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I

PLANNED PUBLIC WORKS AS AN AGENCY OF ECONOMIC STABILIZATION: THE DEVELOPMENT OF THE IDEA

FLEXIBLE PUBLIC WORKS AS A STABILIZING INFLUENCE

PROPOSALS for utilizing public works as an agency of economic stabilization in an unstable economic system have been receiving much attention in recent years. In essence the suggestion is that public works should be planned and budgeted sufficiently in advance to be conducted on a flexible schedule, operations being timed to fluctuate inversely with general cyclical movements of business, that is, retarded in periods of prosperity and speeded in periods of industrial stagnation. Public works have usually been undertaken in large volume in good times both because of greater popular demand and because governments have the money or are more willing to borrow. Conversely, depressions have usually found public authorities with a heavy load of debt and impaired borrowing powers. Thus the expansion of public construction in prosperity has increased the pressure on the market for materials and the labor supply, and consequently encouraged 'inflationary' tendencies; while its contraction in periods of depression has meant that a curtailment of public expenditures accentuated the effects of the reduction of private spending. It has been argued that an elastic system of controlled public works would correct both these evils by giving when needed a general stimulus or check to economic activity as a whole.

The success of a policy of controlled public works will be conditioned largely by the relative volume that can be readily advanced or postponed. This in turn depends very considerably, despite almost infinitely diverse local conditions, upon the thoroughness with which advance plans, both engineering and financial, are prepared. The long-range planning and budgeting of public works is an essential prerequisite if a great variety of administrative, technical and financial difficulties which consume time when time is precious are to be avoided.

This study is in the main an attempt to supply, by means of an historical, descriptive and analytic survey, the basic factual material necessary to evaluate the possibility of utilizing planned public works as an agency of economic stabilization. To undertake such a task is far from implying that the chief function of public works is to serve as a 'balance wheel' for business. Quite conceivably, criteria based on other, longer-term, considerations, and viewing the community's social-economic interests from different angles, might suggest principles of public works planning that would conflict in certain respects with this objective. The problem would then arise of reconciling these divergent desiderata or making compromises. Other studies now being made are concerned with these questions: they do not fall within the province of the present inquiry. However, whatever the approach to and purpose of any study of public works, it must necessarily be founded upon an understanding of the concrete details of the actual situation. Therefore the scope, volume, distribution and fluctuation of public works in the United States during the decade and a half following the close of the World War are discussed in detail in this volume. The concluding chapters, in touching upon some of the basic problems of theory and practice in the control of public works as an agency of economic stabi-

lization, afford the point of departure for more intensive analysis relating public works to the broad general problem of industrial fluctuation and its mitigation.

HISTORY OF PROPOSALS AND MEASURES

Recourse has long been had to the expedient of providing employment for the jobless on emergency relief projects. To go no further back than the depression of 1855, the New York immigration authorities sent all those applying for help to work on the enlargement of the Erie Canal. During the depression of 1857-58, at the suggestion of the Mayor of New York that the unemployed be hired on public projects at a 'fair wage', some work was given on street cleaning and stone quarrying jobs. The long business depression of the 'seventies prompted several cities to undertake similar measures. Although ostensibly municipal enterprises, these activities were, in many instances, managed by local charity societies.¹ During the winter of 1914-15 ninety-nine cities were furnishing special work for relief purposes.²

Public works proposals have been distinguished from pure relief work proposals, at least in theory, by the requirements that only such works as are useful and not created solely for the purpose of keeping men busy should be included, and that only properly equipped persons are employed at the rate of wages prevailing for the particular type of labor, not at relief wages.

"This is an entirely different thing from the institution of relief works the main purpose of which is to give work to unemployed persons, and it involves more than merely deciding to

¹ Bryce M. Stewart, *Unemployment Benefits in the United States*, 1930, pp. 53-4.

