The following address, "The Future of Relief Expenditures," was delivered by Corrington Gill, Assistant Administrator of the Works Progress Administration, before the Thirty-second Annual Conference, Municipal Finance Officers' Association, at the Hotel Statler, Boston, Massachusetts, at 11 a.m. on Thursday, September 16, 1937:

I have been asked to talk on "The Future of Relief Expenditures." Doubtless some of you hard-pressed municipal finance officers may have had the secret hope that I might misread the topic and talk to you on "Relief from Future Expenditures." I wish I could promise you complete relief from future expenditures for relief. I am afraid, however, that even though all the powers of Santa Claus have been attributed to the Federal Government, its powers do not extend quite that far.

To foretell the future of relief expenditures we must begin by analyzing the development of our political and social attitude towards unemployment relief. In national ideas on this important subject have gone through three main stages of evolution. In the first stage, which continued until 1933, the relief of destitution caused by unemployment was regarded as essentially a local problem, to be met by local and occasionally State resources. In the second stage, which began in 1933 and which is only now coming to an end, the relief of unemployment was regarded as part of the great national problem of fighting the depression, with the Federal Government assuming most of the financial burden and meeting it through its extraordinary borrowing powers. The third stage is one which we are now entering, a stage in which we envisage an almost permanent unemployment relief problem on a reduced scale, to be handled jointly by the Federal, State, and local governments from their regular budgetary funds.

It was the theory of the first stage that it was up to the municipalities and local communities to take care of their own unemployed, just as they traditionally took care of their own poor with the assistance of private charity. Occasionally, during periods of acute distress, the overburdened local governments might reasonably appeal to the State governments, as the authors of their being, either...
to extend a financial helping hand or else to loosen the collar of tax and debt limitation, which under depression conditions often prevented them from breathing, let alone dragging the tremendous load of unemployment relief. Because of the unexampled severity of the recent depression a number of States did extend aid to their hard-pressed municipalities, but even their resources were limited under our scheme of government and taxation. Other States found constitutional obstacles which prevented them from helping the cities to help the unemployed.

The idea of appealing to the Federal Government for financial assistance to State and local governments in meeting the problem of unemployment relief was regarded as almost sacrilegious. It was not exactly unconstitutional, since for some time the Federal Government had been assisting States with grants for roads and even for maternity welfare, and the Supreme Court had specifically refused to interfere. But it was something worse than unconstitutional—it was a betrayal of the traditional American system of local responsibility for the destitute! It is interesting to note that one of the few authoritative voices raised prior to 1932 and 1933 for Federal participation in the relief of unemployment was that of ex-President Benjamin Harrison in 1894.

At the height of the depression resulting from the panic of 1893—when his party was out of power—he said:

"It is generally accepted now as a right principle that our city councils, our county commissioners, our State legislatures, should legislate to create work for the unemployed.... The Republican theory has been all along that it was right to so legislate as to provide work, employment, comfort to the American working-men. We believe that the national government has a duty to perform in this respect as well as the city council and the board of county commissioners."

The duty of the national government, as interpreted by this Republican President, was either forgotten or denied in the subsequent depressions of 1907, 1921 and 1929. Even in 1932, when after tremendous pressure Congress was persuaded to pass, and President Hoover persuaded to sign, an amendment to the R.F.C.
Act authorizing $300,000,000 of repayable loans to States and municipalities to be used for relief, the action was taken, not so much to break with the traditional American system of local responsibility for relief, as to make possible the discharge of the traditional local responsibility.

The real break with the traditional viewpoint, and the beginning of the second stage in the evolution of our attitude toward the relief problem, had to wait until the change of administrations on March 4, 1933. When unemployment totaled over 16,000,000, when almost every third breadwinner was out of a job, when even the bankers came to Washington pleading for the Federal Government to step into the situation, it was high time to recognize that unemployment and unemployment relief were national concerns.

The people of the United States and the Federal Government at Washington thereupon dedicated themselves to the twin tasks of fighting the depression and taking care of the casualties of the depression. From 1933 on, the terms "relief" and "recovery" became coupled together. The expenditures under both headings in most cases became indistinguishably fused, inasmuch as the expenditures for relief were used to stimulate recovery, and the expenditures for recovery were designed to give work to the unemployed. All these expenditures were put into an extraordinary budget, a war budget if you will, financed by the vast borrowing powers of the Federal Government. The States and localities contributed their share, but their share was no longer based, as before, on the extent of the unemployment problem within their borders, but rather on their ability or lack of ability to raise extraordinary resources under extraordinary conditions to meet the extraordinary emergency.

