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Some Thoughts on the Administration's Program

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1. Choosing between Public Works and Relief for the years immediately ahead of us is no mere problem in logic or economics.

The decisive factors can not be such ephemeral and relatively minor things as the exigencies of this or next year's market for Government securities, the scale of Federal taxation, the present price or wage level, or the exact limits of private initiative.

Wisdom enough to make such a choice can not be found without cutting to the depths at which lie such basic considerations as the effect which the continuance of wholesale relief would have on the work habits and hopes of our whole people. Where would three, five or ten years of a dole system, directly affecting a third of the population, leave us? The whole atmosphere of relief is one of defeat and of abandoned hope. The very flavor of work is effort and faith in the future. Compared with such monumental considerations as these, many of the things which we have been discussing are trivial details, and the clarity of our thought should not be obscured by them.

2. The choice is not between two things, sharply distinct like black and white, but is among many things, each shading

into the other. We shall not do one thing to the exclusion of all else - the question is which ones we shall stress. Stated so, the problem is:

(a) Shall we stress relief, reduced to the minimum, waiting for the corner that prosperity is behind.

(b) Shall we stress some such public works program as the Hopkins document outlines, details to be worked out and imperfections corrected.

(c) Shall we stress direct grants of bonuses to private industry, public works being kept at a minimum and relief continued on about the present scale.

(d) Shall we stress giant projects which must be executed some time, and which only the nation is big enough to swing, the question of self-liquidation being ignored. I instance flood control of the whole Mississippi Valley and slum clearance as samples of what thinking in these terms would turn up.

3. The decision whether to have a public works program should not be made on the basis of how good a program we can now state. Enough good projects on which to begin should be deemed sufficient, coupled with some faith that more time, experience and thought will develop other good projects in abundance. The thing should not stand or fall on whether we can, before January 1, state a complete program on which we will be willing to stand or fall. Indeed, a planning section to develop good projects for the second and later years should be a part of the program.

In this connection we might consider doing the following:

(a) Announce explicitly and without time limit that public works will be expanded until all employables are employed, and continued as long as necessary to provide them with employment;

(b) Announce the amount to be spent the first year and leave the amounts for later years to be developed by the planning section in the light of added experience and of the conditions then existing.

Of course, the foregoing has objections, but so does any other proposal that anybody can make. As to any proposal, we are of necessity dealing with ranges of conflicting advantages and disadvantages.

4. Why use 3% in testing self-liquidation? Two per cent would provide at least five-year money, and what long and short time considerations can be urged against financing with five-year notes that are as important as having work vs. relief? If 2% is feasible, then the picture of the degree of self-liquidation for the President would be quite different from the one he has had.

5. Discussion to date has assumed that the projects proposed would be interest free for the full term. Why this assumption? Suppose instead we said to a city, "We will take your bonds bearing 4% interest, which interest will not be payable now but will be payable as soon as these bonds can be sold in the market on the 4% basis", or whatever was the normal market for that city's bonds. A restoration of the market for municipals would pay the Government out completely. When we talk of 35 and 60 year periods, this thing is much more than a possibility, and substantially alters the picture we have had of the degree to which these projects are self-liquidating.

It seems unreasonable to assume, as we apparently have, that the market for municipals will not be restored at any time during these thirty-five to sixty year periods.

6. Why do we require self-liquidation anyhow? Has that been thought through? And what is really the substantial objection to a project that is only thirty per cent self-liquidated? I think we should try to analyze and answer these questions, and, for my own part, I think it would be wiser for us to take the broader view and think in terms of projects for the Federal Government which it is urgent that they be carried out sometime and which only the nation as a whole is big enough to carry out.

Finally, and in general, I think we should bear in mind that the Treasury's responsibilities in this matter are not merely the negative ones of a critic, but the positive ones of an inventor. Moreover, and more important, its part is to contribute not merely the techniques of finance but also statesmanship at once sagacious and courageous.

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Hermon O. Lybrand

November 13, 1934.

SUGGESTIONS ON A BUILDING PROGRAM

*Coolidge*

Before making comments on a building program I shall take for granted certain assumptions in which I do not fully concur, but which are more or less necessary to make in order to arrive at the basis for a large building program.

(1) That in order to overcome the depression it is essential to very greatly increase the amount of building.

