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INTERMEDIATE PROGRAM

March 28, 1940

STATEMENT ON W.P.A. APPROPRIATION

1. Present Business Position and Outlook

The Budget message was prepared at a time when business activity was establishing a new high record. The message emphasized strongly that many of the expenditure estimates were based on an expectation of continued high business activity, and that if this expectation did not materialize, it might be essential to reconsider the recommendations.

The expectation of continued high business activity has definitely failed to materialize. Industrial production, after advancing sharply from 103 in August to a peak of 128 in December, has already returned to its prewar level, and this decline has involved a reduction in private employment of about 1,000,000.

The downward movement, though it has slackened somewhat during recent weeks, still continues and there is no clear indication that we are approaching bottom. At best, a further period of business hesitancy seems almost certain and the recovery thereafter modest and gradual. On the other hand, the weight of the evidence suggests that business may decline substantially further and that the upward movement may be deferred until the third quarter of 1940 or even later.

For the calendar year 1940 the index of industrial activity can scarcely average higher than 110 as compared with 105 in 1939; this higher average level of activity, if realized, would increase private employment barely enough to offset the annual growth of 600,000 in available workers. At best, the volume of unemployment in 1940 will not be significantly below the 1939 average.

2. Present W.P.A. Program

The W.P.A. rolls, now at 2,300,000, are 800,000 lower than in December 1938, when the volume of business activity and employment were about the same as at present. The W.P.A. must lay off another 800,000 by June 30 to keep within the present appropriation. Under the original Budget recommendation of \$1,000,000,000 for the fiscal year 1941, the average level of W.P.A. employment in the coming fiscal year will be only 1,350,000 workers, and W.P.A. must cut its rolls below 1,000,000 in the autumn to keep within this average and leave some room to meet enlarged winter needs. Under the present program, therefore, the number of W.P.A. jobs in the autumn will be 1,400,000 less than at present and 2,200,000 less than in December 1938. The scheduled reduction from present levels will cut off the income of three million adults and over three million children.

3. Basis for Recommendations

A cut of 1,400,000 in W.P.A. rolls would have serious political and economic effects at any time. Superimposed upon the present sharp business decline, the results may be disastrous. From 1936 through 1939 the W.P.A. program provided employment for an average of 25 per cent of the unemployed; under the original recommendation for fiscal 1941 this figure will at best average only 15 per cent and will fall below 10 per cent in the autumn. The provision for relief employment is therefore extremely meager, judged by the standards of recent years. Quite apart from the principle of need, moreover, curtailment of relief employment, at a time when private employment is diminishing, accentuates the contraction in buying power and intensifies the cumulative forces of deflation. The least that prudence dictates is that the Government should not add to the already increasing number of jobless. It should take measures to check the decline. W.P.A. rolls should be increased over the next three months to 2,750,000 and held at that level until the current business decline is definitely reversed. This increase would offset about half of the decline in private employment which has already occurred. The remaining 500,000 thrown out of private jobs, plus the new workers coming on the labor market at the rate of 50,000 a month, would be added to the number without jobs of any sort.

4. Recommendations

In order to carry out this program, it is recommended that you ask Congress for the following appropriations for W.P.A. alone:

- a. An immediate deficiency appropriation of \$110,000,000 for the remainder of this fiscal year.
- b. An appropriation of \$1,200,000,000 for the fiscal year 1941, with the provision that the funds will be available for expenditure within the first seven months of the fiscal year to the fullest extent necessary.

5. Method of Financing

These recommendations would involve a maximum increase in expenditures of about \$750,000,000 between now and the end of January 1941 over the amount indicated by the Budget for this period. The increase would be offset to the extent of about \$500,000,000 by the excess of tax receipts over the Treasury estimates which is now assured by the current heavy March income tax collections and by the Treasury's substantial underestimation of customs revenues.

As of February 1, 1941, therefore, the Treasury cash balance would be about \$450,000,000 and the public debt about \$44,500,000,000, after allowing for the additional W.P.A. expenditures here recommended. These figures do not include any proceeds from new taxes recommended in the Budget message. Thus, the proposed increase in W.P.A. expenditures can be met easily without reducing the Treasury cash balance below a safe margin, without exceeding the statutory debt limitation, without using gold in the Stabilization Fund, and without the issuance of silver certificates.