

Edmonton
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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-thirds 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 concentration in 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 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 determining its future course of action which resolves into 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 would 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.

The 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 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, 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 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 valid type of problems which it will be confronted with, and to have a great deal of discretion 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 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 must rely upon the monetary powers at our control 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. However, we might 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 more effective. Our taxing power might also be used to introduce greater stability into our economic system.

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 P.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-

prorated 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 an agreement with the building trades 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.

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HOURLY WAGES IN BUILDING TRADES

	<u>England</u>	<u>France</u>	<u>Germany</u>
Carpenters	40.13¢	38.2¢	45¢
Bricklayers	40.13	38.2	45
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.

ESTIMATED CONSTRUCTION
(In millions of dollars)

	1925	1926	1927	1928	1929	1930	1931	1932	**1933
Residential	5050	2965	2856	5095	2127	1222	900	511	222
Commercial	968	1022	1056	982	1051	684	545	156	89
Factories	365	525	417	565	606	285	129	48	100
Theatres, Clubs, Lodges, Religious & Memorial	386	585	595	511	224	188	129	47	54
Farm Construction	470	470	475	465	465	567	258	192	155
TOTAL PRIVATE	5257	5565	5175	5416	4451	2746	1761	754	580
Railroads	1225	1571	1559	1280	1570	1250	787	478	400
Elec. Power Co.	884	825	844	815	906	968	654	522	225
Telephone Co.	502	554	545	615	795	817	604	454	565
Electric R.R.Co.	242	207	205	194	194	189	155	98	100
Sub-Totals	2851	2955	2955	2900	5265	5204	2200	1552	1088
Pipe Line Co.						515	469	165	90
Gas Co.			Data			226	167	96	46
Telegraph Co.			not			75	57	21	16
Waterworks Co.			Available			44	25	15	8
TOTAL R. R. & PUB. U.						4062	2898	1629	1248
Cities	1285	1502	1482	1422	1559	1495	1502	797	400
Counties	778	676	885	829	556	709	529	157	100
States (Excl.Fed.Aid)	411	404	458	502	576	706	786	551	500
Federal (Incl.Federal Aid, Excluding D.C.)	245	250	240	270	505	390	510	580	500
TOTAL PUBLIC	2717	2612	5045	5025	2776	5500	2927	2065	1500
Sub-Totals	10,805	10,912	11,155	11,559	10,492	9,250	6,888	4,151	2,968
GRAND TOTAL						10,108	7,586	4,428	5,128

Based on reports to the F. W. Dodge Corporation, to the Department of Agriculture, the Bureau of the Census and the Federal Employment Stabilization Board.

Compiled by the Federal Employment Stabilization Board.
March 30, 1935.

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