² V. A. Mund, *Prosperity Reserves of Public Works*, *Annals*, American Academy of Political and Social Science, May 1930, p. 5.

put public works in hand after the crisis has already developed. The object of such a policy is to provide a definite stimulus to the economic system as a whole in periods of depression . . . and, by reserving public works for periods of depression, to avoid heightening the preceding boom.”³

As early as 1909 Professor A. L. Bowley explained that planned public works differed from crude relief works in the following respects: The work in question would be started before unemployment became acute; there would be no artificial demand for labor but only an adjustment in time of the ordinary demand; the unemployed as a class would not be attracted, for the demand would come from ordinary trade sources; the wages paid would be measured only by the work done, being contracted out on the ordinary commercial basis.⁴ The distinction between the two ideas is important, for in practice there has been much confusion of thought.⁵

In practice, however, chiefly because sufficient properly planned works were not at hand, relief work of an unproductive and occasionally wasteful nature has often been resorted to. Not until 1931 did the United States government establish machinery designed to use public works as a preventive of unemployment (see below).

Abroad the possibility of using public works as a stabilizing agency was recognized earlier. In 1902 the French government

³ *Unemployment and Public Works* (International Labour Office, 1931) p. 2.

⁴ *Minority Report of the (British) Poor Law Commission, 1909, Part II.*

⁵ “Care must be used not to confuse emergency relief programs with the long range planning of public works for employment stabilization, for the two have practically nothing in common. The latter involves the physical and fiscal planning of public construction projects over periods long enough to cover complete business cycles, combined with such timing of the initiation of projects that they will create employment when private business concerns are curtailing payrolls. When these projects are undertaken they are to be prosecuted in the usual way. . . . Such planning by its very nature cannot be instituted *after* a period of cyclical unemployment is upon us. It must extend over the ‘prosperity’ as well as the ‘depression’ phase of the cycle” (*Report on Public Works and Housing, State Emergency Relief Board of Pennsylvania, January 1935, p. 3*).

officially endorsed the policy of reserving important public works for periods of unemployment. In England the minority report of the Poor Law Commission of 1909 suggested that the government could "do a great deal to regularize the aggregate demand for labour as between one year and another by a more deliberate arrangement of its orders for work of a capital nature". Many other European governments, Prussia, Sweden, Norway and Finland, followed France in partially adopting or in considering the policy of regulated public works, but none attempted to apply it on a comprehensive scale. Examples of the postponement of some construction for periods of slackened business activity are found during the last fifteen years in many countries—France, Germany, Italy, Norway, Sweden; conversely, there are few countries which have not undertaken works earlier than they would normally in order to afford unemployment relief in bad times, especially during the post-War and the recent slumps. Frequently, however, as in the case of the German 'productive unemployment relief' schemes, these attempts have been largely in the nature of pure relief works.⁶

STATE LEGISLATION

In the United States various states, New Jersey and Idaho in 1915, Pennsylvania in 1917, Wisconsin in 1923, passed legislation providing for public works as a remedy for unemployment, but these measures either remained dead letters or have had insignificant results.

The first two clearly envisaged public works merely as an emergency relief device; in authorizing expenditures in times of unemployment, they provided that only 'the needy' were to be hired. The Idaho law was declared unconstitutional in 1916 because it made possible the appropriation of county as well as state funds. The New Jersey law dealt with cases in which a community had set up an unemployment relief committee. Under it jobs might be given to unskilled laborers from the 'needy

⁶ *Unemployment and Public Works*, pp. 128 ff.

poor' of the locality at a wage rate fixed by the State Civil Service Commission. The Pennsylvania law of 1917 was a distinct advance in this respect. It created an emergency public works fund of which the Governor, the Auditor General, the State Treasurer and the Commissioner of Labor and Industry were trustees. Upon receiving notice from the industrial board of the Department of Labor and Industry that unemployment was extraordinarily large, the Public Works Commission was authorized to distribute the fund among government departments for carrying out public projects, provided this were done with a view to furnishing "the maximum of public employment in relief of the existing condition of extraordinary unemployment, consistent with the most useful, permanent and economic extension of the works aforesaid". The entire appropriation for the emergency fund, however, amounted to only \$40,000; this was spent during the depression of 1920-22, and no further appropriations were made. Since the results of the measure were so insignificant, the Pennsylvania legislature, when passing the administrative code of 1923, provided for its repeal and the abolition of the Public Works Commission.⁷

