

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 22, 1939.

To Chairman Eccles.

Subject: Recommendations with respect
to W. P. A. and the Byrnes
Bill.

From Lauchlin Currie.

LC

At your request I have had an analysis prepared of the Byrnes Bill. On the basis of this analysis I should like to make the following recommendations:

1. The proposal embodied in the Byrnes bill to establish a unified Public Works Agency has considerable merit from the point of view of administrative reorganization. Work relief and regular public works programs could still be operated separately as two divisions or bureaus of the new Agency. The establishment of the unified authority would eliminate competition for projects which has been the source of some complaint in the past, would promote administrative efficiency, and would facilitate the placing of the entire administrative staff under civil service.
2. The W.P.A. should be retained within the new framework with an appropriation adequate to provide at least as much employment relative to need as will presently be provided. The only practical alternative to the retention of the W.P.A. type of program is a return to direct relief, which would be highly undesirable both from the point of view of the unemployed themselves and from the point of view of maintaining and increasing general economic activity.
3. The requirement of one-third contribution by the States is too high for most work-relief types of projects. The present flexibility with respect to sponsor's contribution, with a national average of twenty percent, is operating satisfactorily.
4. The formula for the apportionment of W.P.A. funds proposed in the Byrnes bill is unsatisfactory. Instead of allocating funds according to population and unemployment, which favors low wage level states, the formula should provide that funds should be allocated in such a way as to provide jobs in proportion to unemployment and population.
5. A considerable measure of flexibility is essential if the W.P.A. is to perform successfully its job of providing work for people who need it. One of the important functions of the W.P.A. is to "warehouse" labor for industry. Fluctuations in activity and employment in the automobile, steel and other basic industries are likely

to be both sudden and severe. The W.P.A. must be in a position to increase and decrease its rolls quickly as private employment declines or rises. To some extent this makes it impossible for the W.P.A. to operate what might be considered an ideal program from the point of view of efficiency and of the value of the projects undertaken. W.P.A. has already been reasonably successful in overcoming the obstacles presented by the necessity for maintaining flexibility. Its efforts in this direction would be considerably aided through

- a. authorization to use a small percentage of its funds for direct relief instead of for work relief; and
- b. the further development of local planning agencies which would make it their business to have a backlog of desirable projects available at all times.

The power to make some direct relief grants would enable the W.P.A. to cope more successfully with sudden increases in unemployment in particular localities and the cooperation of local planning agencies would eliminate the necessity for putting people to work on hastily conceived projects. A large part of the criticism directed against the W.P.A. has been due basically to the failure of the local authorities to plan ahead and to cooperate in providing useful projects.

6. Grants for public works should be in the form of interest subsidies rather than of principal. A subsidy equal to full interest charges is equivalent to a fifty percent capital grant. If applications exceed available appropriations, preference would be given states according to unemployment and population. In general, however, in this part of the program emphasis should be placed on the goodness of local projects, rather than on the degree of local unemployment.

7. The Byrnes recommendations relating to liberalized old age pension and unemployment insurance may be accepted, though it would be desirable to revise the whole old age security program much more drastically.

April 20, 1939
Alan R. Sweezy

THE BYRNES BILL

Provisions of the Bill (as amended)

A. Public Works

1. The bill provides for the establishment of a Public Works Agency and an Administrator of Public Works. The Administrator is charged with the duty of designing, constructing, and maintaining public works which are not incidental to the normal work of other departments and agencies, and with the administration of "Federal grants to States and political subdivisions thereof for the construction of public works and for other projects." The phrase "for other projects" was added in the amended bill as a partial concession to protests against leaving the nonconstruction activities of the WPA out of the new setup.

2. The bill provides for the transfer of the WPA (including the National Youth Administration), the PWA, the CCC, the Public Buildings Branch of the Procurement Division of the Treasury, and the Bureau of Public Roads to the new Agency.

3. In administering Federal grants for "the construction of public works and for other projects, not to exceed two-thirds of the total cost of all projects undertaken within any State . . . shall be

borne by the United States, and not less than one-third of such total cost shall be borne by the State and its political subdivisions." The grants are further to be distributed among the States in the following manner: "One-half in the ratio which the population of each State bears to the total population of all the States . . . and one-half in the ratio which the number of unemployed individuals in each State bears to the total number of unemployed individuals in all the States."

4. The bill contains a specification that prevailing wages shall be paid on all contract work undertaken with funds administered by the Public Works Agency. For work undertaken on force account, a novel provision is introduced, the practical workings of which are very difficult to forecast. "Rates of pay for persons employed . . . on force account and not under contract shall be based upon annual earnings for work of a similar character in the same locality as determined by the Administrator of Public Works." There follows the further provision that the minimum work week shall be thirty hours.

B. Social Security

This section has now been detached and is being introduced as a separate bill.

1. Old-age assistance. The requirement is laid down that the minimum pension a State must pay in order to qualify for a Federal grant is to be \$15. The Federal Government will pay one-half the amount the State pays, except in States where the per capita income is below

the average per capita income for the United States as a whole. In such States the Federal grant will be graded up from one-half to a maximum of two-thirds of the total payment.

2. Aid to dependent children. Grants are liberalized along the same lines as the old-age assistance payments.

3. Unemployment insurance. The bill shortens the waiting period to one week, reduces the prior employment requirement, and increases benefits somewhat, bringing the minimum up to \$5 a week (\$15 is still the maximum).

4. Aid to "handicapped" individuals. This is a new type of social security payment. The Federal Government is to make grants to States similar to the old-age assistance grants. A total of \$125 million is provided for the Federal grants under this heading for the first year.

