

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

June 16, 1939.

Honorable Marriner S. Eccles,  
Chairman, Board of Governors,  
Federal Reserve System,  
Washington, D.C.

My dear Mr. Eccles:

I handed you the draft of a statement I prepared in re  
an effort to encourage the financing of the construction industry  
by private capital. For the reasons explained in my statement  
I think this is very important, and even if my suggested method  
is not accepted, the problem is worth tackling.

Curiously enough, my attention has just been called to  
an article in the NEW YORK SUN of June 14, which I am sending you  
herewith, as illustrative of the need.

Very sincerely yours,

Enclosure

  
Fredric A. Delano  
Chairman, Advisory Committee

*acknowledged by letter  
of July 5, 1939. See  
file on Glorvord address.  
net.*

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A PLAN FOR REVIVING THE CONSTRUCTION INDUSTRY  
WITHOUT DIRECT GOVERNMENT SUBSIDY

Prior to 1930 the construction industry had for a period of three years reached a maximum of something like 14 billion dollars annually,-- probably the most important single group of industries in the country. This was divided approximately half a billion in Federal Government expenditures, some 2 billions in State and municipal expenditures, and the rest divided approximately equally between expenditures by large public utilities and private and corporate expenditures. The Federal Government has in the last six years tried to revitalize this industry through the WPA and the PWA, but even at the peak its largest aggregate expenditures has at no time reached one-half of the total annual expenditures prior to 1930. It is with this factual background that we are attempting to forecast a plan of procedure which will revitalize spending by private groups, by corporations, by cities and States, all without direct Federal subvention.

In reviewing the past there is a point important to remember that there were in the construction industry many very competent groups, usually incorporated under State laws, which were able to finance and build great undertakings; for example, great railroad projects involving many millions, such as union stations, terminal yards, grade-reduction projects, bridges and tunnels. Many of the

great hotels, apartment houses, bank buildings, etc., were similarly planned, financed and constructed through the agency of these private corporations. Furthermore, even when the Federal Government, or State and municipal governments had to undertake large public works, it was usual to let the contract to these large firms and corporations, although in those cases the financing was not directly undertaken by the construction corporation. To illustrate, many notable public works have been constructed by these large construction industries; for example, Boulder Dam, which was constructed by a combination of six great corporations, each of which bid on a part or whole of the project and finally undertook the work as a joint affair. Many bridges, tunnel and highway projects have been similarly built; and even in the field of public buildings, it is to be noted that all the great government buildings in the "Triangle" in Washington were built during the Hoover and Coolidge Administrations by corporations dealing directly with the Federal Treasury.

Since 1930 private industry and the fiscal difficulties of many of the States and cities has resulted, as we have already said, in throwing the financing of all great pieces of construction, including large items of highway building, into the lap of the Federal Government. The problem now is how to work out a plan by which the construction industry will again plan and finance such work through Government assistance but without direct Government subvention. It is believed this suggestion is not only desirable from a fiscal standpoint but

will effect actual economies in construction; for it is no reflection on construction by the Government, whether Federal, State or municipal, that there are certain duplications of cost and additions to cost which are practically inevitable. When a government issues specifications for a contract or asks for a bid upon a project, it finds it necessary to surround projects with many safeguards which no private group would even consider. Thus, even though plans may already have been made in considerable detail, the contractor, because he is liable for all errors of omission or commission by whomsoever made, must carefully check every detail of the plans or specifications, and not infrequently make his own detailed drawings. On top of this the contractor must put up a huge bond for which he has to pay a very high fee; and the result is that the Government pays in the end more for the job than a private group of individuals or corporation would pay. And this is not wholly due to the higher standards of excellence but to conditions of the contract referred to.

When it comes, however, to obtaining money for construction, the Government's credit is so far better than any financial group, that it seems as though a way of aiding the construction industry might be found which would combine the advantages of private initiative and well organized construction experience on the one hand, with the Government's superior ability to finance the work. In a nut shell, the plan we propose is to invite corporations to undertake large construction projects with the understanding that the Government will guarantee the



fixed charges for a term of years and at the same time provide for an amortization of at least one-half of the first cost; for example, it seems reasonable to assume that a quasi-public undertaking like a municipal bridge or tunnel, a great housing project, some important buildings, public or private such as hospitals, concert halls, art galleries, etc., might be so undertaken on a basis of perhaps 2 or 2½% interest Federally guaranteed, with a further allowance of, say, one-half of one percent for amortization. This would work out in practice that the corporations would be set up on the basis which was self-liquidating but with a Government guarantee and partial liquidation. When the bonds thus issued fell due, say one-half of the issue will have been amortized and the undertaking turned back to the stockholders or the group which had undertaken the work with Government aid. It is conceivable that these corporations should be corporations not for profit, or that beneficial interest or stock representing the ownership should be no par value, stock whose ultimate value would depend entirely on the ability and efficiency of its management. It is also conceivable that the Federal Government, or the cities and States in which the work was done should retain an interest in stock, though not control in the corporations.

The above plan is not intended as a suggestion to abandon either the PWA or WPA, RFC or any other plan of procedure which appears to have merit. In other words, it is an additional or supplementary method of approach which should be adopted under suitable enabling legislation.

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*New York Sun*, "Finds Main Recovery Problem Is Dependent on Construction," June 14, 1939.