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Subsidizing Stagnation

by Merwin K. Hart



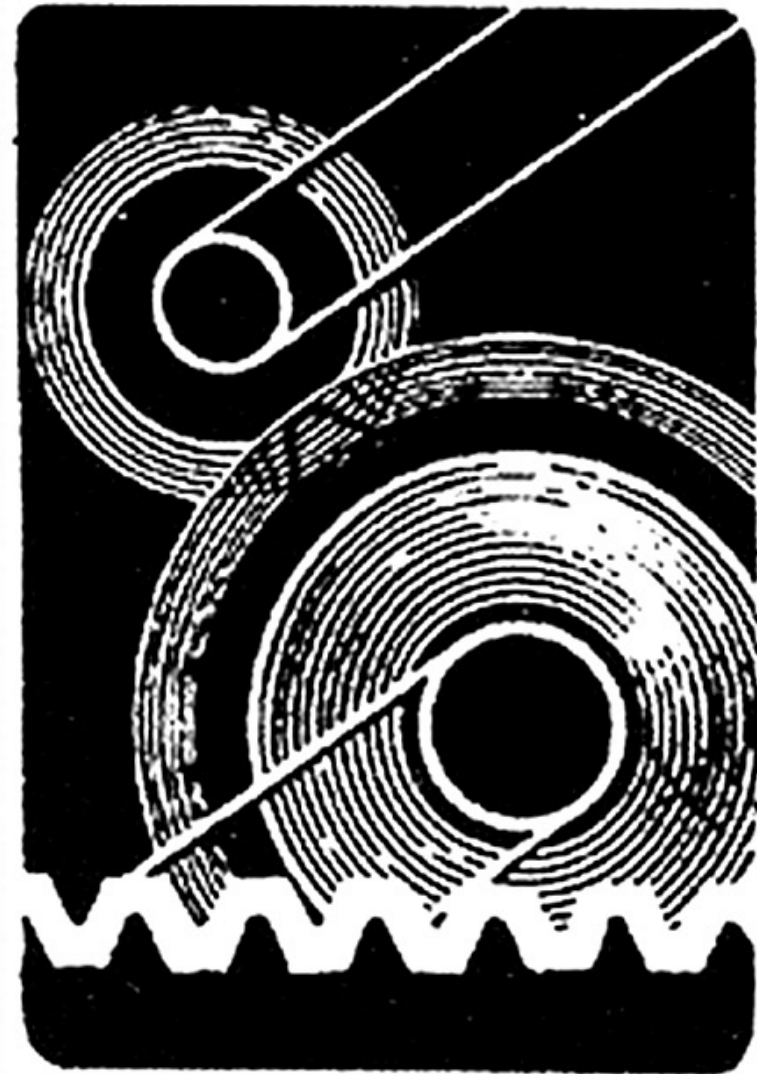
What is the real effect of pouring unlimited, often unneeded, public funds into a local economy? Mr. Hart, president of the New York State Economic Council, tells the story of what happened when pump-priming came to Smithville.

BEFORE me are two estimates—both by competent authorities—of the extent of unemployment in the building trades in New York City. One shows that out of 115,000 building trade workers resident in the metropolitan area not over 10 per cent are employed in construction work, and that at least three quarters of these are engaged on public works. The second estimate places the total unemployed in this class of workers at from 10 to 20 per cent, and states that three-quarters of those working at their regular trade are employed on projects directly supported by the taxpayers. This is indeed a startling commentary upon that practice of pump-priming known as public works.

