

THE NEED FOR ACTION

It is the concensus of those who have been looking into current industrial conditions that the time has arrived for special action. It is generally agreed by representatives of the various Federal agencies concerned with industrial activity that in the absence of such action, the unemployment situation will in all probability be substantially the same in 1940 as it is now.

1. The present business situation and prospects for the next 12 months point at best to only a small increase in employment in 1940 over the present number. Therefore, the unemployment problem is not likely to be substantially different from what it is now and not much better than it was in the summer of 1938.
2. Nearly half of the increase in industrial employment during the last half of 1938 has been lost during the first part of 1939 as a result of such factors as the uncertainties growing out of the European situation and the failure of business to engage in substantial capital expenditures.
3. There may be a moderate pick-up in industrial production during the last half of 1939, but the course of activity during 1940 is quite uncertain, in view of a possible tapering off of the net contribution to purchasing power by the Federal Government, the failure of private investment to show real vigor, and the postponement of investment until after election. The amount of employment at best in 1940 is not likely to be as good as it was in the first half of 1937.
4. During the first part of 1937, 35 million persons were employed in non-agricultural occupations. Today less than 35 million are employed. During 1940 we shall be doing well if, given no additional recovery programs, we again have 35 million persons employed in all non-agricultural pursuits.

The non-agricultural working population in 1940 will be about 2 millions greater than in 1937, totaling

somewhere between 43 and 45 million persons. We shall have fully 8 or more millions unemployed persons during 1940 (compared with less than 2 millions in 1929).

5. In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.
6. For full employment we need a 50 percent increase in industrial production and a national income of about 90 billion dollars. Even an 80 billion dollar national income, estimated to be necessary to balance the budget, is out of the question this year (with the rate so far this year of only 65 billion dollars). It is also out of the question for 1940.
7. If the Administration's program is to be fortified with real recovery in 1940, the outlook for business recovery during the next 12 months requires the adoption of measures that will increase employment by an amount more than is now in prospect.

A Long-range Program and Immediate Proposals

If there is to be any reasonable expectation of a marked increase in business activity in 1940 a program must be adopted which will assure greatly increased investment and expenditure by private and government agencies. A series of proposals relative to that requirement is appended for consideration.

If, however, it is proposed to secure and maintain reasonably full employment, a more comprehensive program than the one indicated here is essential. The formulation of such a program directed towards correcting basic maladjustments in our economic system should be a primary item on the agenda for study and review by all the agencies concerned. Unless this longer range program is soon formulated, the efficacy of the proposals below will be greatly diminished.

The proposals appended seek to assure a higher level of business activity during the next year by undertaking investments which for the most part will be financed outside the budget and by providing incentives to investment with government participation or sponsorship.

In addition, there are some projects which do call for increased expenditure. In view of the acuteness of the need, the critical character of the year, and of the further fact that time is needed for the more basic reforms, these additional expenditures in the budget appear justified.

PROPOSALS FOR IMMEDIATE CONSIDERATION

Each of the proposals suggested for consideration, though of varying significance, should have definite favorable repercussions on industrial activity.

1. Public Works

A public works program should be continued in the present form of a grant of principal and also by an alternative procedure of making the grant in the form of an interest subsidy with amortization of principal. Although there are some communities that could not avail themselves of interest free loans because they have already attained the statutory limitations on borrowing, there are many where the debt limitations have not been reached. Moreover, the prospect of being able to borrow at no rates of interest would be a strong inducement to alter restrictive state laws. The addition of this method of stimulating local responsibility for public works should not preclude continuation of procedures previously authorized by the Congress.

2. Railroad Equipment Construction Program.

There is urgent need for new railroad equipment. New equipment construction will not be undertaken in volume, however, without positive Government action. This action might take the form of either of (a) setting up a government self-financing corporation to order new equipment and rent and lease it to the roads; or, (b) having the Reconstruction Finance Corporation make loans covering the full cost of equipment for long maturities and at a low rate of interest, the equipment to be ordered before June 30, 1940 and delivered before June 30, 1941.

3. Self-liquidating transportation facilities. The development of self-liquidating projects, such as tunnels, bridges, express highways, etc., along the lines worked out by the Bureau of Public Roads, would afford a means of increasing buying power without increasing budgetary expenditures. While inevitable delays would be encountered in getting a sizeable program under way, nevertheless, if the authority were secured at this time, money would be going out in 1940. There is urgent need of developing avenues for self-liquidating public investment not only for immediate purposes but as part of a long-range program.

4. Government guaranteed loans to promote United States trade with foreign countries. A substantial increase in exports could be secured by making loans on favorable terms to certain foreign countries, a high proportion of the proceeds of such loans to be spent in the United States. Carefully controlled loans used for the purpose of increasing the industrial productivity of the borrowing country made at low interest rates would be far more secure than the private and largely unproductive loans of the 1920's. A program of such loans would further both our economic domestic program and our foreign policy.

5. A power network. The inter-connection of major electric power plants (public and private) with principal markets and industrial centers has been proposed as a defense measure with important peacetime use. A Federally owned and controlled corporation to hold and operate a "power grid" would stimulate large scale operations on a generally self-liquidating basis.

6. Housing Consideration should be given to a reduction in the rate for insured F.H.A. mortgages and in the minimum rate at which the Federal National Mortgage Association will purchase insured mortgages. Interest rates have softened since the reduction secured a year ago, and a further reduction would assist in giving a needed impetus to residential building. The prospects under this program are improved by the announced action of the Department of Justice in the construction industry.

7. Farm investment program Loans to small farmers and poor farmers at no rate of interest for the purchase of equipment and for investment for farm rehabilitation and diversification in accordance with the program of the Farm Security Administration.

8. Other suggestions that merit consideration

a) Extension of the "food-stamp" program for the increased sale of surplus farm produce to low income groups in the United States should be considered if current experiments are successful.

b) The present Youth work program should be expanded. It now employs about 240,000 young people and could be expanded to employ 820,000 people, at a cost of \$331 million, or an average of \$400 a year.

Present "in school" work program could be expanded from 400,000 at present to 680,000, at a total cost of \$68 million. This would make possible employment of 1,500,000 young people at a total cost of \$369,200,000.

c) Old Age Security. The amendments to the Social Security Act now pending, while helpful, still leave much to be desired. On the Old Age Insurance part of the program alone, tax accruals in the next calendar year will exceed benefit

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payments by about 500 million dollars. Ways and means of correcting or removing this deflationary influence should be explored.

9. The Capitalization of Revenue-yielding Assets. Wherever it appears feasible, revenue yielding assets of the Government should be capitalized, and guaranteed debt substituted for direct debt.

Similarly, current expenditures on self-liquidating projects should be financed through the issue of guaranteed obligations.

10. Taxation. No additional taxes on consumption should be imposed. If additional revenues are considered desirable, they should be raised from taxes that bear least on consumption, such as state and gift taxes and personal income taxes on the middle income brackets.

The tax exempt privilege for future issues should be eliminated and a program for the reduction of the volume of outstanding tax-exempts should be inaugurated. Certain revisions in corporate and other taxes that would eliminate what are conceded to be inequities and injustices could be carried through even though there may be slight reductions in revenue. In any corporate tax revision, preferential treatment should be accorded corporations earning less than \$25,000 a year.