

March 6, 1935.



A SUGGESTED WORKS PROGRAM

1. Increased Expenditures on Equipment and Construction Essential for Recovery

The big contraction of expenditures, and hence of incomes, has been in the fields of equipment and construction. Consumer expenditure on perishable goods has declined only moderately while annual expenditures for equipment and construction have declined by almost \$15,000,000,000. The problem of recovery, therefore, is primarily that of bringing about a large expansion of expenditures by corporation men, municipalities, and home builders.

2. Little Likelihood of a "Natural" Expansion of Such Expenditures

(a) Industrial plant and equipment is at present greatly in excess of current needs. It will not appear profitable to business men to add to their productive capacity until much more of the existing capacity is utilized.

(b) The public utility industry, which normally spends more than \$500,000,000 annually in new construction, is undertaking practically no new capital expenditures at present. This appears to be due to uncertainty whether the industry will be permitted to earn enough on new equipment to justify its construction.

(c) Railroads would like to spend more on maintenance and equipment but are unable to do so because of their low revenues. Increases in wages and prospective increases in pensions will, in the absence of an increase in traffic, decrease their earnings still further.

(d) Municipalities have decreased their construction expenditures from over \$2 billions annually to \$600 or \$700 millions. There is little prospect of unaided expansion until tax incomes increase through increased employment.

(e) Expenditures on residential construction have declined from over \$3 billions annually to \$250 millions in 1934. As I pointed out in my report to the National Emergency Council on March 5th, there is no prospect of residential construction increasing until either costs fall or rents rise.

Thus in each of the above cases it is seen that increased private expenditures on equipment and construction wait upon increased demands for the products of industry. But increased demands depend upon increased incomes; and increased incomes wait upon increased expenditures on construction and equipment. The impasse can be broken only by vigorous Government action.

3. The National Income Must be Increased by Government Spending

Federal expenditures, for other than refinancing purposes, of funds which would otherwise not have been spent, or private expenditures of this nature stimulated by Government action, increase the national money income. An increase of incomes, by increasing the demand for goods, absorbs unutilized plant and equipment, means more traffic for railroads, increases property values in cities, and leads to higher rents--factors all of which stimulate private expenditures on equipment and construction. More-

over, increased incomes mean a greater yield from Federal taxes.

4. Inadequacy of Projected Expenditures.

Our studies indicate that those expenditures of the Federal Government in the calendar year 1934 which increased incomes on balance, and hence were inflationary, amounted to approximately \$3.3 billions, or less than 7% of the depressed national income, and less than 4% of a normal income. The moderate degree of business recovery experienced in 1934 can, in my opinion, be attributed directly to this factor. The amount of expenditure, however, was small relative to the amount normally spent by the community on equipment and construction, and its effect was in part offset by continued liquidation and by increased saving, both of which reduce spending. The amount which it is intended to spend in the fiscal year 1935-36, \$4 billion (it is assumed that the \$800 million will be spent in large part before July), is very little in excess of that spent in the calendar year 1934. There is no reason, therefore, to expect any substantial improvement with the expenditure of such a small amount. It may look large absolutely, but in relation to our normal income and the income which we hope to restore, \$85-\$95 billion dollars, it is totally inadequate. Most of our problems have resulted from the shrinkage in incomes; they will not be solved until incomes are restored. In this case the safest policy is the boldest policy.

If we spend some every year, but not sufficient to give the required stimulus to private expenditures, we can build up a large debt and still not be out of the depression. This has been the history of the deficits of 1931-34.

5. How \$4 Billions May be Spent to Have the Maximum Effect on Employment and Incomes.

I have stated my reasons for believing that \$4 billions by itself will not be sufficient to prime the pump. The Administration is, however, committed to this figure. The gist of my proposals, therefore, is to make use of the subsidy principle in order to insure that although the Federal Government spends only \$4 billions, nevertheless by the use of this sum as leverage it is possible to bring about \$9 billions of new expenditures.