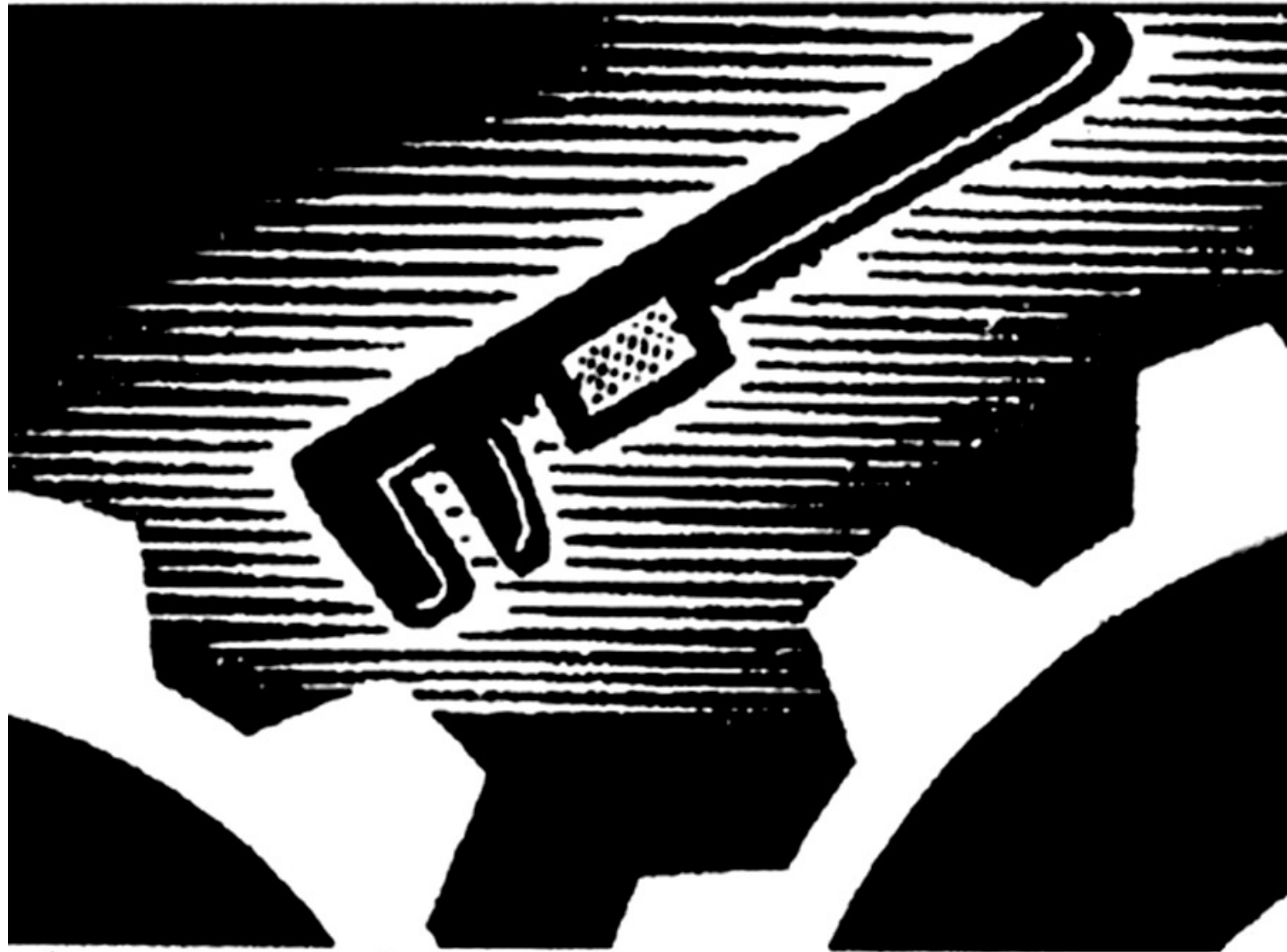
Is the underlying economic theory of pump-priming involved in PWA expenditures really working? Not if the New York City picture as presented by these two estimates are reasonably correct, and I have every reason to believe that they are. There have been two schools of thought concerning the value of expending large sums of public funds to help a nation out of a depression. One is hostile, the other is friendly. But it is a question if even the critical, which like the friendly one, proceeds largely on economic theory, appreciates what may be the eventual result of unlimited public works expenditures when studied through the microscope of a single, local economic unit—a village, a town, a city, or a county. Few of the theorists have bothered to examine the havoc which can be caused by the impact of 'unlimited' sums of Federal money when loosed upon such a local economy. Few, also, I believe, have stopped to wonder whether there might not be such

an eventuality as a perfect pump-priming operation functioning indefinitely in a sort of economic vacuum, functioning with such generosity as to be wholly without any economic therapeutic value whatever.

Let us take, for the purposes of such an examination an actual village which we will call Smithville and study it as a microcosm of the effect of Uncle Sam's seemingly well-intentioned



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plan of orgiastic spending as an economic cure-all.

Two things have happened at Smithville in the last eight months. That is news, because Smithville is one of those average small towns where things don't ordinarily happen. Two of Smithville's three small manufacturing plants are working four days a week; one is shut down. A good many persons are "on relief." Mechanics' wages, when they get wages, are sixty to eighty cents an hour. Common labor receives twenty-five cents an hour.

