ever seen them get out. But manufacturers don't pledge themselves to any policy in this thing. They might have a lot of pious suggestions, and it's going to be very helpful to see how their experts have worked it out, but whether the rank and file will toe the mark, they don't pledge at all; they can't.

Henderson: It would be very helpful, though, from their report, on some of these questions that are raised here, to say that they had said this. I mean that's all you've got right at the present time. You can't tell whether the Government competition has actually restrained a tremendous amount of investment, but you can say that the N.A.M. says that it did, pending the time you can get to a well-rounded study of it.

Currie: We tried to list all of the deterrents that any of us had heard discussed very much, but we may find more.

H.M.Jr: The most encouraging thing is that somebody else had the idea also; so it convinced me we ought to get busy also.

Eccles: The encouraging thing about this report is the fact that as a business organization they're willing to admit that business can be and is at fault. Now, the most - up until recently it's usually been that if the Government hadn't done this, if it hadn't done that, everything would have been all right; the whole thing has been blamed onto the Government; and it's very wholesome if you can get them to enumerate the number of mistakes that business has made, which they do enumerate and which people in the Government have recognized that business was making, and business has never been willing to recognize it. And I think it's a wholesome thing toward a possibility of getting together when both sides will admit mistakes. It creates an atmosphere that certainly is favorable for cooperation.

But we have a very different responsibility, of course, than they do. There are certain things that we in the administrative branch of government, with the assistance of the legislative, can do; we can definitely do certain things, whereas a body of that sort - there's very little that they can do outside of talk about it and have their report exercise such influence as it may upon the public and upon their members.

H.M.Jr: Well, see if I can sum up what this thought is here this morning. You're going to take a look at those sorts of things and give them the right of way - Social Security and taxation - because we here will have those things before us to handle, before we know it. You're going to do what Mr. Henderson suggested and see whether we can't get out a - would you call it a business forecast?

Henderson: Well, you can call it that, or make it dignified, call it a conspectus.

H.M.Jr: We don't use those two-dollar words around here; but we can learn. Anyway, a forecast?

Henderson: Yes.

H.M.Jr: All right.

Henderson: Well, I'd want first, before the forecast, a well-organized statement of the present status of business activity.

H.M.Jr: Well, could you state it so that - outline your thoughts in a page, and then the boys could take it - I mean what you think they ought to do?

Henderson: Well, I think I can say it right now.

H.M.Jr: Good.

Henderson: I would think that, first of all, a brief but pretty wide coverage statement of where we are in business activity now is needed, as a point of departure for our thinking. And then the very, very best guess as to what is likely to be the course of business activity over the next, say, fifteen months, because that's the period comprehended in my thinking. Third, an organization of the best information immediately available, on an opinion status, of course, as to the answers to these questions that we have here. And then a beginning of concentration on the things which are immediately pressing, such as Social Security and taxation and railroads and the other items that you can see coming immediately over the horizon for attention; take those for individual studies and much more concentration on those in terms of timing and application of information and expansion of the staff work that is done on them. And then finally I would look toward this 120-day or what I believe would be, more likely, late fall report, which would have pursued a number of these items to the best factual determination that could be gotten, as a basis for looking ahead to 1940.

H.M.Jr: Dr. Thorp, do you want to make a contribution to what you think the staff should continue to do?

Thorp: No, except I don't think I disagree at all with Leon's general approach. I don't see any reason why this study should be allowed to interfere with proceeding with action wherever action was called for. But I think it can be tied in so that the first stage, or rather the - I don't know what the number of the stage is, but it would seem to me that you have to divide the answering of these questions into two stages. One: an attempt to get agreement among the people that have been thinking about it as to what their opinion is; no new research being done, but just to get agreement of the best judgment that is possible on many of these questions, particularly doing that where you're heading into an action situation. And then, proceeding where necessary with more elaborate study, thinking about the fact that it is time we had a clear-cut, integrated statement of national policy, you might say; I think that in itself is absolutely essential before 1940: that we be able to tie all these parts together and know wherein there are weak spots and where there are strong spots; and that's another value of the job that I think needs to be emphasized.

But right now I think you can get answers, tentative answers, within the Government to most of these questions, quite sufficient to formulate an immediate program of action. And I doubt if research work would make very many changes. Once in a while it might make considerable difference, but I doubt if it would make many changes in the present judgment. The point is, the question hasn't been asked in an organized way, so that you haven't had everybody who might be interested in getting together and trying to thrash it out. That's the most useful thing, it seems to me, of this job.

H.M.Jr: Hanes?

Hanes: I'm sorry in a way that we got away from that first memorandum so far in this one, because it seems to me that Leon's approach to this thing here is much more fundamental than asking yourself the question "What levels of production, consumption, and capital investment would prevail if...." I'd rather approach it from the other angle: how're we going to get the income, regardless of what the results are after you have arrived there. I'd like to find out an answer to these what seem to me more basic and fundamental questions that were asked in the first memorandum, rather than this long and to my mind much more complicated questionnaire that we've got here.

In the first memorandum it seemed to me that we could divide the questions and probably cut down a great many of the questions which called for what somebody at the last meeting termed essays. It seems to me that the time for essays is rather limited. I've gone through that memorandum of the first meeting, which I incidentally hadn't seen up until that meeting; but I've cut down those questions to eighteen questions rather than twenty-seven questions, and I've divided the Title I questions into the three different categories where I think they belong, which were fundamental causes, psychological causes, and some were results of those things which were set down as causes. It seemed to me a much more direct approach to the problem than this more or less essay approach that these kinds of questions - the three fundamental, basic questions - suggest to my mind.

H.M.Jr: Let's have how you did it. I'd like that.

Hanes: Instead of your basic questions in your February 11 memorandum, which were all based on what would happen if we arrive somewhere, I'd rather - I approached the thing from the angle of how could we arrive at those common objectives which we all agree are desirable.

Under Title II of the first - I don't know if you have before you the memorandum which we had at the last meeting or not, but it seems to me that I would change under Title II the fifteen so-called causes, which I think should be divided into three categories: One, fundamental causes; two, psychological causes; and three, the things in those fifteen items which were to my way of thinking results of those causes.

Under the title of fundamental causes, I would list the following without regard to their relative importance - these are taken directly from the memorandum -: (a) Consumer resistance to rising prices. (b) The curtailment of Government spending. (c) Labor difficulties, including rapidly-increased wage rates and sit-down strikes.
(d) Shortages of skilled labor in key positions.
(e) A too rapid increase in production costs.
(f) A contraction in the market for new capital

issues. (g) Government tax policies. (h) Maladjustment of prices and price rigidities. (i) Government competition. (j) Excessive short-term installment buying.