The California legislature passed a law in May 1921 providing that a Board of Control should secure plans of tentative projects which could be suitably speeded during periods of depression. When the Bureau of Labor notified the Governor that a condition of "extraordinary unemployment" existed, the Board of Control was to begin the distribution of an emergency fund of \$1,000,000 for each biennial period, to be made available to provide for unforeseen contingencies for which there were no appropriations in the budget. The law, however, never became operative. In 1923 Wisconsin enacted a law similar to

⁷The author of the law, Mr. Otto T. Mallery, commented as follows on its repeal: "It was repealed as a part of the reorganization plan of the governor in which as many commissions as possible were abolished and executive authority simplified and centralized. There was no public attack on the principle of the Emergency Public Works Commission, but as the author of the Act, I had lost confidence in its efficacy. In the scramble for money in the legislature there is a strong indisposition to lay aside funds for the future" (V. A. Mund, *loc. cit.*, p. 6).

the Pennsylvania measure, but nothing has come of it. The Louisiana law of 1921 merely authorized the release during depressions of any public works already contemplated.⁸

The theory of planned public works was fully embodied in the scheme proposed for Pennsylvania by the Governor's Committee on Unemployment in 1931.⁹ This called for a board composed of representatives of the state government, of some of the municipalities and counties, of the construction industry and of professional organizations of engineers and architects. Under the direction of a full-time executive officer the board was to prepare, for state and local authorities, a six-year plan of projected public construction, the plan to be revised at the end of every two years and projected for the ensuing six years.

Projects were subdivided into three groups: Group A was to consist of work that had to be done immediately and for which a definite time schedule was set; Group B of projects to be completed within the six-year period, but for which no definite time limit was set; and Group C of work for which either funds could not be made available within six years or the public demand was not sufficiently pressing to warrant action in the near future. Engineering and architectural plans were to be prepared in advance and kept up to date. The reserve for periods of business depression was to consist of projects covered by Group B, and, in depressions of unusual severity, of some of the more important projects of Group C. In order to avoid delay in setting the plan in motion when desired, it was stipulated that the bond

⁸ In 1924 the Massachusetts Assembly voted affirmatively on a resolution requiring various departments of the state government to make "special forecasts for extension of public works specially adapted to supply increased opportunities for employment of labor during periods of state wide industrial depression". In New York a resolution was proposed in the Legislature in 1921 to establish a legislative committee that would coordinate plans for public work in the state, so as to secure the widest possible relief for unemployment (Bryce M. Stewart, *op. cit.*, p. 57). Nothing appears to have come of either plan.

⁹ Paul Douglas and Aaron Director, *The Problem of Unemployment*, p. 218.

issues for the projects included in Group B should be authorized in advance. To cope with cases where the total borrowing of the communities approached the constitutional debt limits, it was suggested as desirable to provide for flexible borrowing powers or to permit the issue of additional bonds when the Board declared that a state of emergency existed. Considerable control over local works could be exercised by the Board by virtue of the requirement that its approval must be obtained before local authorities could exceed their normal constitutional debt limits.

Following the lead of the Federal government in establishing the Federal Employment Stabilization Board, three public works bills were introduced in the Pennsylvania legislature in 1933 providing for the long-range planning of state and local public construction, with a view to its cyclical control. Two passed the House and Senate but were vetoed by the Governor. The third is still on the calendar of the House.¹⁰

PROPOSALS FOR FEDERAL LEGISLATION

The repeated efforts made since the World War to pass Federal legislation for the advance planning and control of public works proved fruitless till 1931. As early as January 1919 Senator Kenyon introduced a bill, carrying an appropriation of \$100,000,000, to create a United States Emergency Public Works Board, which would cooperate with Federal, state and municipal agencies in stimulating public works in times of depression. After extensive hearings, however, the bill was reported unfavorably and abandoned. In 1923 the principle of planned public works received official endorsement from the President's Conference on Unemployment.¹¹ Following its recommendations, Senator Ken-

¹⁰ For details see *Report on Public Works and Housing* (State Emergency Relief Board of Pennsylvania), pp. 4-7.

