

June 6, 1938

WHAT CAN BE DONE

We have a choice of (a) following the present program, which there is strong reason to believe will be inadequate, (b) securing such modifications, as proposed below, of the present program as will result in a large expansion of public and private spending in the next six months, or (c) being prepared to have the Government spend enough to fill in the whole gap left by the absence of private spending.

1. W. P. A.

Spend an additional \$500 million on work relief in the second half of the year. This could be done if the Joint Conference accepts the Senate's repeal of the Woodrum amendment. Every effort should be made to secure this end. W. P. A. has demonstrated its ability to get money out quickly. The maximum amount the P. W. A. has ever been able to spend in any year on public works was \$386 million in 1936. This is a case where we should be guided by the record.

2. A Labor Subsidy for Housing.

Sufficient time has elapsed to indicate that the hoped for housing revival has failed to materialize. Both building contracts awarded and building permits outside New York ran substantially below last year in the first four months. The better comparison for the first half of May arises from the slump in building that occurred last spring rather than to any pronounced pick up now. Rents are falling and building material prices and wage rates remain at high levels.

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 is limited to low-cost houses costing less than \$3,500, exclusive of land, or apartments costing \$900 or less per room, 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 whether the building is for sale, occupancy or rent, 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 and completed next year. 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) In places where the demand for W. P. A. workers for this purpose exceeds the supply, certify unemployed who are

not destitute.

(b) Supply workers directly, rather than through the U. S. Employment Service.

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 (a) above).

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

3. Railroad and Utility Equipment

Although railroads and utilities have sufficient actual capacity for current requirements, they will need billions of dollars' worth of new equipment to replace and expand present capacity when the recovery movement is resumed. There is no question that many roads and utilities can be induced to anticipate now a portion of these future requirements, provided money is made available on really favorable terms and for a strictly limited period. This should be done through the R. F. C. When people say the railroads and utilities do not want new money for new equipment they mean at prevailing rates. Even a housewife can be induced to anticipate future

requirements through a bona fide bargain or sale. What I propose is that we create a similar inducement for railroads and utilities through offering money for a limited period on terms and conditions they cannot afford to turn down.

In order to make the inducement effective, so far as utilities are concerned, it is urged that an announcement be made to the effect that the Federal Government will make no more grants to local bodies for the construction of publicly-owned utilities. If grants, which are outright subsidies, are ruled out and the R. F. C. is prepared to make loans for the construction of plant on equally favorable terms to private companies and to local public bodies, unfair competition will be eliminated and the resulting psychological repercussions will be highly beneficial throughout the economy.

In the case of the railroads the R. F. C. should be directed to offer to buy equipment trust certificates up to 100 per cent of the cost of new equipment at a 2 per cent rate for as long maturities as the type of equipment will allow. This offer should be limited to orders placed this year and delivered not later than a certain date next year.

In the case of operating utilities the R. F. C. should be directed to purchase first and second mortgages and income debentures bearing 2 - 3% interest for maturities up to 20 years. It would be highly desirable to couple this offer with an offer to purchase preferred stock whose retirement is provided for by a 5 per cent annual sinking fund. These offers

should likewise be limited to orders placed this year for deliveries promised not later than the end of next year.

The proposed loans will be either directly secured by or counter-balanced by new equipment and should prove a safe investment from a narrow pecuniary point of view. From a broader social and economic point of view an inducement for the railroads and utilities to spend at this time would be of inestimable value. It would result in an increase in the national income and buying power by several fold the original loans; it would lessen the danger of bottlenecks and runaway price and cost situations in the future; and it need not involve any charge on the budget if the R. F. C. should issue its own debentures to the public. The R. F. C. has ample power and funds to induce hundreds of millions of dollars of expenditures in the railroad equipment and utility fields. It is solely a question of whether these powers and funds will actually be used. To fail to use them at a time of such pressing national need, and to let this matter turn on narrow banking or political considerations, would, I am convinced, be a major blunder.

4. Timing of Ordinary Government Expenditures.

Every effort should be made to crowd as much as possible of the next full fiscal year's expenditures in the last half of this calendar year. Future requirements for materials and supplies should be anticipated and work on public buildings, roads and armaments should be speeded up. If this is to be effective this summer, plans should be gotten under way immediately.