Near the village is one of the State's historic sites, which, in the golden '20's, was purchased by the State to produce a shrine, and which was turned over to a distinguished, non-salary-drawing commission. The State allotted \$2,500 a year for expenses; in 1932 this was cut to \$2,000. With this sum the commission managed to get along, largely because the non-paid chairman did most of the work himself.



One day last December pump-priming came to Smithville. The chairman received a visit from a representative of CWA, who informed him that his commission must spend \$10,000 on the property in the ensuing ten weeks!

"It can't be done," gasped the startled chairman.

"Oh, yes, it can," said his visitor. "Put twenty men to work widening the roads."

"But, we don't want the roads widened—the wider they are the more it will cost to maintain them."

"Well," said the caller, "put some gravel on the road."

"But the roads don't need any gravel; they are in good shape right now."

"Then put a force of men to work clearing out the woods."

"But no one ever goes to the woods."

"Well, never mind," said the visitor becoming irritated, "you've got to spend \$10,000 in the next ten weeks."

Moreover, under CWA regulation, the men were to draw fifty cents an hour. It did no good to argue that the prevailing rate around Smithville for such work was twenty-five cents.

Thus CWA attacked its part of the pump-priming job. It is no wonder that after CWA was through, a wail of indignation went through the ranks of those who had been on its "payrolls." In the process some \$300,000,000 or \$400,000,000 of borrowed money had been successfully gotten rid of by the Government. And also in the process workers were led to believe that they were entitled under all circumstances to not less than fifty cents an hour; and that the government owed them the duty of supplying them



with work at this price.

Meanwhile, private employment in the Smithville section continued to lag.

Then another incident happened near Smithville. It seems PWA has been urging rural communities the country over to borrow money to build schools. There seems to be a preference for central schools—that is, schools which are

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consolidations of a number of smaller school districts. Some of the school folks in and near Smithville had looked with envious eyes on certain big schools in other sections of the State. Here, they thought, was Smithville's chance to get up on a level with Jonesville. PWA was actually offering to pay 30 per cent of the cost of any construction project. Smithville simply could not afford to pass up this one.

So the school folks, or some of them—here and there a teacher, a principal, a district superintendent—began to talk the thing up. The State Department of Education lent a ready hand.



The matter was written about in the local newspapers. Even many of the merchants were for it, since the Government was going to pay so much of the cost anyway. A school official was prevailed upon to address the Smithville Kiwanis Club. The matter came before the qualified voters of all the school districts which it was proposed to consolidate, at a special election. To the surprise of the school crowd, it was beaten three to one.

Evidently the qualified voters did not know what was good for them. They talked about high taxes, and the fads and fancies likely to be found in modern school buildings. They complained that that section of the country as a whole was poor; that there had been many tax sales and foreclosures.



But the promoters of this central school got busy again. A house-to-house canvass was made of the voters. It was pointed out that not only would 30 per cent of the cost of the project come from the Federal Government, but that the State Government would contribute 25 per cent of the balance. Also, they explained, after consolidation there would be double "State Aid," compared with the single "State Aid" which the various separate school districts had enjoyed; that is, the State would give annually to the newly-set-up central district the regular State aid which the law provides for a central school and, in addition, the same aggregate "State Aid" which all of the several local schools would have received if they had remained decentralized. By this time the high pressure salesmen had pretty nearly satisfied many of these voters that they were going to get this new school for little or nothing. And a couple of months after the first election, another election was called and held. This time the project was beaten by only about fifteen votes!

Nothing daunted, the public officials went to work a third time. Officials of this kind are never beaten—not when they are on the public pay-roll. Practically every voter in the district was carefully canvassed. Feeling ran high. The third election was held a few weeks later and resulted in the carrying of the project by fifty to sixty votes—nearly four-fifths of all the qualified voters in the district attending and voting. Spending, on what was for this section of the country the grand scale, had carried the day. Officialdom had won out.



