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OUTLINE OF A PROPOSED NON-FEDERAL PUBLIC WORKS PROGRAM

The need for a continuing non-Federal public works program

Large volume in 1920's. - During the 1920's the public works programs by States and municipalities constituted an important element in the aggregate capital expenditures of the country. These capital expenditures, which were maintained in large volume during those years, provided an offset to savings and consequently were a major factor in making possible the sustained high level of national income that characterized the period. In financing their new construction programs, which averaged about $2,000,000,000 a year from 1921 through 1930, local governments provided an offset to savings to the extent of nearly $1,000,000,000 a year in that period. Municipal expenditures for construction declined sharply after 1931, however, and despite the stimulation offered by Federal grants in recent years, non-Federal public works since 1934 have not been over half as large as they were in the late Twenties. In fact the fiscal operations of municipalities, taken as a whole, instead ofproviding an offset to the savings of the community are still actually contributing to the accumulation of such funds. In view of the apparent limited opportunity for capital outlays by private enterprise on a scale that will assure the absorption of the increased private savings that may be expected to accompany rising national income, it appears to be imperative from the standpoint of achieving sustained recovery that public investment shall continue in large volume for perhaps many years to come. Reliance must be placed upon local governments to share their part of such a program.

Deterrents to non-Federal public works. - Although there is a substantial volume of useful projects that communities would construct provided substantial Federal financial assistance were available, as is evidenced by the applications in response to the recent P.W.A. program, there are several reasons why these projects might be abandoned or postponed if such assistance is withdrawn.

An important reason for this conclusion is that a considerable part of the construction programs of local governments in the 1920's came in response to pressing deficiencies. For example, new highways and educational facilities, which accounted for over $1,600,000,000 a year of public construction or 71 percent of the total in the late Twenties, were needed badly because of the rapid growth of vehicle traffic and of enrollments. Although there is still plenty of room for new construction and particularly for modernization programs in these fields, the need is not so urgent as when the growth factors cited above were present. The most desirable types of public construction at present appear to be hospitals, sanitation projects, recreational facilities, and the like, which also might be postponed by municipalities unless there is a strong incentive provided through Federal aid.

Another difficulty is that many municipalities are unable or unwilling to add to their large amount of indebtedness acquired in the Twenties, although local governments in the aggregate have actually reduced debt since about 1933. In addition, real estate assessments have been declining, thus tending to reduce the principal source of local revenues. The prospective heavier relief and social security requirements are also deterrents to State and local governments undertaking large-scale public works programs under present conditions.

Prospective decline in non-Federal public works in 1940. - Expenditures under the present non-Federal P.W.A. program are expected to reach a peak this summer at a substantially higher level than in any previous year and, allowing for seasonal factors, the decline from this level will be a gradual one until the summer of 1940. At that time, however, they will slump off rapidly and by the winter months expenditures will be of negligible proportions. So long as a possibility exists that a new Federal public works program may be inaugurated, local governments will be extremely unlikely to undertake important public works which are financed solely from their own funds. There is no assurance that private investment will increase fast enough to counteract the depressing effects on construction activity of this prospective slump in public works. It appears essential, therefore, that immediate action be taken to provide the necessary legislation for a new program in order to be certain that actual construction can be under way by next summer.

Budgetary aspect of new Federal grants to municipalities

A new program involving outright cash grants of a sizable percentage of the cost of non-Federal projects similar to the present program is subject to an important objection from a budgetary standpoint. According to the official estimates the Federal deficit for the fiscal year 1940 will amount to $3,300,000,000. The Senate already has voted about $400,000,000 for agricultural benefits, not included in these estimates, bringing the contemplated deficit to $3,700,000,000. A P.W.A. program to provide $1,000,000,000 of non-Federal construction on the basis of a 45 percent grant would add $450,000,000 more, thus increasing the deficit to well over $4,000,000,000. This would be the highest deficit in any year with the single exception of 1936, which included the payment of the veterans' bonus. In view of this budgetary situation, it will be difficult, if not impossible, to obtain Congressional approval for a P.W.A. non-Federal public works program. Even if Congress voted the program, a $4,000,000,000 deficit would appear of alarming proportions to a large part of the public.

Proposed program

In an effort to obtain the stimulating effects of substantial non-Federal public works expenditures and at the same time to avoid the heavy charge on the Federal budget that is involved under the present system of 45 percent cash grants, the following proposal is presented for consideration. It provides special inducements to local governments to continue public construction projects by giving a much larger subsidy in the form of Federal annual contributions to servicing the debt incurred by the municipality to finance a given project than that which would be allowed in the form of an outright cash grant.

Illustrative alternatives

1. The annual contribution method. - The Federal contributions to municipalities would be given in an annual amount equal to 50 percent of the annual debt service on the municipal borrowings which were incurred to finance the cost of the projects. These annual Federal payments would be made both on loans made to the municipalities by the Public Works Authority of the United States Government and on loans obtained elsewhere, provided that the rate of interest on the latter loans does not exceed 3 percent per annum. The new interest rate charged by the United States Public Works Authority would also be 3 percent. It should also be required that the Federal annual contribution should not exceed 3 1/2 percent of the cost of the project.

2. The outright cash grant. - In lieu of the above annual contributions, the United States Government would give outright cash grants equal to 25 percent of the construction cost of the new projects.

