

COMMENTS ON PUBLIC WORKS

The relation of money to national income.

National monetary income is a product of the volume of money, demand deposits and currency, and the number of times it is turned over to income receivers. During the depression we have witnessed a severe decline in the supply of money combined with a greatly decreased rate of spending. At present, demand deposits, the most important part of our money, are approximately ^{two} ~~one~~-third of their 1929 total. In addition, the deposits which are in existence are circulating at perhaps one-half of the average rate of turnover of the earlier period. This means that many deposit accounts are sterile so far as the economic system is concerned because of the unwillingness of their owners to use them either to purchase goods or services, or to place the funds into new investments which would go into the hands of corporations and business men to be used for the purchase of materials and labor. This concentration of deposits into a relatively small number of inactive accounts was strikingly brought out in a study made by the Federal Reserve Board for May 13, 1933 which showed that 45% of all deposits of member banks were held in slightly over 46,000 accounts or one-tenth of 1% of all deposit accounts. While these figures include both time and demand deposits, demand deposits alone would probably show a comparable ^{if not greater} concentration ~~of~~ large holdings.

In order to increase business activity, employment and national income, it is essential to have larger expenditures for goods and services. This means the utilization of inactive deposits, an increase in the total volume of money by banks increasing loans and investments, or both. These are difficult to obtain with business operating at a low level and the prospects of profits small. As long as unutilized capacity exists to the extent it

does today, there is little incentive for new investment or borrowing by private individuals and corporations to expand production.

The government, on the other hand, is in a position to increase expenditures, which if properly financed would provide new money to go directly into the hands of spenders. This increase in consumer income and expenditure would flow back through industry and would promote a fuller employment of the labor supply and a fuller utilization of existing productive capacity. Only after this process has gained momentum and there is the prospect of sustained business activity will corporations and business men begin spending their now large cash balances, or start borrowing on short or long term for working capital or to increase plant and equipment.

Issues and alternatives.

As I analyse the situation we have reached an impasse of circumstances *altho the stage is set - excess bank reserves, low interest rates, relatively low costs + wages.* that prevents an appreciable recovery of private business. At the same time, there remains a large volume of unemployment with steadily growing numbers of people becoming more dependent than ever upon public relief. This relief is now upon an entirely inadequate basis either to promote recovery or to assure a peaceful acceptance of the conditions by the unemployed for very long in the future. The government is confronted with the necessity of ^{soon} determining its future course of action, ^{This course itself} which resolves into ^{one of the} following three major lines of approach.

1. To continue to follow the defeatist policy of doling out larger and larger amounts for relief with little prospect of more than maintaining the status quo in the hope that recovery will sometime develop automatically. Federal expenditures for relief cannot increase incomes sufficiently above the present level to promote an

increased demand for goods large enough to turn spending into the channels of durable consumption goods and hence have an immediate beneficial effect upon the now stagnant capital goods industries. Increased expenditures on durable goods not only increase the demand for production in industries where the bulk of unemployment occurs but also actually increases incomes. From the standpoint of recovery Federal expenditures which result in an increase in construction are vastly superior to expenditures for relief.

2. To adopt a policy looking towards general cost reduction throughout industry, involving a curtailment of relief expenditures and an attempt to balance the Federal budget ^{which mean} ~~be~~ taking a big gamble that severe deflation would not set in, and that private investment would more than fill the gap left by the decreased government expenditures which now become income to the recipients.

3. To start an aggressive campaign of government spending with the dual purpose of providing work for all those who are capable of labor and are now involuntarily idle, and stimulate a revival of private business activity *particularly in the capital goods industries.*

The ^{last} latter is the only one of the three that in my opinion does not involve results which are distinctly dangerous to any administration.

Importance of a positive announcement of a program.

One of the most telling criticisms of the Administration is that it lacks a definite and comprehensive policy and is aimlessly drifting along. This condition cannot long exist and retain public support. It is time that a positive commitment is made that the government intends to provide employment for those out of work and will aggressively carry out measures

which attain this end. The following suggestions are offered as the skeleton contents of a bold announcement to this effect.