(2) That private business and local governments are unable to accomplish this, even though assisted by proper economic policies in regard to industrial codes and wages.

(3) That it is of real economic benefit for the Federal government to put money into a building program.

I shall also make certain assumptions in regard to the character of this building:

(1) That taxes should not be much increased during the coming year and that the program should be carried on with the least possible budgetary deficit.

(2) That it should act as a stimulant rather than a retardation of private and municipal building.

(3) That it should as little as possible interfere with private enterprise in other lines and business.

I suggest first - that carefully planned increase in direct Federal projects be scattered at different points of the country where unemployment is greatest.

Second - that a very carefully devised system of bonuses, not in excess of 20% of the cost, be used to encourage local and state building of various natures, and extension of this into the railroad field and possibly the home building field on a smaller scale.

Third - this scheme should be accomplished by the additional incentive of low cost. All Federal work should be done at lower than the going wages so that private industry will not be disturbed in employment relations and government money saved, and there should be a general downward revision of wage scales of those in the building industry on the expectation of more work.

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The maximum expenditure for direct relief and for this program should not exceed two billions of dollars, but that the RFC may be permitted to loan a billion dollars additional if satisfied with the security.

The administration will not be expected to expend this full amount, but should spend with very careful consideration to business conditions only what seems essential from a relief and business viewpoint. All payments for direct relief should be matched by a like payment from the state to which the money goes.

November 16, 1934.

MEMORANDUM:

TO THE SECRETARY

FROM MR. ECOLES

I am enclosing herewith a memorandum outlining in a general way some of my ideas covering the Public Works program. I had intended to hand this to you personally before you left, but you got away before I was able to see you. On account of the pressure of other work, I have not been able to devote the time and study to this subject which it requires and which I should have liked to have given to it.

I hope you will have a pleasant trip and a much deserved rest.

I will either send to you or have for you when you get back a memorandum fully outlining criticisms of the Housing Administration and recommendations for its improvement.

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## COMMENTS ON SPECIFIC PROJECTS

This memorandum will be confined to a discussion of certain aspects of the particular projects which might tentatively be incorporated in the public works program.

### Direct Federal

Direct governmental expenditures on public works are capable of being carried out with a minimum of delay and upon a scale which will give a large impetus to the capital goods industries and indirectly increase incomes throughout the whole economy. The funds should be used for projects which are useful and socially desirable, but which are non-competitive with private business. It is understood that various governmental agencies have made surveys of possible projects and have detailed figures upon the amounts that can be efficiently spent in the near future.

The total volume of spending in direct Federal projects might be tentatively set at one and one-half billions for the next year, in addition to the present appropriations.

(a) Highways. In this field there are well equipped agencies, both State and Federal, that have numerous projects in the offing which could be quickly started if funds were available. As a matter of fact, the most successful part of the public works program to date in putting out money rapidly has been the work of the highway division.

(b) Elimination of grade crossings. This is a highly desirable type of public expenditure both to stimulate business and to increase public safety. While railroads would benefit from such a program, the public interest is so large that the government should properly pay the total costs. The railroads could not make expenditures at



present without rate increases, which would nullify the benefits of the spending. Complete plans, cost estimates, etc., have already been made so the work could proceed rapidly under supervision of engineering departments of the railroads with the direction and approval of the Bureau of Public Roads. If high speed trains are to be used more in the future grade crossing elimination will assume greater importance.

(c) Flood and erosion control. The possibilities should be thoroughly explored although there may be difficulties in actually getting projects started in the immediate future.

(d) Emergency Conservation Corps. This highly beneficial work might well be extended to employ larger numbers of men.

These are merely suggestions and in no sense are an exhaustive list of all possible projects. Other proposals should be currently submitted by the F.W.A. for consideration, accompanied by appropriate details on engineering feasibility. In other words, the program should be kept as flexible as possible so that it can be expanded or contracted as need arises.

#### State and Municipal.

Up to the present the public works allocations to State and municipalities have been drawn down very slowly and this has been one of the most disappointing features of the public works program. However, the public works administration has been faced with many organization and legislative difficulties. Some of these have been ironed out and if the program were now set up on a more liberal basis there would be prospects of more effective results. An additional two billion should be appro-

priated to the P.W.A. for loans and grants. Also, the R.F.C. should be required to set aside another 500 million dollars for the purpose of purchasing bonds received by the P.W.A.

