

March 25, 1940

STATEMENT ON THE WPA APPROPRIATION

The WPA rolls, now at 2,300,000, are 700,000 lower than in March 1939, when the volume of industrial activity was only slightly lower than 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.^{1/} If this program is carried out, the number of WPA jobs will be reduced to 900,000 by November, a decrease of 1,400,000 from present levels and of 2,100,000 from March 1939.

The Budget recommendation for WPA was prepared in the optimistic atmosphere of a business boomlet and it was hoped in some quarters that further expansion of private employment would more than offset the projected curtailment of WPA. Instead, industrial production has dropped sharply to the prewar level and private employment showed a decrease of about 1,100,000 from December to February. Allowing for expansion in the labor force at the rate of 50,000 a month, this means a growth in unemployment of 1,200,000 workers in two months. Though activity is still declining, there is some ground for hoping that the decline will soon taper off and that a modest and gradual recovery will follow. This view, however, is not held confidently in any quarter, and it is by no means improbable that the downward movement, by reason of its sharpness, will become cumulative and carry

^{1/} According to present plans, WPA employment will be reduced to an average of 2,100,000 for April, 1,800,000 for May, and 1,600,000 for June. The monthly schedule of reductions for the early part of fiscal 1941 has not yet been definitely formulated by WPA.

a good deal farther. If businessmen become uneasy and decide to liquidate any significant part of the inventories accumulated since the outbreak of war, the index of industrial production may fall below 90 and recovery may be postponed to the third quarter. In any event, the business situation is now delicately poised, and the present is a most dangerous time to superimpose a sharp curtailment in WPA employment upon the drop which has occurred in private employment.

From 1936 to 1939 the WPA program provided employment for 25 per cent 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 principle 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 \$90,000,000. This is a minimum appropriation which will suffice merely to keep the Government from adding to the increasing volume of unemployment. ~~In view of recent business developments an increase in WPA rolls to about 3,000,000 is clearly called for. To~~

~~reach this figure by the end of June 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 the level of production for fiscal 1941 will not average much above 120 (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 per cent and 15 per cent of the unemployed. If the WPA is to provide for 25 per cent 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 would require an appropriation for the ^{full} fiscal year of from \$1.7 billion to \$2.2 billion. In view of the difficulty of foreseeing requirements in the latter months of fiscal 1941, it seems best to ask Congress to vote appropriation at this time of \$1,000,000,000 for the first seven months of the fiscal year, leaving to the next Congress the task of deciding on the scale of WPA for the remainder of fiscal 1941.