But what these public officials probably did not explain to all the voters was that the 30 per cent supposed to be contributed by the Federal Government *was just about offset by artificially imposed increased costs*. They did not tell them that when PWA was set up last year, the impression was given out by Government officials that the 30 per cent which the Federal Government was to contribute would be a gift from the Federal Government; that the locality in which the particular public work was to be constructed would thus get it at 30 per cent below the ordinary cost. They probably did not explain that, as a matter of fact, at the very start, Chairman Ickes, of PWA, sat down with Federation of Labor leaders and agreed with them as to wage levels and various restrictions, which added just about 30 per cent to the cost of every project to be carried on. Subsequent to that, Colonel Waite, Deputy Administrator of PWA, announced that the 30 per cent gift was really intended to offset the 30 per cent increase in cost—nothing more!

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Nor was it probably explained by these same officials that the 25 per cent to be contributed by the State to the building of the central school was not picked out of the sky, but had to be raised by the State by taxation; and that the money required to pay the double State aid had to be raised in the same manner; and that, in the last analysis, they—the high-pressured taxpayers—would pay for it.

Nor was it explained generally to the taxpayers that, although mechanics in the Smithville neighborhood are glad to work for sixty to eighty cents an hour, and common labor for twenty-five cents, yet, under PWA, mechanics had to be paid one dollar and twenty cents an hour, and common labor fifty cents.

In a short time another evil began to appear. The prospect of these high wages tended to make men less willing to work on private jobs.



Where will the money come from to pay for this school? It will be borrowed. The Federal Government will borrow its 30 per cent. The remainder of the total cost will be "borrowed" by the sale of bonds of the central district—and, as the bonds mature, the State will redeem one-quarter of them. In the last analysis the taxpayers will pay the cost—the same taxpayers who pay other taxes—the thrifty self-reliant people on whom the whole country is leaning in these difficult times.

The above incident, based on actual fact, illustrates the workings of PWA. A huge Government bond-issue for public works has been the dream of many a professor, of many a politician. President Hoover increased the amount authorized for public works from about \$260,000,000 in 1930 to about \$780,000,000 in 1931. By this time he became convinced that expanding public works was an uneconomic method of relieving unemployment. The English Government apparently rest their present policy on the same conclusion; for in 1933 Walter Runciman, of the

Cabinet, announced that England would not further enlarge its program of public works.

Dean Wallace B. Donham, in his book "Business Adrift," published in 1931, advocated a large extension of public works in time of depression, but recommended that the wages paid be much less than regular wages—his idea being that it was in the public interest that labor on emergency



public work should not be too highly paid. He wanted the workers on this made-work to be tempted back to private employment at the earliest possible date. But the Roosevelt Administration adopted a huge plan of public works expansion as a cardinal point in the New Deal. The amount finally fixed upon was \$3,300,000,000. That was increased by the last session of Congress by about \$400,000,000 more.

It is not too much to say that while, of course, those actually employed on these public works have had money distributed to them which they in turn have spent, yet, in the way the plan has worked out, the effect of the huge appropriation has been *actually to subsidize continued stagnation in the construction industry.*

The Government turned quickly away from PWA last December because public works were not being started fast enough; and spent some \$300,000,000 on CWA. This was a surer, quicker way of getting rid of the taxpayers' money—getting money in circulation, the Government called it. In the spring of 1934 there was a return with renewed energy and determination to PWA. At the present time, the whole \$3,700,000,000 has been allocated, though much less than half has so far actually been spent.

Pump-priming in Smithville has not been much different from pump-priming in New York City and other large places. Under the rules of PWA, wages are fixed at not less than \$1.20 for mechanics (\$1.10 in the central section of the country and \$1.00 in the South), and fifty cents an hour for common labor. But if in any city an agreement

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between unions and contractors, made prior to April 30, 1933, fixed wages at any higher level than that, the higher level prevails.



In New York City, building trades workers fall into three classes, called, A, B and C. *Class A* consists of those where either there is an especial hazard involved, a high degree of skill is required, or where the work is particularly seasonal; and includes such trades as ironworkers and bricklayers. The top wage reached for workers in these trades in the past fifteen years was \$1.92½ per hour. The official union rate is today \$1.65. *Class B* includes those trades where the work is in general inside work and, consequently, less seasonal. This includes carpenters, electrical workers, steam fitters, etc. Here the highest wage reached in the last few years was \$1.65 per hour. The official wage today is \$1.40. *Class C* consists of helpers, laborers, etc. The former top wage was 80c to \$1.10 per hour; the official wage today is 75c to 90c.

