

From Gilbert
3/25/40

The WPA Appropriation

The WPA rolls, now at 2,300,000 are 775,000 lower than they were in July, 1939, when the volume of business activity was about the same as at present. The WPA must lay off another 800,000 by June 30 to keep within the present appropriation; 600,000 more between July and November to keep within the fiscal 1941 budget recommendation and leave some room to meet Winter needs. If this program is carried out the number of WPA jobs provided in November will be 900,000 or 1,400,000 less than at present and 2,200,000 less than in July, 1939.

The scheduled reduction from present levels to November will cut off the income of three million adults and over three million children. A cut of such magnitude would have serious political and economic effects at any time. Superimposed upon the present sharp business decline during which private business has already laid off about 1,500,000 men, the results may be disastrous.

The Budget recommendation for WPA was prepared in the optimistic atmosphere of a business boomlet. This boomlet is now over. Production has dropped to the pre-war level and is still falling. Optimists are now hoping that the decline is tapering off and that slow recovery will soon occur. But these views are not held with confidence in any quarter. A more realistic appraisal suggests that so precipitate a decline as we have experienced will carry us much lower. Liquidation of only part of the \$1.4 billion of inventories accumulated since the outbreak of the war would take the Federal Reserve Board index of production below 90 and postpone the recovery to the third quarter or perhaps even later.

From 1936 to 1939 the WPA program provided employment for 25% of the total unemployed. Even those who believe that such provision is adequate will agree that WPA employment should expand when private employment contracts. At a time when private employment is falling sharply and the business situation is particularly vulnerable, a reduction of \$1,400,000 in WPA employment not only violates the principles of need but invites cumulative deflation.

Suggested Program

a) For balance of fiscal year 1940

The least that prudence dictates is that the Federal Government should not at this time accentuate the deflationary forces by a cut in the WPA. It should at least maintain the rolls at 2,300,000. For the balance of fiscal 1940, this would require a deficiency appropriation of \$75,000,000. But this is not enough. The Government should do more than merely abstain from adding to the increasing volume of unemployment. It should take energetic measures to halt the decline. The WPA rolls should be increased as quickly as possible to 3,000,000. To reach this figure by the middle

of May would require a deficiency appropriation of \$150,000,000.

b) For fiscal 1941

In contrast to earlier hopes, it is now clear that at the best ¹²⁰ the level of production for fiscal 1941 will not average much above 115 (Federal Reserve Board Index) as compared with about 110 in fiscal 1940. This means an increase in private employment of 1,600,000 and — allowing for the annual expansion of 600,000 in available workers — a reduction in unemployment of no more than 1,000,000. At best unemployment will decline from an average of 10,000,000 in fiscal 1940 to an average of 9,000,000 in fiscal 1941. If the business decline is not stopped promptly the outlook for fiscal 1941 is for an average volume of unemployment one to two million in excess of the 10,000,000 in fiscal 1940. The range of expected unemployment for fiscal 1941 is therefore between nine and twelve million.

The proposed \$1,000,000,000 WPA appropriation will provide for an average of 1,350,000 persons or between 11% and 15% of the unemployed. In November 900,000 persons will be on the rolls or 9% of the unemployed. If the WPA is to provide for 25% of the unemployed — as it has from 1936 to 1939 — the appropriation must be large enough to maintain the rolls at from 2,250,000 to 3,000,000. This will require an appropriation of from \$1.8 billion to \$2.2 billion. Accordingly, unless a basic New Deal policy is to be abandoned, an appropriation of this size should be asked for.

Implications for the Budget

The proposed \$150 million deficiency appropriation for fiscal 1940 can easily be met out of the excess of income tax collections over the estimates of January. In fact, it now seems that the budgetary deficit for 1940 will still be below the President's estimate of January despite this deficiency appropriation.

The suggested WPA appropriation for 1941 raises more difficult problems. It is proposed that an appropriation of \$1 billion for the first seven months of fiscal 1941 be requested, with the understanding that the provision made by the WPA for the unemployed should not fall below the standard established in 1936-39.

This proposal has the advantage of leaving the income administration free to adopt its own work relief program and appropriate for it.