A few figures will indicate the magnitude of the efforts put forth by the Federal Government in collaboration with State and local agencies in relieving unemployment and fighting the depression. During the four calendar years 1933 through 1936 the Federal Government spent a total of 10 and 2/3 billions of dollars on its relief and work programs alone. This does not include the A.A.A. subsidies to farmers, which did their part in
stimulating recovery, nor the many billions of dollars in loans which went to aid various business enterprises, homeowners and farmers, nor even the recoverable loans made to States and municipalities under the P.W.A. program. The figure of ten and two-thirds billions represents, let me repeat, only cash outlays, non-recoverable expenditures, and these only for direct relief and work programs.

On their side, the States and localities matched the Federal expenditures with a total disbursement of $2,940,000,000. Of this total $9.30,000,000 comprises their share of the P.W.A. program of permanent improvements—permanent improvements which are in part revenue producing and for the rest represent the normal responsibilities of State and local governments—that is to say, schools, hospitals and the like. For direct relief and for their contribution to the work programs of the Civil Works Administration and the Works Progress Administration, the States and localities spent over $2,000,000,000 during the four years 1933 through 1936. It should be noted that some $750,000,000 out of the $2,000,000,000 was used primarily to supply work for those on relief. At the same time it served to create permanent improvements which added to the social wealth of the locality and of the nation.

To students of municipal finance these figures are interesting from another angle. We would like to know what part of the ten and two-thirds billions which the Federal Government disbursed on its work and relief programs was directly concentrated on the unemployment problem in the cities and local communities—the problem that the local governments were traditionally required to handle by themselves, with such aid as they could coax from their parent States. No direct tabulations are available, but it is possible to make a rough estimate. We may deduct the cost of the Federal building program under the P.W.A.; we may similarly deduct the cost of State projects under the P.W.A. program; we may also deduct the Federal expenditure for state highway aid. All of these items represent expenditures for normal Federal and State activities—increased expenditures, to be
sure, but expenditures for non-municipal activities. We may finally deduct the cost of the Emergency Conservation Work of the C.C.C., notwithstanding that this Federal expenditure for the conservation of natural resources markedly decreased the unemployment problem in the cities, towns and counties. If we make all these deductions we arrive at a figure of between 7 and 8 billion as the amount which the Federal Government poured into the local communities in order to help them meet the unemployment problem directly.

And now let us see what the cities and other local government agencies themselves contributed during the same four years for relief and work programs. Of the 2,940,000,000, which as we have seen represents the State and local disbursement for relief and work relief, the local share is estimated at approximately $1,700,000,000. In other words, the Federal Government's disbursement of seven to eight billions during the four years 1933 through 1936 represents over 4 times the contribution of the local communities in meeting the traditionally local problem of unemployment relief.

All this vast outpouring of Federal funds is, of course, readily justified, for the fight against the depression and unemployment took on many of the characteristics of a regular war. In a war we know that it is the national government that foots the bill even though the homes and firesides for which wars are fought are just as local in character as unemployment, destitution, and starvation. There are sound reasons of political theory which made it inadvisable, even at the height of the depression, for the Federal Government to have financed the entire cost of unemployment relief. We must not forget that not only is our scheme of government federal as regards the States—an indissoluble union of sovereign States, as the phrase goes—but also within the State boundaries it leans heavily on the side of local self-government. In 1929 the tax revenues of the local government agencies were more than twice as great as those of the State governments and exceeded those of the Federal Government by a substantial margin—although today, in accordance with the new responsibilities it has assumed since the depression, the revenues of the Federal Government are in excess of those of the local communities.
financial table of tax revenues are to be found political and social habits with which it would be both unwise and dangerous to break too completely, even in dealing with the unexampled emergency of our depression unemployment.

Today, moreover, we are entering or are about to enter the third stage of our attitude to the unemployment relief problem. Our total unemployment, which was well over 16,000,000 in March 1933, is now in the neighborhood of 7,500,000 according to the consensus of estimates. The change in the total relief load, while it has not been in the same proportion—for readily understandable reasons—has been quite encouraging. In the worst month of 1933, March 1933, the total number of families and single persons receiving relief was 5,080,000. In March 1937, the total relief load, including both the direct relief cases and the persons from relief rolls employed on the works program, was 3,760,000. At the end of July 1937 it had dropped to about 2,910,000, and because this drop is so much greater than seasonal, there is every hope that the percentage rise this coming summer will be much smaller than usual.