A. Subsidy on Residential Construction

1. Importance of revival in residential construction. The revival of residential construction would (a) relieve unemployment in the most depressed field, (b) provide expenditures and hence employment in localities roughly in proportion to population, (c) provide a substantial increase of freight to railroads, (d) be decentralized and thus carried out rapidly, and (e) satisfy urgent needs of our people for better housing accommodations.

2. Need of subsidy. Because of the present relations of costs to rents a revival cannot come about unaided. Efforts of the Federal Government thus far in this field have proceeded on

the assumption that it is the reluctance of lenders that is preventing new construction whereas it is really the unwillingness of people to build that is causing the trouble. Loans insured by the Federal Housing Administration have amounted to only \$40 millions, a negligible figure. If new houses are to be built and alterations and repairs are to be made on existing homes, it is essential that an inducement in the form of a subsidy be offered.

3. Amount of subsidy. It is proposed that the Administration grant a subsidy of not less than 20%, and more if it is thought necessary after further study, of the cost of new housing and alterations and repairs on existing homes. It might be desirable to decrease the amount of the subsidy as rents approach costs.

4. Administration and safeguards against abuses. The subsidy could be administered through the local offices of the Federal Housing Administration, or through the Home Owners Loan state offices. A certification of expenditure could be obtained by requiring the receiver of a subsidy to file an affidavit of performance, with recourse provided under the Criminal Code for attempts to defraud the Government.

5. Expedition. Construction must begin within three months after application is approved, and must be completed not later than December 31, 1936.

6. Low cost housing and slum clearance. In an effort to promote the low cost housing and slum clearance program, the Government might agree to pay the costs of demolition of existing properties and in addition to provide a subsidy to cities or corporations which agree to complete such projects within a stated period of time and according to approved minimum standards. There should be no restrictions as to rentals or financing. The administration shall be carried out by the Housing Division of the P. W. A.

7. Objection to the proposal. The main objection to the proposal is that increasing the amount of housing facilities would tend to lower rents. This objection can be met by pointing out that our whole program is calculated to bring about a substantial rise in incomes and hence in the demand for housing accommodations. The overwhelming importance of the movement of incomes in this connection is shown by the fall in rents during the depression, despite the fact that no new houses were being built and the population was increasing. Building initiated now would lessen the danger of an acute housing shortage with a consequent real estate boom when recovery is achieved.

8. Precedents. Over one-fourth of the houses built in England from 1930 to 1935 were built with State assistance. The German experience with housing subsidies indicates that the public reception to such schemes is extremely favorable and that it is a highly successful method of getting money out rapidly. The German subsidy consisted of two parts, one of 20% of the costs for alterations to homes, and the second of 50% of the costs of sub-dividing large buildings. Successive allotments were taken up with striking rapidity and in the year from March, 1933 to March, 1934, unemployment in the building trades fell from 810,000 to 255,000, while employment in the building material industries increased by 91%.

In this country we have given subsidies to farmers, veterans, ship builders, air and ocean mail carriers, and others. Although our present proposal appears to be a subsidy to home builders, it should more properly be regarded as a subsidy to labor in the building and building material trades. It is designed to bridge the gap between costs and rents which has resulted from the N. R. A. It leaves the home builder in the same position he would have occupied if there had been no N. R. A. or rising costs. It would be desirable to present the subsidy as a subsidy to labor and to attempt to secure assurances that there will be no increase in wage rates as long as the program is in operation. It would also be desirable to remove all price and production

controls from the building codes.

9. Amount allocated for this program. It is suggested that \$1 billion be allocated for subsidies to housing construction and alterations. If taken up this would result in total expenditures of approximately \$5 billions.

B. Subsidies for Municipal Construction

1. Amount of subsidy. It is proposed that the subsidy shall be 50% of the cost of new construction.

2. No loans. The remainder of the required funds shall be obtained from public flotation of municipal securities, the market for which is strong at present.