Analysis of the Bill

The real purpose of the bill is highly ambiguous. Its sponsorship and the character of its support in Congress strongly suggest that it is designed as an economy measure. Senator Byrnes himself has been one of the leading advocates of reduced Government expenditures in this session of Congress and the economy bloc as a whole is giving the bill enthusiastic support. On the other hand, sponsors of the bill talk about abolishing the present work relief program and substituting for it regular

public works, which are a decidedly more expensive method of providing employment. This basic contradiction suggests that the real purpose of the bill may be quite different from what would appear on the surface.

1. Nothing is said in the bill about the size of appropriation the new Agency would receive. In view of the fact that the bill is sponsored and supported by economy members of Congress, it is safe to assume that there is no thought of increasing the amount asked by the Administration for WPA for the coming fiscal year. In fact, if the objective of the economy bloc is to be realized, the figure will have to be considerably below this amount. Whether any additional sum might be provided to continue a part of present PWA activities is entirely a matter of conjecture: Half a billion dollars is probably an outside figure.

2. The Administration has announced its intention of asking for \$1,500 million for WPA for the coming fiscal year. This amount would provide direct employment for slightly over two million persons. If the program conducted by the new Agency were entirely of the PWA type, direct employment with \$1,500 million appropriation would amount to something less than 400,000. Off-site employment is, of course, much greater on the heavy PWA type of program than on the WPA type. Some 700,000 persons might be expected to be employed in providing the materials for the public works program as compared with upwards of 150,000 in supplying materials for the WPA. In short, employment, both direct and indirect,

on a PWA type of program would be roughly half that provided by the WPA. The provision in the Byrnes bill allowing force account work at wages based on annual earnings prevailing in occupations of a similar type would somewhat reduce the direct labor cost as compared with the contract work used by the PWA. Likewise, some of the work undertaken by the new Agency might be of a lighter sort than that of the PWA and thus the average material costs of the entire new program would probably be a somewhat smaller percentage of the total than is the case with PWA.

The requirement of a one-third contribution from the local bodies, however, would tend to make them favor heavy construction projects. It would undoubtedly mean that the program in general would be much nearer the PWA than the WPA sort of thing. Whatever the exact proportions might turn out to be, it is certain that the cost per person would be considerably higher on the new setup than it is on the WPA. Since the general purpose of the bill is to reduce Government expenditures the conclusion is inescapable that a much smaller number of people would be employed than if the WPA were retained in its present form.

3. Work relief v. public works. The idea of the WPA is to suit the job to the man who needs it. WPA projects are designed to employ a maximum amount of direct labor and also to absorb the various degrees and kinds of skills in the proportions actually found among the unemployed. A high percentage of WPA workers are unskilled. The percent-

age of unskilled required by a regular public works program, both directly and indirectly, would be much smaller. Thus, even if the total appropriation for the public works program were considerably increased over the present WPA and PWA amounts, many people would still be left stranded because of their lack of occupational and geographical adaptability to the requirements of the program. The other side of the picture is, of course, the relatively greater demand that would be created for skilled workers. With any considerable measure of general economic improvement, this would intensify the shortages which are likely to appear. The substitution of regular public works for work relief would consequently intensify the danger of a situation where shortages of certain types of labor would exist side by side with heavy unemployment of other types.

4. The amended bill makes it, at least theoretically, possible that the white collar and sewing projects might be continued. The requirement of a one-third contribution from the States or localities raises serious doubts, however, that much of the white collar and allied projects would actually survive. These projects employ some twenty percent of the total number on WPA, and their crippling would have a very serious effect on the various types of professional clerical people who are unemployed in the large cities.

5. The enlarged social security benefits provided for in the Byrnes bill are a step in the right direction. Their effect in relieving the present unemployment problem would, however, be very small. Only two or

three percent of people employed by WPA are over sixty-five. Liberalization of old-age assistance payments would at best take relatively few people from the WPA rolls. In the case of unemployment insurance, a large percentage of those who seek WPA employment have not had sufficiently regular employment in private industry to qualify for unemployment benefits even under the liberalized provisions contained in this bill. The small role played by unemployment compensation in lightening the general relief and work relief burden is indicated by estimates for the year 1938, which point to a total saving of only \$35 million in relief payments effected by the inauguration of unemployment benefits.

6. According to the formula for the distribution of funds among the States, contained in the bill, money would be allotted partly on the basis of population and partly on the basis of the number of unemployed in each State. No account is taken of the differences in wage rates and in per capita income in various parts of the country. The result would be that the low wage areas of the country, particularly the South, would receive more than a fair share of the total amount; that is, they would be able to provide more jobs than the higher wage States. This defect could be remedied by making the formula apply to the number of jobs instead of to the amount of money each State should get.

If the bill is amended so as to provide explicitly for an adequate work relief program, the formula just suggested would be appropriate for this part of the entire work program. The wisdom of applying

it to regular public works grants is more doubtful. It might be well to devise a separate formula based on PWA experience for this part of the program.

If the work relief program is continued within the Public Works Agency, as recommended above, the one-third sponsor's contribution required by the bill in its present form should be modified. The present WPA requirements as to sponsor's contribution have been worked out on the basis of wide experience over a period of nearly four years and should undoubtedly serve as a guide for the further development of the bill.

7. Conclusion. The combined effect of the provisions of the Byrnes bill, as interpreted here, would be to throw a large number of people, probably at least a million and a half, back on direct relief. This would place an impossible burden on the States and the localities, the financial resources of which are badly strained to meet already existing relief requirements. Some provision would have to be made by the Federal Government to aid the States and localities in meeting this burden. Thus it appears that the most important practical effect of the Byrnes bill would be to pave the way for the substitution of direct relief for the bulk of the work relief provided by WPA.

CONSUMER EXPENDITURES AND TOTAL INCOME PAYMENTS OTHER THAN INTEREST AND DIVIDENDS