Encouraging as are the hopes of continued business recovery, it would be folly on my part, it would be folly on your part, to look forward to anything like the complete disappearance of the unemployment problem, and, with it, the disappearance of the unemployment relief problem. Nobody likes to be a pessimistic prophet, but if we are to judge by the experience of foreign countries, particularly England, if we are to draw any conclusions from an analysis of the underlying causes of our present unemployment, we must expect a permanent unemployment of between 4 and 5 million, as well as a relief load equivalent to somewhat more than half of this figure. Even to reach this condition presupposes the success of the governmental program aiming at industrial stabilization and the mitigation of the effects of the trend towards the displacement of men by machinery which was so greatly accelerated during the depression. It also presupposes the continuance of the present scale of meeting relief needs, which has proved its efficacy in fighting unemployment by distributing purchasing power where it is most needed, and where it will be immediately spent.
There are those who in their impatience over relief expenditures think they can abolish the relief problem by abolishing relief expenditures. Such a course is like trying to get well by sending away the doctor. If you are already well, you can indeed give the doctor his walking papers, but if you are not well, it will simply make the malady much worse. People look back to 1929 and say that if we could get along without unemployment relief then, we should be able to get along without unemployment relief in the future.

This argument is false on two counts. In the first place, we had unemployment in 1929, we had need of relief in 1929. But, except for the assistance extended by private charities and a few progressive communities, we did not meet that need, just as we did not meet the needs of the various categories that are now ministered to by the national social security program. Practically the whole civilized world had a national program of social service expenditures before 1929, but it took the dark miseries of the depression to awaken us to the need of action along this line. And even today, with all the talk of relief extravagance, it is a fact that we are spending only about 6 percent of our national income for relief and social security, whereas a country like Great Britain has been devoting about 11 percent of its national income for the same services.

In the second place, the analogy with 1929 is false because the objective need is going to be permanently much greater than it was in 1929. Here again a comparison with British experience may help to explain why this should be so. Great Britain went through its great industrial readjustment in the years immediately following the World War. In other words, it had its ‘1930’ in 1921 or 1922, thereafter its minimum normal unemployment—that is to say, its unemployment in the most prosperous years—was unable to drop below 10 percent, as compared with a minimum of 2 percent recorded before the war by trade unions for their own members. And today with an unprecedented armament boom in progress—an armament boom which is essentially a government works program for destructive rather than constructive social purposes—the unemployment rate has not reached 10 percent but is somewhere between 11 and 12 percent.
In the United States the effect of the world-wide economic forces operating to increase permanently what might be called the unemployment overhead of industrial countries was postponed for a number of years because of exceptional conditions favorable to American prosperity. As a consequence of the World War, the United States managed to capture a larger share of world trade than it had before 1914, or is enjoying at present. Also we exported a large amount of capital and thus increased our sales of goods, until our loans were defaulted and we decided not to lend any more. Finally we saw in the twenties the remarkable development of the automobile industry, which provided work for large numbers of those whom the progress of technology would otherwise have served to displace. The automobile industry has now about reached maturity, and there does not now appear on the horizon any new industry capable of providing additional employment on the same scale as the automobile industry provided during the twenties.

For these and other reasons our permanent unemployment problem is likely to be very much greater than it was in the period before 1929. It is idle, therefore, to expect to be able to dodge the question of permanent unemployment relief—first of all, because we cannot expect to dodge a larger problem with the same ease with which we dodged a smaller one, and secondly, because, once our social conscience has been awakened to governmental responsibility for the relief of unemployment, we cannot hope to go back—we do not want to go back—to the pre-1929 way of doing things.

In considering the magnitude of the future unemployment relief problem we must of course take into consideration the effect of the State unemployment compensation plans which are administered under the general supervision of the Social Security Board. It is easy to exaggerate the effects of the unemployment benefits program—a program, moreover, which will not be in full operation for another two years. It must not be forgotten that the design of the program is primarily to take care of short-term and seasonal unemployment. It is not meant to take care of long-term unemployment, or of that type of chronic unemployment in which it is impossible to assure enough actuarial reserves during the periods of employment to take care of the periods of unemployment.
The unemployment insurance principle has proved its value in European countries, and it will undoubtedly prove its value in the United States. But it will not basically affect the problem of the relief of destitution caused by long-term unemployment. This is proved by the experience of Great Britain, where with an insurance system dating back to 1911, the government is forced to have recourse to two additional forms of aid—unemployment assistance and poor relief. Unemployment assistance is extended to able-bodied unemployed whose insurance benefits have run out or are insufficient, and thus corresponds in function, though not in the character of the aid extended, to our Federal work relief program. The difference is that England pays a dole rather than providing jobs at useful work. On the other hand, poor relief is given to the clearly unemployed.

In short, while it is difficult to estimate in advance the precise effect of unemployment compensation benefits on the relief load, it can be taken for granted that we shall have a sizable relief problem confronting us indefinitely in the future. The question arises therefore, how the permanent relief needs are to be financed. At one time, in the months when the big Civil Works Program was put into operation, the Federal Government not 90 per cent of the cost of that program and over 50 per cent of the cost of direct relief. At another period when the FERA was administering work relief as well as direct relief, the Federal Government was paying as much as 78 per cent of the total cost, the local communities 13 per cent, and the States the remaining 9 per cent.