Under Title II, more or less psychological causes, as they seem to me, were: (a) Deflationary effects of increases in reserve requirements; and (b) fear of gold price reduction. They were listed as fundamental - as part of causes in 15 in the other memorandum.

And then under title of results, it would seem to me that an over-accumulation of inventory was partially a result, as I remember it, of 6 and 7, I think it was, in the old numbers. (b) Excessive speculation in commodities; and (c) a decline in new construction.

It was more of that direct approach that I had in mind would be valuable at this time rather than what would happen if we arrive at an 80 billion dollar income. Well, I'd rather approach it from the bottom and say, "How can we work toward an 80 billion dollar income?" That seems to be the common objective. Let's take all the things that people are saying and everyone is agreed are having a retarding effect upon an arrival at that spot, and study those things with an idea of correcting where correction is needed and adding legislation where legislation is needed. And I think with Marriner thoroughly that we haven't got two years, we've got six months, and the last three months of that six is going to be a very difficult time, in my opinion, for getting anything done unless we've got a tremendous study backed up by something concrete to lay before this Congress in order to sell them the thoughts which will be the outcome of this group's thinking.

Henderson: Mr. Secretary, I'm a little bit confused. John, it seemed to me that this memorandum started right out with, under I, "ascertainment of existing deterrents to private enterprise and the measures that may be taken to remove them and to stimulate recovery," and II, the "action that may be taken to prevent the emergence of factors that would endanger an orderly and sustained approach to full recovery"; now, those questions that are set down on the first page, it seemed to me, are pretty pertinent in terms of what you get to in terms of bottlenecks and things like that. There's been a tremendous amount of work done on these items. In fact, the consumer study which is being done by the National Resources Committee now has gotten most of that information. But you've got to be looking towards it in terms of which industries are lagging and which industries are at capacity and would be at capacity, and it seems to me that before you can start on any program, whether it's Social Security or taxes or housing or railroads or utilities, you've got to have some analysis of the existing situation and some idea of what would happen in case the desired action did take place.

Hanes: I think we're agreed. I agree with you perfectly there, Leon. My thought is to get away as far as we could from the questions which require essays and get down to the basic facts; that was all my suggestion was.

Currie: There is some uncertainty in the committee, Mr. Hanes, on that point. We met four times, long meetings; this is the fourth draft. I think if we met eight times, there would have been an eighth draft. But I think the first or second meeting we had boiled it down to things which we thought we could get a factual answer for and fill out quantitatively. Then it was brought out that the President had wanted the questions provocative; so with that consideration we went back to the first idea and put in these provocative discussions which we couldn't answer quantitatively but we could discuss and give the relative considerations. So as a course of evolution that's how the document happened to evolve.

White: I don't think there's much difference in the point of view as you expressed it and the approach that we had; the difference is in the formalistic and more carefully and to a large degree more academically, and perhaps unnecessarily academically, phrased questions. We first want to know where we're going, because if we're going up and if we're going to continue to go up, then the only thing we have to concern ourselves about is to make sure that nothing is done in the next two years to repeat any errors that may have been made in 1937 or 1938. If, on the other hand, as may be the case, the elimination of repetition of those measures that are regarded now as having stopped recovery - if those measures did not really stop recovery, or, rather, did not introduce a recession in general, merely introduced it in that month rather than a later month or an earlier month, then we have to answer the basic questions to see whether there are more fundamental, deep-seated factors in your economy which will bring about a recession in 1940 even if you don't repeat what we did in 1938. It seems to me both are necessary.

Hanes: I think that's true. I think perhaps I can sum up my thought by saying that to the lay mind - I'm not an economist, I don't understand a lot of terms that you've used there; I don't think the public generally would understand them.

It seems to me the first approach to this thing would be asking a good straightforward, frank question in language we could understand and a good frank answer to those, regardless of where the chips fell. That's what I think we need, and it's that kind of realistic thinking I think we've got to do right now. As Marriner says, we haven't got much time, and if we do get off that basis I think you get into a long discussion of pros and cons which is going to lead us nowhere.

I mean, for instance, as I approach this tax problem, I've asked time, time and again, and I can't seem to get an answer: should there be more taxation; if so, what kind, if not why not, and if so why? I mean take a simple direct approach to that. The President has recommended 422 million dollars of new taxes. Now, if we're going to follow that recommendation, and I assume that's what everybody wishes to do - or if we're not going to follow it, we should be able to point out to the President just why we don't want to follow that suggestion.

That's my whole point here: that this approach in your second memorandum to the lay mind - well, I'll call mine a very, very simple one - it just is a difficult thing for me to absorb all that stuff that's in that second memorandum, whereas the second one was asking specific questions.

H.M.Jr: You mean the first one.

Hanes: I mean the first one.

White: I think it's a question much more of rephrasing; I think the criticism you're making is a just one, and I think it can be rephrased to meet most, if not all, of the objection you raise without changing the content. In other words, I think what's here contains virtually everything that was in the original one.

It is true, however, Mr. Hanes, that as economists go into each one of these things they tend to be more nearly accurate, they tend to become more academic.

Hanes: I say you obscured it for me.

H.M.Jr: And if I may interrupt, I feel the way Mr. Hanes does, only more so. Now, this second memorandum - I don't know whether it's me or the memorandum or what, but the second one has just got me all up in the air and I've lost my interest - I mean if it was based only on the second memorandum. The first one had something about it, a ring of sincerity and a fairness, which I don't feel the second one has at all.

White: Well, I think if you give us another chance to revamp ....

Hanes: The Secretary and I have not been in collaboration. I don't know how he feels on that thing. I said to Gene when I first saw it on Saturday afternoon - I said to Gene after two minutes of it: "This thing confuses me."

H.M.Jr: Well, at 11 o'clock yesterday Harry found out how I felt about it at the house.

White: I think if we have another day or two we can get something that will more closely approximate what you have in mind. But I confess that as we went over each question in the group and there was final agreement on each question as phrased, there was a feeling that all of these questions included the other; but in reading it over, I quite agree with you that it has assumed an academic and technical phraseology which may well serve to obscure the simplicity of the underlying and basic questions. And I think we may be able to regain that simplicity and directness with a little more attempt. Don't you think so?

Henderson: I think you could let this serve as the basis for the economic survey.

Hanes: Let the economists read that, if it's clear to them; let them read that, but give us something we can understand.

Henderson: As Harry says, it is more precise, and every word was argued on, as far as I can remember, ...

White: That's right.

Henderson: ... in an open conference, and trying to make it really expressive of what you wanted done. It needs what Gene would call - it needs a rewrite man or a reporter to take it and point it up into specific, sharp questions.

