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May 21, 1932.

Herbert S. Crocker, President,
American Society of Civil Engineers,
New York, New York.

My dear Mr. Crocker:

I am in receipt of your kind letter of May 19th, and I have also the presentation of the sub-committee of the Society suggesting that the depression can be broken by a large issue of federal government bonds to finance a new program of huge expansion of "public works" construction, in addition to the already large programs now provided for in the current budgets. The same proposals have been made from other quarters and have been given serious consideration during the past few days.

The back of the depression cannot be broken by any single government undertaking. That can only be done with the cooperation of business, banking, industry, and agriculture in conjunction with the government. The aid the government may give includes: (a) The quick, honest balancing of the Federal budget through drastic reduction of less necessary expenses and the minimum increase in taxes; (b) The avoidance of issue of further Treasury securities as the very keystone of national and international confidence upon which all employment rests; (c) The continuation of the work of the Reconstruction Corporation which has overcome the financial strain on thousands of small banks, releasing credit to their communities, the strengthening of building and loan associations, the furnishing of credit to agriculture, the protection of trustee institutions and the support of financial stability of the railways; (d) The expansion of credit by the Federal Reserve Banks; (e) The organized translation of these credits into actualities for business and public bodies; (f) Unceasing effort at sound strengthening of the foundations of agriculture; (g) The continuation of such public works in aid to unemployment as does not place a strain on the taxpayer and do not necessitate government borrowing; (h) Continuation of national, community and individual efforts in relief of distress; (i) The introduction of the five day week in government which would save the discharge of 100,000 employees and would add 30,000 to the present list; (j) The passage of the Home Loan discount bank legislation which would protect home owners from foreclosure and would furnish millions of dollars of employment in home improvement without cost to the Treasury; (k) Financial aid by means of loans from the Reconstruction Corporation to such states as, due to the long strain, are unable to continue to finance distress relief; (l) The extension of the authority of the Reconstruction Corporation not only in a particular I called attention last December, - that is, loans on sound security to industry where they would sustain and expand employment, - but also in view of the further contraction of credit to increase its authority to expand the issue of its own securities up to \$3,000,000,000 for the purpose of organized aid to "income producing" works throughout the nation, both of public and private character.

1. The vice in that segment of the proposals made by your society and others for further expansion of "public works" is that they include public works of remote usefulness; they impose unbearable burdens upon the taxpayer; they unbalance the budget and demoralize government credit. A larger and far more effective relief to unemployment at this stage can be secured by increased aid to "income-producing works". I wish to emphasize this distinction between what for purposes of this discussion we may term "income producing works" (also referred to as "self-liquidating works") on the one hand and non-productive "public works" on the other. By "income-producing works" I mean such projects of states, counties and other sub-divisions as waterworks, toll-bridges, toll tunnels, docks and any other such activities which charge for their service and whose earning capacity provides a return upon the investment. With the return of normal times, the bonds of such official bodies based upon such projects can be disposed of to the investing public and thus make the intervention of the Reconstruction Corporation purely an emergency activity. I include in this class aid to established industry where it would sustain and increase employment with the safeguard that loans for these purpose should be made on sound security and the proprietors of such industries should provide a portion of the capital. Non-productive "public works" in the sense of the term here used include: public buildings, highways, streets, river and harbor improvement, military and navy construction, etc., which bring no direct income and comparatively little relief to unemployment.

2. I can perhaps make this distinction clear by citing the example of the recent action of the Reconstruction Finance Corporation in the matter of the Pennsylvania Railroad Company on one hand, and the recent bill passed by the House of Representatives for increased road building on the other. The railroad company applied to the Reconstruction Corporation for a loan of \$55,000,000 to help finance a fund of over \$68,000,000 needed to electrify certain of its lines. By so doing it would employ directly and indirectly for one year more than 28,000 men distributed over twenty different states. An arrangement was concluded by which the Reconstruction Corporation undertook to stand behind the plan to the extent of \$27,000,000, the railway company finding the balance. This \$27,000,000 is to be loaned on sound securities and will be returned, capital and interest, to the corporation. The Reconstruction Corporation is acting as agent to make available otherwise timid capital for the Pennsylvania Railroad in providing employment. There is no charge upon the taxpayer. On the other hand the proposal of the House of Representatives is to spend \$132,000,000 for subsidies to the states for construction of highways. This would be a direct charge on the taxpayer. The total number of men to be directly employed is estimated at 55,000 and indirectly 20,000 more. In other words, by this action we would give employment to only 55,000 men at the expense by the government of \$132,000,000, which will never be recovered. In the one instance we recover the money advanced through the Reconstruction Corporation, we issue no government bonds, we have no charge on the taxpayer. In the other instance, we have not only a direct cost to the taxpayer but also a continuing maintenance charge, and furthermore, the highways in many sections have now been expanded beyond immediate public need.

3. These proposals of huge expansion of "public works" have a vital relation to balancing the federal budget and to the stabilizing of national credit. The financing of "income-producing works" by the Reconstruction Corporation is an investment operation, requires no congressional appropriation, does not unbalance the budget, is not a drain upon the Treasury, does not involve the direct issue of government bonds, does not involve added burdens upon the taxpayer either now or in the future. It is an emergency operation which will liquidate itself with the return of the investor to the money markets.