(a) Loans and grants to States and municipalities. Larger grants are vital to provide a greater incentive for municipal and State borrowing. This grant should be a minimum of 40% in all cases, with discretion in the hands of the Administrator to increase the percentage of grant to loan for communities which are in need of public construction but do not have the legal power to borrow. Provided, however, that the limitation on borrowing was in the law at the time the bill was passed and not subsequently.

The bonds for the remainder should be taken by the Public Works Administration on a 4% basis so that if the municipality's credit is good they would first seek private capital markets to float their securities. Also, the Public Works Administration could sell the bonds which they so acquired later, provided we experience a period of falling interest rates and business recovery improves the credit position of certain communities which have borrowed from the P.W.A.

Loans also might be granted upon the assignment of delinquent taxes in a percentage to be determined by the Administrator.

In order to facilitate rapid spending certain mandatory features should be included in the loans and grants made by the Public Works Administration. Applications for approval should be handled within as short a time as is reasonable. A condition of allocation should be the requirement that contracts will be let upon a basis which calls for completion by the end of 1936, with heavy penalties on the contractor for non-ful-

fillment. However, exceptions might be allowed by the Administrator if there appears to be insufficient projects that can be completed on that basis or where efficient construction is impossible. In such cases a relatively high minimum monthly expenditure should be required.

Certain labor and wage restrictions in the present law should be removed. Permission should be given to pay wages at 10 to 20% less than the standard rates for similar types in the localities in question. In order to prevent contractors driving down wage scales to abnormally low levels, there might be some discretion allowed the Administrator in dealing with wage and hour standards in regions where there is no well organized labor market at present.

In order to avoid excessive price increases on business materials and supplies it would be well to remove the present production restrictions and price controls which have been built up under the N.R.A. If this were done, competition might be expected to keep prices from rising to abnormal levels, in as much as we have excess capacity in many of the building supply industries.

(b) Schools. More thought might be given to the problem of increasing school facilities in certain regions. There is no reason why the advantages of education should not be given on a nation-wide basis and the Federal Government grant sizable amounts to school districts in order to provide better educational facilities to its citizens.

(c) Low cost housing. This is a field in which there are great difficulties in making much progress in a short length of time and I do not think it offers very good prospects as a recovery measure. The Federal Government perhaps could give a bonus for the cost of demoli-

tion of slum areas provided projects are started by municipalities or private corporations and individuals which meet the approval of the Administrator. In addition, any such projects would be eligible to receive the 20% subsidy which will be discussed below under private construction.

Private Construction.

(a) Residential. If a subsidy of 20% of the cost were given on residential modernization and new construction it is likely that a considerable amount of private residential building would be forthcoming. This subsidy should be handled through the Federal Housing Administration which has a nation-wide organization which could successfully determine bonus payments thus avoiding duplication of Federal agencies. Rural modernization and construction might be handled through advances made by the Farm Credit Administration, and also this agency could determine and distribute the subsidy.

The subsidy would be allowed only on building which is started after passage of the legislation and completed by the end of 1936. One billion dollars might be appropriated for this purpose which if fully taken up would mean a total of five billions spent for modernization and construction.

To make the campaign more effective it would be desirable to attempt to get a union agreement to take a 10% cut in wages for the period of the subsidy on all construction of all types of housing facilities. This concession on the part of labor would be in consideration for the fuller employment that will arise through an increase in building activity. If it is deemed unwise to attempt to get an agreement calling for reduction at least the government should receive a guarantee from union leaders that there will be no increase in wages during this period.

Attached is a schedule of comparative wages of skilled building operatives in foreign countries in relation to those in the United States. This brings out strikingly the pressing need for a revision downward of union rates for building workers in this country.

(b) Rural electrification. In this program a maximum cost per customer for installation should be established with the government supplying the rest of the cost with a subsidy of not to exceed 40% of the total cost. This would be an equitable method of dealing with individual rural consumers. Arrangements should be made whereby the cost of installation which is borne by the consumer may be paid off at low interest over a period of 20 years.

Expenditure contemplated.