Hanes: Like we used to say over in the S.E.C. - when the lawyers came in with these long regulations I'd never vote on them; I said, "Go back and write it in English. You get it all so confused with legal language that the meaning is obscured. If you mean this, let's say this." That's what we used to say to the lawyers over there. I feel a good deal the same way about this.

Henderson: You can't take that first list of questions and do an economic survey on it.

White: I think your solution is a happy one. Have the sort of thing they justly want, and then for anything the technicians are working on, they can work up any sort of complicated hieroglyphics they want.

H.M.Jr: What Hanes and I want is a crib to this thing, so we can get a free translation.

Thorp: Now, the committee didn't know, for instance, ...

H.M.Jr: Isn't that right?

Hanes: That's what I want.

Thorp: The committee didn't know whether this was to be written in such a way that it was to be made public; you'd write it differently if it was to be made public than if it were something for the economists to take to extremes to work on. That's one of the difficulties of the whole job. Who is it for, to whom is it going?

H.M.Jr: I could answer from my original idea as to who it's for: it's for the President, and I sincerely hope that when we can agree amongst ourselves that he'll make the thing public; because I'd like the country to know that he's thinking about it, that he's got his administration working on it, and that he wants suggestions from everybody and that this is what he's thinking about. And I think it would be most encouraging to have the country know that the President is doing it and he's got everybody in the Administration working on it.

Haas: Could I come back, Mr. Secretary, ...

H.M.Jr: I think the statement is the President's, as I pointed out before, and I sincerely hope we can do it in a way that it will be sufficiently attractive to him that he will make it public. And I've only talked to him about it once, and the first time when I left him the impression that I got was that if it could be improved upon and if people like Mr. Henderson, Mr. Thorp and the others that weren't in could add to this thing, why, he would take it. I mean that's my impression. I want - I'm repeating myself - I don't know anything better than if the country thought that the President of the United States and his administration were working just as hard as they could to solve these problems; I think it would be wonderful, even if we only solve one or two.

Haas: Could I make a comment, coming back to the approach? With regard to Leon's suggestion as to an approach, I think there is no question that one of the first things we have to do is diagnose the present status of the business situation.

But then it comes to the question of projecting what business is going to be in 1940, and on that projection you're going to make recommendations as to policy. I don't think this group or any other group can forecast with any great degree of certainty what's going to happen in 1940 if just nothing was done. You have to make certain assumptions. I think if you're going to have a policy you have to have some kind of forecast, and the impression I want to leave here is that any forecast that is made has to be a very tentative one, and I think it ought to be made within a certain range, minimum and maximum. I think it's a forecast that should be just a working forecast, like General Motors and these other companies have, subject to revision each day as new developments come along; and the Advisory Board should be advised of those currently. I think it would be very unfortunate if the Board had the feeling, or anybody had the feeling, that any group could sit down and with any high degree of certainty estimate what was going to happen in 1940, because I'm sure you're going to be disappointed.

H.M.Jr: Now, who have I overlooked? Ruml. How could I overlook Ruml?

Ruml: Well, I'm all in favor of the philosophic approach. I think it's a very good thing to have a highly systematic and organized body of opinion and fact that tends to make for policy. I think it makes the things you do mutually consistent and I think it gives you a feeling of certainty in case heroic measures are needed that might otherwise be approached with timidity.

On the other hand, it seems to me equally true that it is awfully important that the national income in '40 should be higher than it is in '39, if it's going to be. It seems to me that at our meeting in December Mr. Currie educed some rather interesting evidence to lead us to believe that there was a possibility that it would not be as high as '39. It seems to me the situation today is less good than it was in December. It seems to me that if we take thirty days to get a conspectus and fifteen days to decide what we're going to do with it and sixty days to study the textual matters with respect to the proposals for action, that it will then be the first of June, it will be time for summer vacations, and your 1940 situation will be on your hands, because there is nothing you can do after the first of October that's going to affect 1940 very much, except panic moves.

H.M.Jr: Panic what?

Ruml: Panic moves. I mean everything will have been done by the first of October that can be done in an orderly manner.

It seems to me, therefore, that it might be advisable concurrently with this investigation, which I heartily approve, to see that someone else is charged with organizing the study of various action measures which might mature simultaneously with the report that comes here, so that we will not have to wait for this report of somebody working on measures for action. It seems to me that has to be done through a process of delegation and organization. And commenting on Harry White's statement about the need for accurate diagnoses, I'd say that post mortems are more accurate than diagnoses.

H.M.Jr: Well ....

Eccles: It seems to me this report, and even the one we had the other day - they cover nearly everything to be considered in the whole field of economics, and you can get into endless controversy about the relationship of such action to such other action, and so forth. I agree with John that we've got to be perfectly practical about this thing, that time is of the essence; that we know the politician and the American public and, after all, anything that we're able to do - if it's going to be successful, it's going to have to be something that is sold to the public, and only in that way do you get it sold on the Hill and only in that way do you get action. So it seems to me we've got to think about this whole thing as primarily somewhat of a selling job we've got to do. If we want to get action, we've got to dress this thing up so we can sell it, so that it makes a practical business appeal.

And we're not going to find any disagreement as to objectives, that's one thing. Everybody always agrees as to objectives, but it's a question of method. They'll all agree that this 80 billion dollars is a perfectly proper objective. That's fine. But how do you get it, see? And right there is where you begin to divide, and we know what certain people say and we know what other people say.

H.M.Jr: But wishful thinking isn't going to do it.

Eccles: No, that isn't going to do it. So we can agree on the objective. What we've got to do, it seems to me, is to pick out some of the more obvious things, because you can't cover them all, and you only confuse the public in trying to cover the whole field. But there are certain very definite and obvious things.

We know this railroad thing is a perfectly obvious thing; they're not spending anywhere near the money they need to spend, and you're going to get a bottleneck in equipment, and it's as important in preparation for war as battleships or anything else. That's an obvious thing.

You have this Social Security thing, which may also be, I think, obvious, obvious in that if we tax more next year and we don't put out what we tax, why, you've taken more in from consumption than you put out to consumption.

You've got housing; that's mentioned here. We certainly haven't any - we've got a tremendous field in this country, a need for housing. We haven't scratched the surface when it comes to what can be done. There may be a limitation due to labor bottlenecks or due to some other factors; but at least there is a big field that is an obvious one.

There are certain aspects of the labor problem that, if we want business support - there's some very serious questions that have been raised with reference to the modification of the Labor Relations Act, and also some questions with reference to hours. I mean there are certain factors; maybe we don't want to touch it, but the point is that there is a field that's pretty obvious on the part of a lot of people.