¹¹ *Business Cycles and Unemployment* (National Bureau of Economic Research, 1923), pp. xxvii-xxix, 231-61.

yon introduced a bill "to prepare for future cyclical periods of depression and unemployment by systems of public works" which provided for advance preparation of engineering plans by the various departments of the Federal government and gave broad powers to the President in retarding or expediting projects. This bill was also dropped, apparently mainly because the nature of planned public works was at that time only imperfectly understood, and also because a majority in the Senate did not wish to place powers of acceleration wholly in the hands of the President.

Early in 1923 Mr. Hoover, then Secretary of Commerce, requested in a letter to the President "that an executive order be sent to all divisions of the government to have public works slowed down until after there is a relaxation in private demands for labor in construction". "We can," he said, "by this means contribute something to a more even flow of employment not only directly in the construction work but in the material trades."¹² It is asserted that in accordance with this request no new Federal construction that could be postponed was begun during 1923. In 1925 a bill was introduced in the House which had as its object the incorporation of the principle of planned public works in the public buildings program to aid employment stabilization.¹³ In 1926 an amendment to the public buildings bill was introduced in Congress providing that "the Secretary of the Treasury shall take into consideration the stabilizing effect governmental construction policy may exert upon general employment and industrial activity, and shall report to Congress with recommendations whenever the volume of construction for the United States during any period falls one-third below the volume of the corresponding period of

¹² Bryce M. Stewart, *op. cit.*, pp. 57-8.

¹³ *Unemployment and Public Works*, p. 55.

1925". This amendment was not adopted.¹⁴ In January 1928 Senator W. L. Jones introduced a bill "to create a prosperity reserve and to stabilize industry and employment by the expansion of public works during periods of unemployment and industrial depression". An appropriation of \$150,000,000 was proposed for the reserve fund. Public projects were to be started as soon as the volume of general construction, as measured by its value, had during three months fallen 20 per cent below the average of the corresponding three-month period of the years 1926 and 1927. The bill, with some modification, was reported favorably by Committee but was not enacted into law.¹⁵ A bill introduced by Senator Wagner of New York in May 1928 "to provide for the emergency construction of certain public works for the relief of unemployment during periods of business depression" met with a similar fate.

During the 1929-30 session Senator Wagner introduced another bill dealing with the same subject. It passed the Senate in April 1930 and the House of Representatives, in a much modified form, in July 1930, and eventually became law in February 1931.

The act provided for the creation of a Federal Employment Stabilization Board composed of four cabinet members—the Secretaries of the Treasury, of Commerce, of Labor and of Agriculture—with a permanent staff. Its function was to watch the movement of business activity and report to the President whenever a state of depression existed or was likely to arise within the succeeding six months in the United States or in any substantial part thereof. Upon receipt of such notice the President was to transmit it to Congress with an estimate of the appropriation needed to undertake public works in the area affected. The law also

¹⁴ Bryce M. Stewart, *op. cit.*, p. 58.

¹⁵ *Unemployment and Public Works*, p. 55.

provided that Federal departments should prepare plans for construction projects for six years; the Director of the Budget was to consolidate the various projects. In the creation of the Federal Employment Stabilization Board the theory of planned public works was first put into large-scale operation. In 1933, with the creation of the Public Works Administration, and later the National Planning Board, the scale and character of the whole problem were so changed that arrangements were made for transferring certain of the Stabilization Board's functions to various appropriate divisions of the Public Works Administration. The Board itself later became, by Executive Order, the Federal Employment Stabilization Office, and was placed under the jurisdiction of the Department of Commerce. Meanwhile, in July 1932, Congress had appropriated \$300,000,000 for Federal public works, and had authorized loans from the Reconstruction Finance Corporation up to the aggregate sum of \$1,500,000,000 to states, counties, cities, and in some instances private corporations, for 'self-liquidating' construction. Thus for the first time the United States was to use its credit to aid local borrowing for public works.¹⁰ In May 1933, under the provisions of the Industrial Recovery Act, the President was empowered to make emergency expenditures, mainly on public works, up to a total of \$3,300,000,000, and to that end the Federal Emergency Administration of Public Works was established. These measures are discussed fully below: inasmuch as they were primarily emergency recovery measures designed to cope with the immediate situation they call for no detailed comment at this point.

