

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date May 18, 1945

To Chairman Eccles  
From Walter F. Stettner and  
Ramsay Wood

Subject: Hearings on the Construction  
Industry before the Senate Special Com-  
mittee on Small Business, May 8-10, 1945

The Senate Special Committee on Small Business under the chairmanship of Senator Murray of Montana held hearings on May 8, 9, and 10 on the Construction Industry. Those who testified were:

Henry A. Wallace, Secretary of Commerce  
Robinson Newcomb, Division of Construction Research,  
War Production Board

Beardsley Ruml, Chairman of the Business Committee  
of the National Planning Association,  
accompanied by Miles Colean,  
Architectural Consultant.

J. Frederick Dewhurst, Economist for the 20th Century Fund  
Malcolm Pirnie, Chairman of the Action and Advisory Com-  
mittee on Construction of the Committee  
for Economic Development

Maj. Gen. Phillip B. Fleming, Federal Works Administrator

The main subject of the hearings was the role of the construction industry in the economy and the relation of construction activity to postwar prosperity and full employment. Several witnesses brought out the urgent need for advanced planning of public and private construction if we are to reach high levels of activity immediately after the war, and the absence of such planning on an adequate scale at the present time. Several witnesses dealt with the question of reducing the fluctuations in construction through well-planned and well-timed public works. There was no extensive discussion at any of the sessions.

Mr. Wallace said that our objectives for the construction industry should be: rapid expansion of activity as soon as resources can be released; a sustained construction volume of \$15-\$20 billion per annum; more goods for more people at less cost; the stabilization of the industry. He stressed the importance of working toward a more even flow of private projects. Mr. Wallace also raised the question of establishing a Construction Division in the Bureau of Foreign and Domestic Commerce to assemble, improve and analyze basic data on the industry, and to promote technological improvement.

Mr. Newcomb mentioned the specialization in the construction industry and the small size of firms. He stressed the time element involved in the preparation of plans for construction, and estimated that it will require from three to five years after effective restraints have been dropped before construction activity will be back to needed postwar levels. This estimate seems too long.

Mr. Ruml discussed construction from the point of view of fiscal policy and full employment and emphasized that public works and conservation projects should be used to stabilize only the construction industry itself, not to stabilize the whole economy. He also discussed the wastefulness of the industry, and insisted that the stabilization of construction at the high level is not desirable as long as the industry is not reorganized.

His statement was supplemented by Miles Colean who read a short statement on pricing policy in the construction industry. He made the point that there is a marked difference in construction costs between the troughs and peaks of activity and that the attempts of the industry to protect itself through restraints have not been successful. He mentioned the possibility of achieving limited results in balancing the construction industry and suggested that emphasis should be placed on increasing efficiency in the industry.

Mr. Dewhurst reported on some preliminary data of a 20th Century Fund study which indicate a need for capital outlays of \$28 billion per annum in 1940 prices over the next fifteen years in order to take care of current demands and accumulated deficiencies at a full employment level of production. This estimate of capital outlays covers four fields: urban development, commercial and industrial outlays, transportation, and rural development. However, he considered this figure in the nature of a maximum and doubted that it would actually be reached.

Mr. Pirnie spoke of the absence of adequate plans and preparation for postwar construction and suggested a six-point program to expedite plan preparation. One of these points was the suggestion that the cost of making construction plans be considered as current operating charges and exempted from taxation. Another was that income invested by individuals in new construction should be exempted from surtax. He also suggested an early relaxation of controls on construction and construction materials and an increase in the Federal Loan Fund available to states and localities for the planning of public works.

General Fleming reported on the survey which the Federal Works Agency made recently at the request of the Postwar Economic Committee of the House to determine the present state of plans for public construction. He mentioned some of the specific obstacles to an efficient construction industry such as high building costs due to outdated construction methods, monopolies in the materials field, building codes, etc., and discussed the outlook for three major categories of construction namely, 1) to meet consumer demands (housing), 2) to increase or replace productive plant, and 3) to provide the "social overhead" (highways, schools, hospitals, water systems, etc.). He concluded that the demand for construction in the first category and the third had no foreseeable limits at the present time, while the outlook for construction of productive plant was less promising.

The next hearings of the Committee will be held on the lumber situation but no definite date has been set.

*flw wps.*