Charge against the budget

Changing over to an annual contribution method of Federal assistance to new municipal public works would greatly reduce the current charge on the Federal budget. Assuming that the average ultimate maturity of municipal bonds involved in the program would be 26 years (which is about average maturity of the borrowing under the recent P. W. A. programs) with debt service in approximately equal annual installments, the annual Federal contributions of 50 percent of carrying charges would amount to slightly over 2 3/4 percent of the cost of the projects on a 3 percent interest basis. A $1,000,000,000 P. W. A. program would require, therefore, a current budget outlay of about $27,500,000 instead of $450,000,000 under the present system.

It should also be mentioned that annual contributions of the proposed amount would be somewhat more attractive from the financial standpoint than the present system of 45 percent grant to a municipality which borrows the remaining 55 percent to finance the project.

The alternative Federal grants might be limited in amount to $50,000,000 per annum which, if completely taken, would mean $200,000,000 of public construction. One advantage of not eliminating the cash grant entirely is that the change to the new system would be less abrupt. Moreover, some communities might still be attracted even with the smaller grant in the event borrowing was not feasible for one reason or another.

Justification of annual contribution method

The main reason for annual contributions is that this method spreads the cost over the life of the project. The public works program consists chiefly of heavy construction projects which have a long life or, in other words, of those projects which constitute the more permanent additions to the public wealth of communities throughout the country. Projects of this type are generally financed from the proceeds of borrowing instead of from current revenues because it would place an unjustifiable burden upon present taxpayers to require the immediate payment of the entire cost of improvements that will be returning benefits to the public over a long period of years in the future. Thus, by giving Federal aid in the form of annual contributions the Federal share of the cost, as well as that of the municipality, is paid for at the time the benefits are received by the public. This is a true "pay-as-you-go" method for meeting the cost of public projects that provide services to the municipality year in and year out.

There seems reason to believe that only by introducing some such method of giving Federal assistance can we be assured of a continuing non-Federal public works program. The P. W. A. programs of the past have always been considered as emergency measures and have been allowed to lapse from time to time. This approach militates against proper administrative timing of expenditures so that the program can be used most effectively in promoting general business recovery and stability.

Precedents for program

Annual contributions have long been the accepted method by which the Government of Great Britain gives subsidies to local governments for the stimulation of desirable social services. This principle was also incorporated in the U. S. Housing Authority program and, although a cash grant is optional to the local housing authorities, the annual contributions are so much more attractive the U. S. Housing Authority has not had a single application for a grant to date.

Possible objections

The chief obstacle to the proposed program is that it involves an increase in borrowing by the States and municipalities.

This creates a number of legal and practical difficulties depending upon local circumstances. A few of the more important types are discussed briefly below.

1. Constitutional debt limitations. - A large number of local governments are subject to statutory debt limitations based upon assessed value of property, population, etc. This is the same problem which has confronted the present program to a slightly smaller extent and the P. W. A. and R. F. C. have aided numerous cities in finding ways around such limitations. The issuance of revenue bonds which generally are not subject to statutory debt limitations, the use of special tax obligations, and the creation of special Governmental corporations and authorities are among the devices designed for this purpose. In view of the success of these methods and the experience that is now available which could be applied to the similar problems that would arise under the new program, it appears unlikely that constitutional debt limitations would create an insurmountable difficulty.

2. Tax limitations which operate as practical debt limits. - Certain municipalities are not permitted to contract debt charges unless sufficient tax revenue is available to meet such charges. In some cases of this kind, additional taxes would have to be provided even though the Federal Government is making annual contributions so that the carrying charges for the municipality, itself, are not increased as compared with the cash grant method. A special problem would arise if the municipality had a statutory limitation on the tax rate. This is in the nature of a psychological difficulty because with the annual contribution of the Government there would be no increase in debt carrying charges, as compared with a cash grant of equal value. For this reason, it should be much easier to correct this technicality in the law to permit the municipality to take advantage of the Government's offer. Another possibility which has been suggested is that municipal bonds could be sold to the Government on a low interest basis to correspond to the Federal contributions and the Government could append a contract calling for the additional annual payments when the bonds are resold to the general public. Such a bond would probably have a better market than the obligation of a municipality that does not carry such a specific pledge of the Federal contributions.

3. Bond elections. - The larger debt authorization that would be involved in this program would probably be more difficult to obtain in those communities where elections are required. This is, of course, an illogical view of the matter, and there is some evidence that voters in municipal elections are more conscious of the carrying charges rather than the "gross" debt figure. The only way to overcome the prejudice, however, appears to be public education to show the benefits of the proposed project and to point out how much the Federal Government is actually contributing to its cost.

Conclusion

While there are difficulties that might confront particular public bodies in qualifying for Federal assistance under the proposed program, they do not appear to be of such a serious character as to prevent the attainment of a sizable non-Federal public works program for the latter half of 1940. The P. W. A. has a backlog of pending applications for projects totaling $1,750,000,000, and many of these would still be eligible. Moreover, many public bodies have expressed a desire to submit applications for grants since the closing date last September. In fact the experience under the various Federal programs has always been that eligible projects are in excess of available funds. If legislation were passed now there should be sufficient time to work out the necessary administrative and technical problems that might be encountered in connection with individual situations.

Over a longer period if Federal assistance took the form of annual contributions there can be little doubt that most States and municipalities would adjust their practices or laws so that necessary and desirable projects could continue to qualify for the Federal aid.