1. Our greatest national loss is the waste of human and material resources, which arises from unemployment and low production.
2. We must do collectively through governmental action what private business enterprises are unable to do individually.
3. Therefore, the government is adopting a far reaching program of expenditures upon desirable projects with the dual purpose of providing new employment and of reviving business activity from present low levels.
4. The money spent on such projects will be new income and as it moves back through industry there will be a multiple expansion of national income.
5. It is not the intention of the government to disturb or compete with private business. Federal spending will be decreased as soon as private business takes hold, and a fuller employment of labor and existing capital facilities is obtained.
6. With the expected increase in national income there need be no worry about a continued unbalanced budget because deficits will disappear and the public debt retirement begin.
7. Sufficient controls are available and will be applied to check an unwarranted ^{inflation} boom.

Objectives and criteria.

In order to assure the success of a public works program the following features should be concentrated upon:

1. No formal commitment with regard to the absolute volume of expenditure or a set time limit should be made at present. These matters are difficult to determine with any assurance of accuracy in advance, ^{because} ~~for~~ in economic questions our power of prediction is limited.

2. As a tentative position we should attempt to obtain large funds so that the program can be established upon a basis calling for large immediate expenditures. The objective being that expenditures will be expanded until employment is provided for all persons who are capable and willing to work. ✓

3. While no brief is held for any particular type of works projects the program as a whole should be approved and carried into operation with a minimum of delay. Large and rapid spending is essential so that consumer incomes will be increased fast enough to give business a large initial and sustained stimulation in order that it may confidently ^{either by borrowing or using cash surpluses.} increase production and employment. Thus, a cumulative increase of sales, production, and profits will more than offset any curtailment in private investment that might result from the possible adverse effects that large flotations of government securities might have upon the capital markets.

4. To obtain beneficial results the financing should be arranged to provide funds which would not otherwise be spent. This means either the creation of new money by selling governments to

commercial banks or the reserve banks, or the giving of velocity to existing deposits by sales to the holders of new unutilized checking deposit balances. In other words this program will be an addition to and not a subtraction from private investment or spending.

5. So far as practical the details of the program should be highly flexible with a large degree of administrative discretion to expand or contract operations as experience in the future dictates. The problem of preventing Congress from tying the administration's hands by legislative conditions and restrictions is one that will require careful engineering.

Administration.

There are three categories of the proposed construction program, (a) direct Federal expenditures in specified projects, (b) State and municipal programs with Federal aid, and (c) private capital expenditures with government subsidy, guarantee, or sponsorship. Without attempting to discuss the advantages and disadvantages of specific projects there are different types of administrative problems to be met in each class of the program in order to attain the objectives proposed above.

(a) Direct Federal. The problem here is to have decentralization of control among the several Federal agencies which are charged with the responsibility of carrying out the particular projects which they are best equipped to handle. A central executive board should be set up to coordinate the program and to see that the projects are devised upon a basis that will accomplish the results which are sought, and later, after the program is inaugurated, to speed up or contract the various programs as a survey of changing conditions may dictate.

(b) State and Municipal. So far as the Federal Government is concerned the approval and the financing of the projects which may be submitted by local bodies must be handled with an organization which has the power to meet the ^{various} ~~valid~~ types of problems which it will be ^{is granted} confronted with, and ~~to have~~ a great deal of discretion ^{making} in its final decisions.

(c) Private expenditures. Of foremost importance here is to adopt policies which will make expenditures profitable. At the moment high labor and other costs are an important factor in curtailing private construction. It is politically unfeasible to attempt to appreciably lower such costs. Therefore, we must attack the other side of the picture by granting subsidies to draw in private capital. Moreover, the incentives should be such that ^{certain} ~~various~~ types of construction will be attractive to large numbers of individuals and business enterprises. Also, the prospect of loss must be small so that lending institutions will be anxious to place their idle funds in the hands of borrowers. In summary, the watchwords of the program should be profit, decentralization, and use of existing agencies.

Controls for the future.

With the revival of private business activity to more normal levels, it may be that an unwarranted inflation may develop. ^{We now possess} ~~We must rely upon~~ ^{sufficient} the monetary powers ~~at our control~~ ^{if we have the will to use our controls.} to prevent this possibility from becoming seriously active. Later, we must be on guard to prevent the recurrence of drastic deflations and depressions. Appropriate monetary control would again be the first line of defense. ^{In addition} However, we might ~~set up~~ ^{set up now} a permanent public works board which will be able to expand quickly projects

that have been worked out in advance, thus supplementing monetary action
and ~~making it~~ ^{increasing its} more effective. ^{more effectively} Our taxing power might ~~also~~ be used to
introduce greater stability into our economic system.