Now, I merely mentioned a few of those because I think ....

H.M.Jr: Could I add one? I forget what the number was in the original memorandum, but the way it was stated - the one where we attempt to raise the question of what was the Government's position in activity - I mean try to define it.

White: That's in the second one. Do you want me to read it?

H.M.Jr: Read it the way it was originally.

Henderson: Just along that line, Mr. Secretary, Mr. Thorp and I have been talking with a number of people that are well-versed in some of the other economies in connection with our work, and one of the best authorities that I know of stressed that last week. He kept - he had used a phrase that didn't seem clear to me as to what he meant; but exactly what he meant was some indication of the spheres in which the Government would certainly not touch.

H.M.Jr: Well, now, Hanes, do you want to read it the way it was written?

Hanes: "To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our economy in which it proposes to confine our investment program, leaving other areas exclusively for development of private enterprise? Is it possible for the Government to specify exactly by industry or location the field of investment activity to which it proposes to confine itself?"

H.M.Jr: That's the one I mean. And I don't think that that's impossible. I don't think that that's impossible. Well, to bring it right up to date - I mean after the T.V.A. bought this property of Tennessee Power they said, "Well, that's all very well, but we still don't know how far the Government will go."

Now they've got this Swedish economist in town here again. Now, you ask any Swedish economist and they can tell you exactly what the Government's field is. And the business man of Sweden knows that they're interested in this, that and that; the other things they're not interested in.

Eccles: They've got a partnership.

H.M.Jr: I think if we could do that ...

Eccles: That's right. You've got another thing that seems quite obvious.

H.M.Jr: Excuse me, Marriner. I don't think you want to overlook that. You don't have it, either, do you?

White: That's in there.

H.M.Jr: But I like it just the way it was.

Hanes: I should think an economist could understand this.

Haas: That's the trouble with it.

Duffield: You'd be surprised the trouble we had with this thing.

White: An economist wrote it.

Hanes: I bow to him, wherever he is. I don't know who he is.

White: We all accept your bow.

Hanes: Who wrote it?

White: I think I did, from all indications. It's in the next draft, with some modification. That was the Secretary's idea. I was just putting down what the Secretary stated on that thing.

But it's inevitable in going over these things - in so-called experts, with quotes, going over it, that they'll try to remove whatever phrases are susceptible of dual interpretation; and that means making it more academic, more legal, and so forth.

I think, Mr. Secretary, if you gave this committee another few days or a week, we could have this thing rephrased, we could indicate what we think you have in mind as to what the specific approach will be, what are the specific questions that should be tackled first, and we could come back to you within three or four or five days as a consequence of this discussion with something that I think is much closer to your hearts than this appears to be.

H.M.Jr: If you can do that in three or four or five days, I'd like to do it Friday, because Washington's birthday is next Tuesday and I hope to take a long English week-end.

Henderson: Is it Tuesday or Wednesday?

H.M.Jr: Tuesday.

Henderson: Wednesday, I think.

H.M.Jr: Wednesday. I'll have to be back long before that. But would you people be ready Friday morning?

White: I think so.

H.M.Jr: I don't want to crowd you.

Haas: Yes.

White: We think so.

H.M.Jr: What?

Haas: We can be ready. Give you the first one.

H.M.Jr: Would it be convenient for the Committee to meet again at 10 o'clock Friday?

Eccles: I won't be here next week.

H.M.Jr: Will you be here Friday?

Eccles: Yes, I'll be here Friday.

H.M.Jr: Fine. Mr. Delano?

Delano: I have a monthly meeting of the Park and Planning Commission Friday and Saturday. I guess I can be excused from that.

Henderson: I can't be here Friday, but that doesn't ....

H.M.Jr: Well now - Thursday afternoon?

Currie: Thursday afternoon.

White: Thursday afternoon would be all right; then we could have an opportunity a day ahead to circulate some of the men; maybe they'd have a chance to look at it, suggest changes, so that when we come here ....

H.M.Jr: Hanes? Marriner?

Eccles: Any day this week will suit me. I'll be available all week any day and I can arrange to be here.

Delano: About what time?

H.M.Jr: I just see another Aranha luncheon. Gosh, those luncheons - he's giving one Thursday.

Hanes: I don't know about it.

H.M.Jr: I wish when these visitors come once in a while they'd give us some Brazilian food at least; be a little change. I suppose by three o'clock I'll be here all loaded.

Thorp: Now, is this mostly a matter of just phraseology?

H.M.Jr: No, no, much more than that; I mean take the benefit of whatever you got out of this discussion.

Henderson: Seemed to me three things ....

Currie: Mr. Secretary, in connection with Mr. Hanes's remarks, also in reference to what Mr. Ruml and Mr. Eccles said, I think the committee would like to have a definite understanding on this question of publication. It makes an enormous amount of difference in how you write things and how you fuss over words and the possible misinterpretations that may arise from the use of this word and that. If we were to prepare that feeling that the thing would not be published, we could make very much .....

H.M.Jr: You say if you were not ...

Currie: If we were not writing this with the idea that this was going to the public, we could go along much faster.

Hanes: Don't you think you could write the questions in the most direct, simple kind of way, and then before they're published you'd be ....

White: He was thinking of the answers, not the questions.

Currie: It applies to both. When you come to the questions, every word has to be examined carefully.

H.M.Jr: Would this be a compromise? Write them so that, first, I can understand them; second, that they would go to the President, but he would take them, if he wanted to use them, and reword it the way he always does. Does that help you out at all?

Currie: What do you think?

White: Well, if it's good enough for the President, it ought to be good enough for us.

Currie: It's very understandable for people of good will who want to understand; it's very easy, though, for people who want to contort and misinterpret to do so. We've been hedging this, guarding it, with the idea that it might get out.

H.M.Jr: Nothing we've done here yet has gotten out.

Currie: I mean that it might be gotten out officially from the White House.

H.M.Jr: Anything I send over to the White House I write in a way that it can be given out. I always do.

Currie: It's perfectly all right, as long as we know.

H.M.Jr: Personally, anything I send, I go on the assumption that it's either going to be given out or somebody else is going to see it. So I always have that in mind and that's the way. And these other people can do it - but I always do it on that basis. I never know when the President is going to take something and give it out. That's his privilege. That doesn't help you any, but at least that's the way I work with the White House.

Eccles: As I understand it, there isn't anything here that's going to the White House at this time. This is a question of merely getting an outline of what we're going to study. And now, as to what is going to be given out, that would, it seems to me, depend entirely on the final report that we might make - we may agree upon would go to the White House as our report and recommendation.

So that at this stage of the game it seems to me we don't need to think about the question of the thing being released, because we haven't any program yet.