Now while the official wages are, and for some time past have been, as just stated, yet prior to the advent of PWA, a considerable amount of private construction work had been done at far less wages. The fact that not over 10 to 20 per cent of all the building trades workers of the New York area have been employed for a long time, makes it easy to understand why the workers were willing to take a lower wage (frequently, as little as half the regular wage) if they could find work.

But with the coming of PWA a year ago, this practice of doing private work at reduced wages, tended to change. All, or nearly all, PWA work, including all local work done with the help of PWA funds, has these wage rates (\$1.65 per hour for *Class A*, \$1.40 for *Class B*, 75c to 90c for *Class C*) written into the specifications.



PWA rules also require that a week's work for any worker is thirty hours. It is conservatively estimated that the PWA regulations raised the cost of public works built by the aid of PWA funds, by at least 30 per cent above what the work would otherwise cost.

But there has been another effect—indeed it may be said to be part of the purpose of the labor barons who are the authors of the idea of public works at high wages. Since PWA came into existence it has been increasingly difficult to find union workers for any private work at wages less than the PWA wages. In other words, the effect of PWA is to peg the cost of both public and private work.

The effect on public work is, of course, to require much more money to construct any particular public work. The effect on private construction has been, if anything, more disastrous—it has practically brought private construction and repair to a standstill. We have thrown a huge monkey wrench into the machinery of the very pump we were trying to prime.

Several municipalities, whose credit remains good, are said to have declined to use PWA funds, finding that, even without the 30 per cent donation from the Federal Government, they could do the job as cheaply, if not more cheaply, themselves.

Since PWA pump-priming has so far failed, the Administration now comes in with its home repair project, under the National Housing Act. The New Dealers have looked about them and observed that there is much home repair work to be done and new homes to be built. So NHA has made its bow to the public—the National Housing Administration. I need go no further into this new alphabetical agency than to say that the chief reason that brings it into existence is the mistaken assumption that people will not build and will not repair because existing financial institutions will not loan the money. It may be indeed that many of them will not loan the money under present conditions. In passing, it might be said that the very making of such improvident loans as most of these loans would prove to be, was one of the contributing factors that led to the disastrous crash of 1929—and for which the Government has been unsparing in its criticism of bankers.

The real reason why private individuals are not repairing their homes or building new ones, is that they either

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cannot or will not pay the price fixed by the professional labor crowd. If the Federal Administration were not so wedded to professionally organized labor that it cannot see this, it is likely that the whole elaborate scheme of the National Housing Act would be totally unnecessary. The same old monkey wrench is defeating recovery in the private construction field.

Glance the country over and you find it dotted with PWA projects, some of enormous magnitude. On all of these the Government is shelling out money with an almost drunken hand. Yet on some of these very projects, as for instance, the San Francisco Bridge, the 38th Street Tunnel in New York and many others, we find that under the influence of this same professional labor crowd—this strange partner of the Federal Administration—there are or have been strikes. In other words, it comes down to this: the taxpayer is mulcted to put up money to be spent lavishly on public works, whether needed or not needed. The effect is to subsidize continued stagnation in the private construction industry. The picture is completed by the calling of strikes. There is strong probability that many of these striking workers are today drawing public unemployment relief.



The great core of the Depression is the inescapable fact of several millions of unemployed. To get them back at private employment would be to end the Depression. To bring this about the administration is spending billions. Yet at one and the same time the same Administration is permitting—yes, by its policies, is aiding and abetting—strikes on every hand.

As this is written, the first area agreement under the National Housing Act has been signed by the President. It applies to New York and fixes the wages of workers in the *Class A* trades (Bricklayers, etc.) at \$1.50 per hour. This is a reduction of 15 cents per hour from today's official union wage.

But I am told that the chief importance of this area agreement is that it applies to private construction. It is to be unlawful to hire a worker of the type mentioned for less than \$1.50 per hour. The Government is to guarantee loans up to 80 per cent of the cost of private construction—based on these new rates.

In the past year or so there has been considerable private real estate developed in New York City and its suburbs. Carpenters, electricians and other inside workers have been glad to work for five dollars a day, and bricklayers and masons for six and seven. There can be no more work of this kind at such wages; which is the same as saying there will be no more work of this kind—unless the Government (that is the taxpayers) guarantees ultimate payment.

When will the Administration abandon pretense and ballyhoo and get down to facts?

How long will the American people permit these conditions to prevail?

How much longer will pump-priming continue to delude the people?