The program as outlined above calls for a total Federal outlay of 4 billion dollars. The 500 millions of R.F.C. funds would be self-liquidating as the bonds received are paid off or sold. It is difficult to determine in advance how much of the 2 billions of P.W.A. funds would be in the form of loans. A conservative estimate might be 500 millions. Thus, 3 billions would not be self-liquidating in any sense. However, the subsidy idea should bring out a private capital expenditure of at least 4 or 5 billions more, thus bringing the total expenditures on construction to somewhere approaching the normal construction figures. Attached is a schedule showing construction expenditures of all classes by the year since 1925.

HOURLY WAGES IN BUILDING TRADES

	<u>England</u>	<u>France</u>	<u>Germany</u>
Carpenters	40.13¢	38.2¢	43¢
Bricklayers	40.13	38.2	43
Painters	38.	36.3	40
Steamfitters	40.13	37.	46
Steamfitters Helpers	29.5	33.	39
Plumbers	40.13	37.	46
Plumbers Helpers	29.5	33.	39
Building Helpers	29.5	31.	36

The above wages are only slightly higher than the hourly wages of skilled factory workers in the respective countries.

In vivid contrast, the differentials are much greater in the United States. Comparable wages in the above trades are from \$1.20 to \$1.65 per hour, while skilled industrial workers receive 65¢ to 90¢ per hour.

Source of Data: Memorandum to H.O.L.C. by C. M. Woolley, London, July 17, 1934.

November 15, 1934

To: Secretary Morgenthau  
From: Mr. Haas  
Subject: Meeting at Mr. Coolidge's home, November 13, 1934.

Present: Messrs. Coolidge, Eccles, Gaston, Bell,  
Viner, and Haas.

Statements prepared by Mr. Oliphant, Mr. Coolidge, and  
Mr. Eccles were read. Copies of the first two papers are attached.  
Mr. Eccles had not completed his statement but expects to have a  
finished draft for you on Friday.

A summary of agreements reached, etc. are attached.

(Attachments 3)

General agreement was reached on:

1. Objective to get people to work and establish a normal level of employment.

2. A five-year program should not be announced. Upper limit of expenditure should be included in annual budget without positive estimates beyond one year.

3. Agreement should be had with labor (a) that wage rates on Federal, state, and local government projects should be less than that paid by private industry in order to prevent government competition with private industry; (b) labor should also agree not to raise wages during period when large government expenditures for construction are being made.

There was considerable discussion regarding the questions of reducing construction costs and wages and means of providing for expenditures by local governments which are now in financial difficulties, etc.

4. Projects should not be self-liquidating to the Treasury. Self-liquidating projects would compete with private industry.

5. There should be three classes or types of expenditures:

(a) Private construction to be stimulated by a bonus large enough to induce rapid expansion of private construction.

(b) State and local government expenditures - to be stimulated by a bonus sufficiently large to induce rapid expenditure.

(c) Federal - construction projects which serve a very useful purpose which would not be undertaken by private industry - a direct Federal expenditure not self-liquidating.



Top limit of expenditures:

Mr. Eccles: no limit in principle - however, he recognized that funds would have to be appropriated in definite amount for any fiscal year. The objective he felt should be to spend as much as can be done soundly and efficiently, which would probably be between four or five billions within the year, depending upon the amount of totally paid-for Federal projects and the amount of private and municipal projects induced by subsidies.

Mr. Bell: limit amount - budget must show a substantially improved position over current year - this determining upper limit of amount to be expended preferably for direct relief and obligations for public works carried over from 1935.

Mr. Viner: limit amount - budget must show improved position over 1934 - this determining upper limit of amount to be expended for construction. President should be given power to take care of any necessary increase in relief expenditures, and should be given power to levy a discretionary sales tax to prevent budget from getting out of control.

Mr. Gaston: limit amount - deficit  $3\frac{1}{2}$  billion dollars plus recoverables; not in full agreement with No. 3.

Mr. Coolidge: limit amount - deficit 3 billion - not more than 2 billion in relief and construction bonuses, one billion for recoverable loans.

Mr. Haas: Until some one has had time to analyze this whole program in detail about all I can do is <sup>to</sup> agree to the objective. How,

for example, is the bonus to private industry to be removed without causing a severe reaction. Will building material prices advance, tending to counteract the bonus, or necessitate an increase in the bonus? Or are material prices to be controlled, etc.?

Unless the plan and all its ramifications have been carefully analyzed the government may find itself with a "bull by the tail." On the other hand, a carefully worked out plan may be operated successfully and without particular hazard to government finances. Mr. Eccles is now working out a detailed plan.