White: Well, that didn't apply to the questions. There was a possibility that the questions might be released if they were regarded as sufficiently provocative in order to indicate to the public that these important studies were going forward; the answers may not be ....

Eccles: If you give to the public the idea that we're studying a field like this, they'd say, "My God, are there all those troubles?" It would only make the public feel that the troubles were just a lot more than they are.

H.M.Jr: Impossible.

Eccles: What?

H.M.Jr: Impossible.

Eccles: Just an impossible situation.

H.M.Jr: I mean it's impossible to give the public that impression.

Henderson: I have an alternative, Marriner, to suggest. The President could take notice of the N.A.M.'s statement in saying, "Within the Government, through the fiscal group, organized attention is being given to every one of these items."

Haas: Then it looks as if that was the stimulus of the study.

White: That would please business that much.

H.M.Jr: Look, not to prolong this thing, because I like to keep them as short as possible - have you people got enough, did you get enough out of this so you can come back with a - make a little progress between now and Thursday at three o'clock?

White' I think so.

H.M.Jr: Is that all right with you, Mr. Delano? Eccles?

Eccles: Yes, that's all right with me. I haven't got an awful lot - I'm still up in the air as to what we're going to do, but I'm willing to wait until Thursday or Friday.

New York Herald Tribune

FEB 12 1939

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U.S. Policies Block Upturn, N. A. M. Finds

11 Specific Points Cited in Report, With Business and Labor Also Blamed

Unsound Control, High Taxes Listed

Management Seen Erring in Judging Effects of Government Programs

Eleven specific points where government policies have prevented a sound and healthy business recovery, including price and wage fixing attempts, unsound business and financing regulation and excessive taxation, are cited by the National Association of Manufacturers in a study of the causes and prolongation of economic depressions, issued yesterday.

The report, however, blames business and labor almost equally with government for such slumps as in 1937-'38, criticizing management in particular for snap judgment of the probable effects of certain government moves, such as heavy spending, devaluation of currency, etc.

Urging that such policies as were found contributory to depressions must be avoided, the association announced that a second section of the report will be issued soon, listing conditions necessary for sustaining prosperity, once regained.

The report was prepared by the association's committee on the study of depressions and represents the findings of an eighteen-month study by a group of fifty-two business leaders and economists. W. T. Holliday, president of Standard Oil Co. of Ohio, is chairman.

Business Policies Cited

In giving out the report, Howard Coonley, president of the N. A. M., explained that the effort is in line with American industry's constant drive "to contribute the maximum amount to national welfare."

Business policies which contribute to depressions are listed in the report as including:

"Mistaken inventory policies on the part of some industries, induced by the labor situation and fear of inflation; also lack of appreciation that while an increasing inventory may be necessary where sales are high, it should be in lower ratio to sales volume.

"Unwise consumer credit policies of many companies, resulting in an increased volume of unsound installment selling.

"Failure of many companies to improve their financial structure by reducing fixed charges; failure in many instances to avoid overcapitalization or financing with borrowed capital beyond ability to pay.

"Too ready acceptance of apparent effects of government spending policies and making business calculations thereon; in many instances, moreover, business deliberately sought such government financial aid.

"Failure in many instances to develop satisfactory labor relationships based on mutual respect and cooperation; failure in many instances where company policies were sound to convince workers that this was the case.

"Failure of business to sell itself to the public, with explanation of its practices, obligations and contributions to national improvement."

Depressive Elements Listed

Turning to government policies and activities, the report listed the following as "specific factors which operated as continuing, cumulative and combined depressive elements":

"Continued reliance upon the theory that purchasing power can be created or maintained by artificially fixing prices or by the artificial support of wage rates, both without reference to the output of goods or services.

"Excessive, unsound and frequently unfair administered taxes.

"Unsound regulation of business, with particular reference to an attitude toward public utilities which has enormously slowed up expansion in a vital part of our national economy; regulation of security financing, which has frequently operated to make financing difficult and expensive, and efforts to regulate agricultural production.

"Uncertainties created by frequent expressions of public officials voicing hostile attitude toward business and investors.

"An unsound relief program which removed administration from those most familiar with the particular problems involved; continued 'made-work' efforts in a way which undermined morale of recipients and destroyed the respect of the taxpayers.

Other Depression Causes

"Although a public works program in time of depression is in theory a sound economic concept, and might be of substantial benefit, the program as carried out has been ineffective and frequently wasteful in practice.

"Labor unrest resulting from the government's labor policy, including the 'false' assumption that employer-employee relations must lead to inevitable conflict, and 'largely one-sided and biased' administration of the national labor relations act.

"The theory that the government should control through taxes and regulation the flow of funds into private industry—both as to amount, purpose and place of investment.

"Government price policies—efforts to intervene in general prices by controlling price levels through use of the Federal monetary, credit and banking systems, and efforts to directly influence commodity prices.

"Continuing and increasing government competition, and threats of competition, with private business.

"Government policies which cause a fear of inflation.

"Inconsistency of many government methods.

"Uncertainty as to the continuance at any time of existing government methods, and what might be proposed next.

The cumulative effect of these gov-

(Continued on page 15, column 4)

11 U. S. Policies Block Upturn, N.A.M. Declares

(Continued from page thirteen)

ernmental policies, the committee observes, "undermined confidence in the American economy and restricted the 1932-'37 recovery, with the result that the 1937-'38 depression started from a much lower level than the nation's past economic history could have led us normally to expect and extended to greater depths than would otherwise have been the case."

Contributing factors to the depression in the field of labor were enumerated as including the increasing number and severity of strikes; insistence on wage rates not related to productivity or selling prices to consumers, and breaking of agreements.

General factors outlined by the committee as retarding the 1932-'37 recovery and contributing to the 1937-'38 depression were outlined as international difficulties, increase of artificial restrictions on foreign trade, effects of foreign demand for war materials on domestic prices, inadequate amount of capital investment in the maintenance and extension of production equipment necessary for increased employment, and price rigidities resulting from such factors as increased taxes, labor restrictions and wage rates not related to productivity.

Concentrating on immediate factors which precipitated the economic collapse of 1937-'38, the report listed the following:

"Government acts, each of which separately might have been desirable if done at the proper time, but which were done at the wrong time and in the wrong way, particularly when their combined effect is considered. Included in this category were: Raising by the Federal Reserve Board of the reserves required of member banks; sterilization of gold; drastic instead of gradual reduction in Federal cash deficit expenditures.

"The sudden withdrawal of these artificial stimulants was too severe a shock to an economic organism that had become so dependent upon them," the report said on this point.