Such divisions of cost, dictated as they were by the straitened finances of the State and local governments and by the readiness of the American people to invoke the vast borrowing powers of the central government, are not to be considered for the future. On the other hand the 50-50 division—50 for the Federal Government and 50 for the States and localities—which is followed in the case of old-age assistance under the Social Security program, would seem to be unfair to the States and localities. Since the Federal Government is responsible for the relatively expensive
policy of providing jobs instead of doles for that portion of the relief population which is employable, it is only fair that it should bear a larger proportion of the heavier total cost of the combined work-relief and relief program which its work policy makes necessary.

Fortunately, the question of the proper division of costs bids fair to work itself out automatically and with pragmatic justice as a result of the continuance of the Federal works policy itself. When the WPA works program was started in 1935, the Federal Government laid down the broad principle that it would be responsible for giving jobs to the employable section of the relief population, while the States and localities should handle the direct relief program for the remainder. At the same time, since the work relief program resulted in the creation of permanent improvements in the states and localities where the unemployed were put to work, the Federal Government also felt justified in asking the States and local communities to put up money for all, or at least most, of the non-labor costs. No contribution was asked for labor costs.

It is significant that the sponsors' contributions have risen from 9 per cent of the Federal WPA expenditure in 1935 to about 15 per cent in the first six months of 1937.

With both the direct relief rolls and the WPA employment dropping,—the direct relief for July showed a drop notwithstanding the WPA terminations and the transfer to direct relief of a part of those whom the WPA had to let go,—the continuance of the present division of function between the Federal Government on the one hand and the State and local governments on the other is not likely to inflict any undue hardship on State and local finances. If we total expenditures during the first six months of 1937 for both direct relief and for the WPA program, we find that the Federal Government paid for approximately 70 per cent of the combined expenditure. The WPA program, moreover, is not the only Federal expenditure directed to the relief of unemployment. There are also the programs of the CCC and the Resettlement Administration (recently taken over by the Farm Security Administration of the Department of Agriculture), as well as the works program administered by various Federal departments from relief funds. Finally there is the newly-
Despite all these expenditures the Federal budget is on the way to being balanced. And when I say it is on the way to being balanced, I mean really balanced—not balanced in the fictitious bankers' sense which neglects underlying responsibilities for meeting our human needs. At the same time there is abundant evidence of the financial recovery of State and local governments so that the burden of relief—admittedly great—is yet within their physical strength. If I may venture a comparison, I should say that the change in their situation from 1932 to the present is like that of a parent who after being swamped with burdens he is unable to meet, finds himself able, by dint of hard work and scrimping, to be equal to his responsibilities. The parent for the first time begins to take joy and satisfaction in the performance of his heavy tasks and in the meeting of his responsibilities. So the local communities and the States may well take pride in their ability to meet the new social responsibilities which came as a result of the depression.

Of course there are the false economy advocates who would have the Federal Government abandon its work program and spread its funds on direct relief, thereby reducing the cost to the States and localities. Their position, it seems to me, is a good deal like that of a child crying because he lost his penny and then continuing to cry when a benevolent passer-by gives him another penny because he might have had two pennies. Without a Federal work program stimulating recovery through the distribution of large blocks of purchasing power, the relief load would not have been reduced in the past four years to the extent that it has been reduced; and the States and localities not only would not have been able to save legitimately on their share of relief costs, but would not have had the benefits of the earlier and fuller recovery made possible by the work program, nor the permanent improvements which the workers created through the work program.

The same reasoning applies to the future. A work program is essential if business recovery is to be maintained, if business is not to be allowed to stagnate as a result of the loss of purchasing power from a mass of unemployment two or three times as great as in the 1920's. Other countries have their armament programs which stimulate employment but at the cost of lowering
the standard of living. We must rely on programs of socially useful work, which provide employment and raise the standards by creative additions to our social wealth and services.

Yes, a dole is cheaper in the immediate sense. But a dole is sterile, while work is fruitful. In the old days Aristotle used to say that money was sterile—that was one of the reasons he gave for the prohibition of the taking of interest. And as long as money was not used for productive purposes the observation had a great deal of truth to it. Our whole modern economy is based on the change from a sterile use of money to a fruitful use of money. Those who advocate the abandonment of the works program and the substitution of the dole are really seeking to turn back the hands of the clock of progress and revert to the economy of medieval and ancient times.

Let me close with a final observation. In the last analysis, the status of local finance depends upon the condition of general economic activity and the amount of social wealth and income being produced. At the present stage of our development, the amount of social wealth and income being produced is closely related to the social expenditures of the government. Since those expenditures help to broaden and maintain an ascending prosperity, the burdens of municipal finance necessarily become lighter as municipal finance is able to draw upon a larger reservoir of social wealth and income. Adequate expenditures, therefore, for social betterment is an indispensable guarantee for the continuance of municipal financial recovery.