The proposal to build non-productive "public works" of the category I have described necessitates making increased appropriations by the Congress. These appropriations must be financed by immediate increased taxation or by the issuance of government bonds. Whatever the method employed, they are inescapably a burden upon the taxpayer. If such a course is adopted beyond the amounts already provided in the budget now before Congress for the next fiscal year, it will upset all possibility of balancing the budget; it will destroy confidence in government securities and make for the instability of the government which in result will deprive more people of employment than will be gained.

4. I have for many years advocated the speeding up of public works in times of depression as an aid to business and unemployment. That has been done upon a huge scale and is proceeding at as great a pace as fiscal stability will warrant. All branches of government, - Federal, state and municipal, - have greatly expanded their "public works" and have now reached a stage where they have anticipated the need for many such works for a long time to come. Therefore, the new projects which might be undertaken are of even more remote usefulness. From January, 1930, to July 1st, 1932, the Federal Government will have expended \$1,500,000,000 on "public works". The budget for the next fiscal year carries a further \$575,000,000 of such expenditures (compared with about \$250,000,000 normal) and includes all the items I have felt are justified by sound engineering and sound finance. Thus by the end of next year the Federal Government will have expended over \$2,000,000,000 on public works, which represents an increase over normal of perhaps \$1,200,000,000. Thus we have largely anticipated the future and have rendered further expansion beyond our present program of very remote usefulness and certainly not justified for some time to come, even were there no fiscal difficulties. They represent building of a community beyond its necessities. We cannot thus squander ourselves into prosperity.

5. A still further and overriding reason for not undertaking such programs of further expansions of Federal "public works" is evident if we examine the individual projects which might be undertaken from an engineering and economic point of view. The Federal "public works" now authorized by law cover works which it was intended to construct over a long term of years and embrace several projects which were not of immediate public usefulness. In any event, the total of such authorized projects still incomplete on the 1st of July will amount to perhaps \$1,300,000,000. If we deduct from this at once the budgeted program for the next fiscal year - \$575,000,000 - we leave roughly \$725,000,000 of such authorized works which would be open for action. If we examine these projects in detail, we find great deductions must be made from this sum. Construction of many projects physically require years for completion such as naval vessels, buildings, canalization of rivers, etc., and therefore as an engineering necessity this sum could only be expended over four or five years; a portion of the projects not already started will require legal and technical preparation and therefore could not be brought to the point of employment of labor during the next year; a portion of these authorized projects are outside continental United States and do not contribute to the solution of our problem; a portion are in localities where there is little unemployment; a portion are in the District of Columbia where we already have a large increase in program for the next fiscal year and where no additional work could be justified. A portion are of remote utility and are not justified, such as extension of agricultural acreage at the present time. Deducting all these cases from the actual list of authorized Federal public works, it will be found that there is less than \$100,000,000 (and this is doubtful) which could be expended during the next fiscal year beyond the program in the budget. That means the employment of say less than 40,000 men. Thus the whole of these grandiose contentions of possible expansion of Federal "public works" fall absolutely to the ground for these reasons if there were no other.

If it is contemplated that we legislate more authorizations of new and unconsidered projects by Congress we shall find ourselves confronted by a log-rolling process which will include dredging of mud creeks, building of unwarranted post-offices, unprofitable irrigation projects, duplicate highways and a score of other unjustifiable activities.

6. There is still another phase of this matter to which I would like to call attention. Employment in "public works" is largely transitory. It does not have a follow-up of continued employment as is the case with "income-producing works". But of even more importance than this, the program I have proposed gives people employment in all parts of the country in their normal jobs under normal conditions at the normal place of abode, tends to reestablish normal processes in business and industry and will do so on a much larger scale than the projects proposed in the so-called "public works" program.

7. To sum up. It is generally agreed that the balancing of the Federal budget and unimpaired national credit is indispensable to the restoration of confidence and to the very start of economic recovery. The Administration and Congress have pledged themselves to this end. A "public works" program such as is suggested by your committee and by others, through the issuance of Federal bonds creates at once an enormous further deficit.

What is needed is the return of confidence and a capital market through which credit will flow in the thousand rills with its result of employment and increased prices. That confidence will be only destroyed by action in these directions. These channels will continue clogged by fears if we continue attempts to issue large amounts of government bonds for purposes of non-productive works.

Such a program as these huge Federal loans for "public works" is a fearful price to pay in putting a few thousand men temporarily at work and dismissing many more thousands of others from their present employment. There is vivid proof of this since these proposals of public works financed by Government bonds were seriously advanced a few days ago. Since then United States Government bonds have shown marked weakness on the mere threat. And it is followed at once by a curtailment of the ability of states, municipalities and industry to issue bonds and thus a curtailment of activities which translate themselves into decreased employment.

It will serve no good purpose and will fool no one to try to cover appearances by resorting to a so-called "extraordinary Budget". That device is well known. It brought the governments of certain foreign countries to the brink of financial disaster. It means a breach of faith to holders of all Government securities, an unsound financial program and a severe blow to returning confidence and further contraction of economic activities in the country.

What you want and what I want is to restore normal employment. I am confident that if the program I have proposed to the Congress is expeditiously completed and we have the cooperation of the whole community, we will attain the objective for which we have been searching so long.

Yours faithfully,

HERBERT HOOVER.