"Development in the labor field, including: "sit-down" strikes with deliberate and illegal seizure of the property of others as a means of enforcing demands; failure of the Federal government and many state governments to protect property. This was accompanied by governmental indication that seizure of property by sit-down strikers might be lawful.

"Expression of belief by government officials that many industrial prices were too high, thus creating confusion and doubt among business men as to economic policies which could be safely pursued.

"Proposals to reorganize the Federal judicial system, including the Supreme Court, thus creating the belief that we might be moving in the United States toward a centralized government with lessened authority in the states, impairment of constitutional rights and removal of adequate constitutional protection to all minorities."

It is proposed that an analysis be made of certain fundamental factors related to the shorter term objective of an $80 billion national income and upon the longer term objective of full employment and a steadily rising national income. Specific recommendations based on the findings of this study will be made. The analysis will be focused on two broad subjects:

I - The ascertainment of existing deterrents to private enterprise and the measures that may be taken to remove them and to stimulate recovery.

II- Anticipatory action that may be taken to prevent the emergence of factors that would endanger an orderly and sustained approach to full recovery.

Basic Questions

In order to determine the necessity and magnitude of additional steps to attain the stated objectives, it is first desirable to answer three basic questions:

1. What levels of production, consumption and capital investment would prevail (a) with an $80 billion national income, (b) with full employment, taking into account probable price changes?

2. What level of employment would prevail with an $80 billion national income, taking into account probable price changes?

3. How far, on the basis of existing programs and expectations, is the national income likely to increase in the next two years?

I

A. Existing Deterrents to Private Enterprise and Their Removal.

1. Lagging Industries.

Which industries and branches of agriculture have lagged in the recovery, and why? What specific things (other than those indicated below) might

be done to increase the anticipated volume of capital expenditures in: (a) the railroads, (b) the utilities, (c) building, (d) other durable goods fields?

2. Excess Capacity.

To what extent is the existence of idle plant acting as a deterrent to new capital expenditures? How much increase in consumer demand would absorb idle capacity in various fields? How far can an increase in consumer demand be brought about by:

a. an excess of government cash expenditures over receipts?
b. changes in the tax structure,
c. changes in the types of government expenditures?

3. Taxes.

What elements of our Federal, state or local tax structures, bearing on property, individual or corporate income, payrolls or sales, have particularly adverse effects on consumption or new investment? What modifications in the type and methods of assessment and collection of various taxes might stimulate capital investment? Would the abolition or restriction of tax exempt securities encourage new private capital expenditures?

4. Excess Saving.

Have our savings been geared to a higher rate of growth in population, technological advance, emergence of new industries, foreign lending, etc., than we now possess? If so, has this acted as a drag on recovery? What measures are appropriate to meet this situation, if it exists?

5. Availability of capital.

Insofar as the difficulty in securing loans and equity money for expansion appears to be a deterrent, to what extent could this be remedied through:

a. provision of better underwriting facilities,
b. changes in the Securities Exchange Act or regulations of the S.E.C.,
c. the establishment of a new type of government capital supplying agency,
d. the R.F.C.,

e. changes in state laws governing investment of insurance and trustee funds,

f. further reductions in mortgage and other interest rates on loans to ultimate borrowers,

g. further modification of laws and regulations relating to bank loans and investments?

6. Monopolistic Practices.

Is the existence of monopolistic elements, such as price, production and patent controls, retarding investment or consumption? If so, how might such controls be removed, modified or offset?

7. Prices.

Are present price relationships and trends acting as deterrents? What action might be taken with reference to prices in certain fields that would stimulate recovery?

8. Profit Margins.

In which industries, if any, are inadequate or excessive profit margins acting as deterrents?

9. Labor.

Are particular wage rates acting as deterrents? Are certain labor practices, such as trade union apprenticeship and membership requirements, and output controls, acting as deterrents? Is labor legislation, such as the Wages and Hours Act and the National Labor Relations Act, acting as a deterrent? What action in respect to these factors might be taken that would be in the interests of both labor and of recovery?

10. Agriculture.

Insofar as present agricultural price and production policies and the carryover of agricultural commodities are acting as deterrents, what changes or additional measures appear appropriate?

11. Marketing Legislation.

Insofar as existing legislation in the marketing fields with reference to retail price maintenance, fair trade laws, etc., acts as a deterrent, what changes appear appropriate?

12. Private debt Burden.

Are excessive debt structures as in the railroads and utilities, or defaulted debt as in the mortgage field, retarding new investment? How might the deterrent effects, if any, arising from these sources be moderated?

13. Social Insurance.

To what extent, if at all, does the present social insurance program constitute a drag on recovery? What changes might be made in the program which, while retaining the contributory principle, would aid in the attainment of a higher national income?

14. Government Competition.

To what extent, if any, are private capital expenditures being deterred by uncertainty over the future role which is to be played by Government activities of a nature competitive with private enterprise? To what extent could this deterrent, if it exists, be lessened or removed by a further clarification of the Government's policy on these matters?

15. Foreign Developments.

What are the existing deterrents to recovery arising from conditions abroad? How might these deterrents be alleviated or removed? How can our foreign trade be increased?

16. Budget.

How far, if at all, is the existence of an unbalanced budget a psychological deterrent? If the deterrent exists, is it sufficiently serious to warrant an increase in taxes or a decrease in expenditures, or both, in order to balance the budget? To what extent could this deterrent, if it exists, be modified by the introduction of private business concepts into Government accounting?

17. Other Governmental policies.

To what extent, if at all, have other governmental policies in the fiscal, monetary, railroad, utility and other fields not mentioned above, acted to deter long term investment?

B. Other Measures to Stimulate Recovery

1. Fiscal Policy.

(a) What measures could the government take, either independently, or in cooperation with state and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?

(b) How might the maximum volume of desirable investment by local bodies be secured with the minimum charge on the Federal budget?

2. Monetary Policy.

Can any further steps be taken in the field of monetary policy to stimulate recovery?

II

THREATS TO ORDERLY AND SUSTAINED RECOVERY

1. Monopolistic Practices.

In which industries and at what level of production will monopolistic practices and controls result in excessive price advances? How may this be prevented or relieved?

2. Bottlenecks in Productive Capacity.

In which industries and at what level of production will the lack of adequate plant capacities retard expansion? How may this be prevented or relieved?

3. Labor Shortages and Disputes.

At what points and at what level of increased production will the lack of adequate skilled labor retard expansion? How may this be prevented or relieved? What devices promise more amicable relations between employers and labor?

4. Over-Production of Inventories.

How far might the collection and publication of current information on inventories, new and unfilled orders, etc., lessen the danger of over-accumulation of inventories?

5. Speculation.

Are present controls sufficient to prevent disastrous stock and commodity speculation?

