

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Office Correspondence

Date May 4, 1938.

To Chairman Eccles

Subject: W. P. A. Labor Subsidy

From Lauchlin Currie

Proposal



LAC

Attached is a draft of the W. P. A. labor subsidy proposal.

May 4, 1938.

THE NECESSITY OF STIMULATING PRIVATE HOUSING

1. The Continuance of Deflationary Forces

(a) Even after the liquidation of the final quarter of 1937 we entered the year with \$5 billion more inventories than at the end of 1935. As retail sales fall, the desire to work down inventories increases and the ability diminishes. It will be months before the process of working off inventories ceases. The most potent force here would be the arresting of the decline in retail sales.

(b) Consumer credit was built up by 1937 to levels approaching those of 1929. Liquidation in this field is taking place and will probably continue throughout the year. This means that part of current income is not being spent in current purchases, but in payment for past debts.

Both these factors militate against an upturn in business activity.

(c) The completion of work on projects carried over from last year will bring about further declines in production unless offset by new orders.

(d) On a seasonally adjusted basis, exports, while still high, are declining.

(e) The stickiness of certain prices and wage rates at high levels tends to restrict production.

(f) Profits have declined drastically. In the past this has forecast drastic declines in expenditures for new plant, replacements and maintenance.

(g) The repeal of the undistributed profits tax will result in an even greater decline in dividends than would otherwise have occurred, and in increased hoarding of cash by business.

(h) Nothing is being done to remedy the desperate railroad situation. This means that maintenance is being starved in order to meet fixed charges, a substantial portion of which is probably saved and withdrawn from the income stream.

(i) Lower prices for wheat and other agricultural crops are in prospect.

2. The Recovery Spending Program

The prospects are for little increase in spending in the next six months. W. P. A. is apparently near its peak. P. W. A. and U. S. E. A. will be slow in getting under way. The Federal net monthly contribution to community expenditures this calendar year to date has averaged only \$60 million. In 1934 it averaged \$270 million monthly and yet business did not start a sustained upward movement until nine months after a sizeable spending program was initiated by C. W. A. in the last quarter of 1933.

3. The Necessity of More Spending in the Next Six Months

The combination of (1) and (2) above indicate the need for more spending if the business situation is not to deteriorate further.

4. How This Can Be Secured

(a) Use of R. F. C. to secure new equipment expenditures by railroads and utilities by offering to loan on exceptionally favorable terms for a limited period.

(b) Speeding up of Government expenditures on public buildings, armaments and supplies. Double shifts should be resorted to.

(c) The stimulation of private expenditures on low-cost housing through a subsidy in the form of W. P. A. labor.

5. A Labor Subsidy for Housing

Private housing expenditures won't make a dent in the picture in the next half year. In March, F. W. Dodge figures of residential building contracts awarded were 12 per cent below March 1937. In the first three weeks of April they ran lower than in March and 35 per cent lower than in the corresponding period in 1937. Building permits outside of New York in March ran 28 per cent below March 1937. Rents are falling. Building material prices have not declined since February.

In these circumstances it appears hopeless to expect a substantial volume of expenditures on residential construction unless further inducements are offered to builders. A cash subsidy is out for various reasons. Therefore, the only feasible means of creating this inducement is to offer W. P. A. labor free up to 15 per cent of the appraised cost of new low-cost housing for a limited period.

1. This would be a subsidy but if limited to low-cost housing units it would be defensible on social grounds. The Government is already committed to a subsidy of low-cost housing.

2. The subsidy should be given to the builder as the object is to get more building. In order to sell more houses, builders in general will be compelled to pass along much of the subsidy in lower prices.

3. The labor subsidy should be based on an F. H. A. appraisal, regardless of whether the property is actually insured by the F. H. A.

4. The offer should be limited to construction started, say, in the remainder of the calendar year, in order to drive in business. It would be a bargain year for houses.

5. It would be desirable, to secure labor support, to couple the subsidy with certain administrative changes.

(a) W. P. A. workers now receive prevailing rates of pay, but for a short work week. Permit the workers to be employed by the builder for the remainder of a normal working week. This would promote efficiency, and would enable a W. P. A. worker to secure the same weekly remuneration as though he were employed in private industry.

(b) In places where the demand for W. P. A. workers for this purpose exceeds the supply, certify unemployed who are not destitute.

(c) Supply workers directly, rather than through the U. S. E. S.

6. The subsidy could be made available to public housing projects and thus act as a valuable stimulus in getting the U. S. H. A. program under way.

7. The subsidy would result in much additional spending in the remainder of the year at no additional cost to the Government (with the exception of additional expenditures under 5 (b) above).

8. The sudden and fairly drastic stimulus proposed can be justified on the basis of the April building contracts, which clearly indicate that the recent amendments to the F. H. A. are not creating sufficient inducement to give us the housing we need.