3. Reliance upon local administration. Wide discretion shall be left to local bodies in choosing projects and they shall have complete freedom in the method of spending money, with the exception that expenditures shall be non-competitive in nature as this would be deflationary.

4. Expedition. The Administration should require that the projects be completed within a reasonably short period after applications are approved.

5. Administration. The administration should be under the P. W. A.

6. Failure of present system of grants and loans. The major reasons for this failure, in my opinion, are (a) the

amount of the Federal subsidy was too small; (b) the use of funds is surrounded by too many legal restrictions; (c) passing upon the credit of municipalities in connection with the loan provision has occasioned great delay; and (d) there is too little leverage. The provisions outlined above are designed to remedy these defects.

7. Amount allocated. It is suggested that \$1 billion be allocated for this program which if fully utilized would result in total expenditures of \$2 billions.

C. Subsidy for Rural Electrification.

It is suggested that \$100 million dollars be set aside to be used as a subsidy and not a loan for the purpose of providing electric facilities in rural areas.

D. \$900 million shall be allocated to Federal projects.

In making allocations for specific projects it is suggested that speed shall be the primary consideration and only those projects which can be completed within a year shall be approved. In this connection, expenditures on highways and grade crossing elimination, and the C.C.C. are particularly worthy of attention. Expenditures on highways should be undertaken through the Bureau of Public Roads. Grade crossing elimination shall be undertaken by the Bureau of Public Roads and the engineering department of railroads. It is urged that Federal aid should be in the form of grants and not loans. It is highly desirable

that the R. F. C. should make loans on a liberal basis to railroads for equipment and maintenance purposes. Liquidation on balance of the outstanding loans of the R. F. C. would be deflationary in effect and would tend to defeat the other parts of our program.

The primary objective of the program should be to increase employment and incomes rather than simply to remove people from relief. Therefore it is a mistake to confine employment to those who are now on relief irrespective of other considerations.

E. Continuance of Relief Payments

The program outlined above is designed to provide the maximum possible amount of employment. It would be unduly optimistic, however, to expect that it will result in a complete cessation of relief expenditures in the fiscal year 1936. It is proposed, therefore, that \$1 billion be kept in reserve for relief or work relief payments.

5. Conclusion

The prosecution of the above program would result in total expenditures of some \$9 billion, with a cost to the Federal Government and a consequent increase in the public debt of only \$4 billion. The initial expenditure of \$9 billion would mean an increase in the national income of some 18%, and with the

subsequent secondary effects chances of stimulating a real business revival are assured. Ours is a profit economy and in order to get recovery we must work through the profit motive. Corporations have plenty of money and borrowing power which they are not using. The important thing is to make it profitable for them to use it by bringing about a large increase for the demands of the products of industry. If a sufficient stimulus is now applied we can rely upon the momentum thus generated to pull us out of the depression and enable us to utilize our enormous physical capacity to produce.

I shall be pleased to prepare a more exhaustive treatment of the whole problem of recovery if you so desire.

ALTERNATE CONCLUSION

5. Conclusion

The prosecution of the above program would result in total expenditures of some \$8-\$9 billion with a cost to the Federal Government and a consequent increase in the public debt of only \$4 billion. The initial expenditure of \$8-\$9 billion would mean an increase in the national income of some 16-18%.

By increasing our national income we will solve (1) our debt problem, (2) the unemployment problem, (3) the railroad problem; (4) the real estate problem, and (5) the international trade problem. A piece-meal program which seeks to remedy the debt problem by forcing prices higher through restriction of output; to remedy the unemployment problem by taking people off straight relief and putting them on work relief; to remedy the railroad problem by economies and reduction of capital structures; to remedy the real estate problem by the Government taking over mortgages; and to remedy the international trade problem by negotiating international treaties, is doomed to failure unless the national income is increased. Most of our problems can be reduced to one problem--that of increasing incomes. A Federal spending program that makes use of the leverage principle will go a long way towards solving this problem.