6. Adverse Developments Abroad.

What steps can be taken to protect our economy from possible adverse developments associated with:
  a. foreign exchange developments,
  b. foreign trade and exchange policies of foreign governments,
  c. war,
  d. international capital movements,
  e. business recession abroad?

7. Deficiency of Consumer Buying Power.

Is there a danger that recovery will be checked by a deficiency of consumer buying power (i.e., by the tendency of savings to increase faster than the demand for new capital)? If so, what action can be taken to forestall this danger?

8. Excessive Swings in Consumer Credit.

Is there a danger that the orderly character of the recovery will be threatened by excessive changes in the outstanding volume of consumer credit?

9. Faulty Timing of Monetary and Fiscal Operations.

(a) Is there a danger that recovery may be checked through higher interest rates? What bearing does this have on Treasury and Federal Reserve monetary policies and Treasury financing policies?
(b) How rapid a reduction in net government expenditures would be consistent with a continuation of private recovery?

III

SUPPLEMENTARY QUESTIONS

1. Danger of Inflation or Deflation.

Is there any foreseeable danger of (a) inflation, (b) deflation arising from the fiscal and monetary policies currently being followed? What changes in our monetary, banking and fiscal mechanisms and

controls can be made to improve the adequacy and effectiveness of monetary policy and the timing of fiscal operations to avoid inflation and deflation?

2. Public Credit.

Would a substantial increase in the public debt have any important effect on the public credit?

3. Public Debt Burden.

What is the burden and incidence of the public debt?

4. Trend of Interest Rates.

What are the more important considerations bearing on the future course of long term interest rates?

5. Trend of Price Level.

What would be the most desirable trend in the general price level in the next few years?

6. Changes in Basic Underlying Conditions.

To what extent have the outlets for private capital expenditures and the possibilities for sustained full employment been affected by the slackening in the growth of population and by other modifications in basic underlying factors conditioning our economic growth?

February 15, 1939

FOR THE SECRETARY:

If you are interested, this is the current revision of the recovery questions. The memorandum probably will be submitted to the full Committee in about this form tomorrow.

ESD

February 15, 1939

It is proposed that an investigation be made of certain fundamental factors which may have been significant in the continuation of unemployment and which may stand in the way of increasing the national income in the future. Specific recommendations based on the findings of these investigations should be made in order that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed.

*** 1. What are the prospects for continued recovery in 1939 and 1940?

*** 2. Which important industries have made less than a proportionate contribution to the increase in the national income during 1933-38? Which have made more than a proportionate contribution? What can be done to convert specific industries which have retarded recovery into stimulators of recovery?

* 3. How far is the claim that new investment is being seriously blocked by specific Government measures justified, or are there other reasons why investments in the industries shown in #2 above is lagging?

* 4. To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets, (b) borrowing, (c) sale of equity securities? Is this capital raised through (a) organized security exchanges, (b) individuals, (c) banks, (d) other institutional investors? How do these figures compare with the 1923-29 period and what is their significance?

* 5. To what extent are depreciation reserves not being reinvested?

* 6. Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital in satisfactory form? If so, what can be done about it?

** 7. To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our national economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location or function -- the field of investment activity to which it proposes to confine itself?

*** 8. What elements of our tax structure -- Federal, State, or local -- serve substantially to retard the growth of the national income through their effect on consumption or new investment? What modifications which would stimulate the growth of the national income could be made in (a) upper bracket personal surtaxes, (b) loss carryovers, (c) averaging of income, (d) capital gains taxation, (e) consolidated corporation returns, (f) taxation of dividends, (g) corporation undistributed profits, capital stock or excess profits taxation, (h) depreciation allowances, (i) payroll taxes, (j) sales and other excise taxes?

* 9. Would the attainment and maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?

* 10. To what extent would a redistribution of our national income contribute to the attainment and maintenance of a higher national income?

** 11. The claim is made that private industry by itself can not profitably absorb current savings. Were this true, a continued high national income would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?

* 12. Is there justification for the claim that Government spending on public works or WPA projects results in a decrease in spending in behalf of private enterprise?

*** 13. What measures could the Government take, either directly or in cooperation with State and local governments to increase government investments in self-liquidating enterprises without adding to the budgetary deficit?

* 14. Which types of Federal Government expenditures operate to increase the national income most and which least? To what extent is it possible to shift from those that increase income least to those that increase income most?

*** 15. How large a volume of unemployment must we expect to make provision for during the next five years, and what means should be used?

* 16. Is there a foreseeable danger of inflation or deflation arising from current fiscal or monetary policies? What changes in our monetary, banking, and fiscal mechanisms and controls can be made to improve the adequacy and effectiveness of monetary policy and the timing of fiscal operations to avoid inflation or deflation?

** 17. Are monopolistic practices such as price, production, and patent controls retarding investment or consumption? If so, how might such controls be removed, modified, or offset?

** 18. Would the collection and publication of current information on inventories, new and unfilled orders, etc., lessen the danger of over-production which results only in excessive inventory accumulation?

** 19. To what extent, in what fields and with what effects on our national income has the Government contributed to an uneconomic price structure, and, if there are harmful effects, how can they be eliminated?

* 20. Is expansion being retarded by lack of skilled labor? If so, how can we correct the situation?

* 21. Are particular wage rates or labor practices -- such as union apprenticeship, membership requirements or output controls -- acting as deterrents on recovery?

*** 22. For what specific products can we expect a substantial increase or decrease in exports during the next two years? What, if any, removable obstacles lie in the path of important increases in our total exports?

** 23. What steps can be taken to protect our economy from possible adverse developments abroad such as (a) foreign exchange developments, (b) trade and exchange policies of other Governments, (c) war, (d) international capital movements, (e) business recession abroad?

SUPPLEMENTARY QUESTIONS

(To be included or excluded at the direction of the full Committee.)

*** 1. To what extent, if at all, does the present social insurance program constitute a drag on recovery? What changes could be made that would aid in the attainment of a higher national income?

* 2. How far, if at all, is the existence of an unbalanced budget a psychological deterrent to recovery? If the deterrent exists, is it sufficiently serious to warrant an increase in taxes, a decrease in expenditures, or both in order to balance the budget? To what extent could this deterrent, if it exists, be modified by the introduction of private business concepts into Government accounting?

* 3. How rapid a reduction in net Government expenditures would be consistent with a continuation of private recovery?

* 4. Would a substantial increase in the public debt have any important effect on the public credit?

* 5. What is the burden and incidence of the public debt?

* 6. Is there a danger that recovery may be checked by higher interest rates? What bearing does this possibility have on Treasury and Federal Reserve monetary policies and on Treasury financing policies?