¹⁰ In England, through the agency of the Public Works Loans Board, local borrowing had been possible since 1887 and most of the funds for housing and similar projects undertaken by the smaller municipalities had been supplied by this means.

CHANGING ATTITUDES TOWARDS PUBLIC WORKS DURING
THE DEPRESSION

In tracing the changes that the concept of the proper function of public works as a device for influencing business activity in general has undergone during recent years of depression, four phases may be distinguished. Prior to the depression of 1930-33, as shown above, though emergency public works had long been regarded primarily as a means of affording relief to the unemployed, the idea was slowly emerging that they might be utilized as a force to compensate for and thus moderate business fluctuation. Such analysis of the problem as had been undertaken, and the advocacy of planned public works based upon it, usually posited both contraction of construction programs in prosperity and their enlargement during depression. What we may call the first phase was evident following the recession of 1929 and during the early stages of the depression. Expanded public construction was regarded chiefly as a means of preventing a decline in business (even though there had previously been no deliberate retardation of its volume), upon the assumption that acceleration was desirable as early as possible despite the condition of capital overexpansion from which the recession represented a reaction. It was not generally felt that some process of liquidation was inevitable once such a situation had developed. This outlook prompted the advocacy of 'unplanned' reserves of public works, namely, their prompt acceleration upon the occurrence of a recession without corresponding retardation in good times. It also explains the general conviction that business relapse could be prevented by 'keeping purchasing power intact' through the maintenance of wage rates at their prevailing level. The belief that the reaction was unlikely to prove serious and

that underlying business conditions remained sound was widespread.

This sentiment, however, became less assured as concern grew during 1930 over both the mounting volume of unemployment and the mounting budget deficit. As the depression developed, the agitation for enlarged programs of public works was increasingly motivated by the desire to have work provided for the unemployed. On the whole, little attention was paid by public works advocates in this second phase to the repercussions which such expanded expenditures were likely to produce upon other factors in the total situation, budgetary, financial and monetary, and the indirect effects they might have, through these influences, upon private business activity in general. As yet little general realization was manifested that the limits of expansion of governmental expenditures are narrowly restricted by adherence to the gold standard and that attempts to pass beyond these limits constitute a threat to the gold base.

In its third phase the problem of public works became an aspect of the problem of fiscal and monetary policy during depression. While still laying much stress upon the desirable direct effects of expanded public works programs in affording unemployment relief, the advocates, in and out of Congress, of bond issues for public works running into the billions began to attach still greater importance to the indirect effects of enlarged expenditures in reputedly stimulating the capital goods industries and increasing consumer purchasing power.¹⁷ Public works were regarded as a means of

¹⁷ An important example was the bill introduced in January 1932 by Senator Robert La Follette. Declaring that local efforts to meet unemployment problems had failed, he advocated the flotation of a five and a half billion dollar bond issue for public works expenditures, in order to arrest deflation, put men to work, stimulate production and create markets by distributing purchasing power (S. 2419, 72nd Cong., 1st Sess., "A bill to accelerate public construction during the present emergency, to provide employment, to create the Administration of Public Works, and to provide for the more

arresting and reversing the cumulative downward movement of the processes of business decline and were urged as a 'reflationary' measure by many who were aware of the threat of such action to the monetary standard. It was mainly for the same reason that others opposed this policy. The issue was not sharply drawn till the autumn of 1931. The departure from gold of Great Britain and of the countries which followed it, however, by producing an international scramble for gold and a world-wide pressure upon price levels, brought to light the mutually contradictory nature of the two opposed courses between which, thus far, American opinion and policy had vacillated. Choice henceforth clearly lay between an attempt to readjust prices upwards through expanded expenditures at the cost of increasing deficits and the risk of injury to the bond market, government credit and the gold base, and efforts to effect downward readjustment of the cost-price structure along traditional lines of governmental retrenchment and business liquidation and reorganization, with all their attendant social-economic difficulties. In this controversy, though the real issue was often unformulated, and indeed for some time not clearly realized in its full implications, public works became one of the storm centers. The crux of the problem lay in the question whether the beneficial direct effects upon activity and employment of increased expenditures were likely to be greater or less than the injurious indirect effects that they were in danger of producing.

This choice between these alternatives was not decisively made until March 1933. Meanwhile the limiting factor conditioning policies of expanded construction lay in the necessity for any country intent to continue on gold of subordinating its internal fiscal and monetary course to the

effective coordination and correlation of the public works activities of the Government"). The bill was frankly 'reflationary'.

movement of the world gold price level, on pain of experiencing foreign drains of liquid funds and a flight of domestic capital. Faced with this choice the United States government cannot be said to have adopted a thoroughgoing and consistent policy of 'deflation', for with the creation of the Reconstruction Finance Corporation it accorded financial support on a vast scale to the weaker business and financial institutions of the country. All proposals for greatly expanded expenditures on public works, and especially the use of Federal credit for the purpose, were, however, henceforward unequivocally opposed. This was demonstrated anew as late as July 1932 by the nature of the measure adopted in response to agitation which had been growing more widespread and intense. The chief provision of that measure, the Emergency Relief and Construction Act, mentioned above, was for the extension of loans to local subdivisions not by the Federal government, but by the RFC, on the stipulation, moreover, that these loans should be granted only for 'self-liquidating' or revenue-producing projects. As a result of this requirement, and of the high interest rates charged, authorizations were made only very slowly, and disbursements naturally more slowly still.

After the present Administration took office the indications are that at first it hoped to be able to embark on a program of greatly increased expenditures (for public works and other purposes) within the framework of the limits set by adherence to the gold base and the traditional fiscal and monetary policies it required, but speedily came to the conclusion that a choice between incompatible ends had to be made and that a budget in reality if not ostensibly unbalanced, and if necessary a departure from gold, were the price that had to be paid in pursuit of an expansionist policy. The passage of the National Industrial Recovery Act, with its provisions for 'emergency construction and

allied expenditures of over three billion dollars, and the creation of a Federal Emergency Administration of Public Works, was a decisive choice of policy. Huge funds were made available for the speediest possible expenditure on public works; they were to be raised by Federal borrowing and were to be used for local as well as Federal construction; the Federal government was to provide the funds in the form partly of loans, partly of outright grants; and no requirement was laid down that projects should be 'self-liquidating', in the sense of revenue-producing.

During this, the fourth phase, public works were regarded largely as a means of attaining the ends of fiscal policy. It was realized that even though a policy of reflation had been decided upon, and gold abandoned, measures that would actually increase the volume of consumer purchasing power and, more important, the demand for producers' goods, were needed to implement that policy. During this phase the difficulty of rapidly spending, without waste and graft in the absence of advance planning, the huge sums available for the acceleration of public works became a dominant factor in the situation. The wheel of opinion comes full circle with the realization that if public works are to be really effective as an agency of economic stabilization, comprehensive measures are required which look towards their utilization not merely as a remedy when depressions occur, but in part for the prevention of the causes of depression.¹⁸

¹⁸ The purpose of this section, in tracing objectively the evolution of thought on the subject, without critical evaluation, has been merely to show the ideas from which certain courses of action sprang. They receive detailed examination in subsequent chapters, especially Ch. XIV.

This study covers the experience with the first great emergency public works program, mentioned above. A second huge 'works relief' program, carrying an additional appropriation of \$4,000,000,000, of which the greater part is allocated for public works, has just been approved by Congress (April 5, 1935) and the details announced by the President (see Ch. V).