* 7. Is labor legislation such as the Wages and Hours Act and the National Labor Relations Act acting as a deterrent to recovery?

*** Urgent, immediate study
** Less urgent
* Not pressing

DRAFT

My dear Mr. President:

I am sending you herewith a list of twenty-nine questions that your Fiscal and Monetary Committee have under consideration.

I sincerely hope that on your return to Washington you will set aside Tuesday afternoon to discuss ways and means to bring about recovery. As I said at the last Cabinet Meeting, I am not very cheerful about the outlook for the next two years but I think there is still time to really get business going on the upgrade, provided that you call on people, not only in Washington but wherever they may be in the United States, to assist you in this most important objective. As I said at Cabinet, if 1940 is a bad business year it seems to me it will be just a tragedy for Democracy and I do hope that you will give all of us an opportunity to assist you in solving some of the fundamental economic problems which are facing this country at this time.

February 17, 1939

It is proposed that an investigation be made of fundamental factors which may stand in the way of attaining full employment and a steadily increasing national income. Specific recommendations based on the findings of these investigations should be made so that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed. (Questions marked *** are urgent, requiring immediate study, those marked ** are less urgent, and those marked * are least urgent.)

*** 1. What are the prospects for continued recovery in 1939 and 1940? How soon may we expect the national income to reach a level of $80 billion a year? What are the threats to continued recovery?

*** 2. Which important industries lagged in the 1933-38 period, making less than a reasonable contribution to the increase in the national income during that period? Which industries were foremost in the recovery? What can be done to stimulate lagging industries, increasing their contribution to the national income?

* 3. How far is the claim that new investment is being seriously blocked by specific Government measures justified?

* 4. To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets, (b) borrowing, (c) sale of equity securities? Is this capital raised through (a) organized security exchanges, (b) individuals, (c) banks, (d) other institutional investors? How do these figures compare with the 1923-29 period and what is their significance?

* 5. To what extent are depreciation reserves not being reinvested?

** 6. Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital in satisfactory form? If so, what can be done about it?

** 7. To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our national economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location or function -- the field of investment activity to which it proposes to confine itself?

*** 8. What elements of our tax structure -- Federal, State, or local -- serve substantially to retard the growth of the national income through their effect on consumption or new investment? What modifications which would stimulate the growth of the national income could be made in (a) upper bracket personal surtaxes, (b) loss carryovers, (c) averaging of income, (d) capital gains taxation, (e) consolidated corporation returns, (f) taxation of dividends, (g) corporation undistributed profits, capital stock or excess profits taxation, (h) depreciation allowances, (i) payroll taxes, (j) sales and other excise taxes?

* 9. Would the attainment and maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?

* 10. To what extent would a redistribution of our national income contribute to the attainment and maintenance of a higher national income?

** 11. The claim is made that private industry by itself can not profitably absorb current savings. Were this true, a continued high national income would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?

* 12. Is there justification for the claim that Government spending on public works or WPA projects results in a decrease in spending in behalf of private enterprise?

*** 13. What measures could the Government take, either directly or in cooperation with State and local governments to increase government investments in self-liquidating enterprises without adding to the budgetary deficit?

* 14. Which types of Federal Government expenditures operate to increase the national income most and which least? To what extent is it possible to shift from those that increase income least to those that increase income most?

*** 15. How large a volume of unemployment must we expect to make provision for during the next five years, and what means should be used?

*** 16. To what extent, if at all, does the present social insurance program constitute a drag on recovery? What changes could be made that would aid in the attainment of a higher national income?

* 17. Is there a foreseeable danger of inflation or deflation arising from current fiscal or monetary policies? What changes in our monetary, banking, and fiscal mechanisms and controls can be made to improve the adequacy and effectiveness of monetary and fiscal policy and the timing of operations to avoid inflation or deflation?

* 18. Is there a danger that recovery may be checked by higher interest rates? What bearing does this possibility have on Treasury and Federal Reserve monetary policies and on Treasury financing policies?

* 19. How far, if at all, is the existence of an unbalanced budget a psychological deterrent to recovery? If the deterrent exists, is it sufficiently serious to warrant an increase in taxes, a decrease in expenditures, or both in order to balance the budget? To what extent could this deterrent, if it exists, be modified by the introduction of private business concepts into Government accounting?

* 20. How rapid a reduction in net Government expenditures would be consistent with a continuation of private recovery?

* 21. Would a substantial increase in the public debt have any important effect on the public credit?

* 22. What is the burden and incidence of the public debt?

** 23. Are monopolistic practices such as price, production, and patent controls retarding investment or consumption? If so, how might such controls be removed, modified, or offset?

** 24. Would the collection and publication of current information on inventories, new and unfilled orders, etc., lessen the danger of over-production which results only in excessive inventory accumulation?

** 25. To what extent, in what fields and with what effects on our national income has the Government contributed to an uneconomic price structure, and, if there are harmful effects, how can they be eliminated?

* 26. Is expansion being retarded by lack of skilled labor? If so, how can we correct the situation?

* 27. Are particular wage rates, labor laws, or labor practices -- such as union apprenticeship, membership requirements, or output controls -- acting as deterrents on recovery?

*** 28. For what specific products can we expect a substantial increase or decrease in exports during the next two years? What, if any, removable obstacles lie in the path of important increases in our total exports?

** 29. What steps can be taken to protect our economy from possible adverse developments abroad arising from (a) foreign exchange developments, (b) trade and exchange policies of other Governments, (c) war, (d) international capital movements, (e) business recession abroad?

February 23, 1939

<u>FOR THE SECRETARY</u>:

In reply to your letter asking the Federal Reserve Board to designate which of the recovery questions it would answer, Mr. Currie called today and said that the Board will work on all of the "urgent" questions except the one dealing with the outlook for exports.

ESD

C
O
P
Y

February 17, 1939

My dear Governor Eccles:

The enclosed memorandum has been submitted to the Fiscal and Monetary Advisory Committee by its technical committee as an outline for the study of the recovery problem.

Our plan of procedure is to allow each of the agencies associated in this work to investigate and to report on any of the questions contained in this memorandum. Therefore, I would appreciate receiving from you by February 23 a list of the questions which your staff wishes to study. If these voluntary selections do not provide for at least one report on each question, the remaining questions may have to be assigned. Your staff, however, is free to start work on any of these questions at once without waiting for submission of the voluntary list or for assignment of other questions.

Reports on those questions marked "urgent" should be submitted to the Committee as soon as possible, but not later than March 20, because the questions so marked are either of basic importance or require legislative action.

Sincerely yours,

Secretary of the Treasury

The Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

Enclosure