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## A case study in lowering unemployment: The Work Projects Administration

Weekly Market Compass: The WPA put millions back to work during the Great Depression. Could this be a model for 2020 and beyond?

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**May 26, 2020 | Kristina Hooper, Chief Global Market Strategist**

Unemployment rates for many countries are sky high and likely to remain high for some time. In response to the pandemic, many developed countries' central banks have showered accommodative monetary policy on their respective economies. However, if history is a guide, that is unlikely to have a major impact on lowering unemployment. Instead, fiscal policy can be more impactful on unemployment because it is more direct. As governments around the world debate the next steps of their policy response, this is perhaps a valuable time to examine a case study in reducing unemployment through fiscal spending.

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### The WPA put millions back to work in the 1930s

Fiscal spending that directly creates jobs – such as government hiring of workers to undertake infrastructure projects – should be particularly effective in reducing unemployment because there is a direct relationship between the expenditure and the job creation. A notable example of this type of policy is the Work Projects Administration, formerly known as the Works Progress Administration (WPA), which enabled the US government to directly employ millions of unemployed Americans.

The WPA was created in 1935 when the United States was in the midst of the Great Depression, and it is arguably a model of how fiscal policy can directly reduce unemployment. At the time of the WPA's creation, the US unemployment rate was more than 20%.<sup>1</sup> The WPA existed for just eight years but employed more than 8 million people during its existence.<sup>2</sup> By 1941, unemployment had dropped to 9.9%.<sup>1</sup>

Workers simply applied to the WPA and, based on their skills, were assigned to a specific project. At the completion of the project, they would likely be re-assigned to another. Many different types of professionals were unemployed, including many skilled craftsmen, so they could be utilized for a wide variety of projects around the country.

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### The WPA made critical contributions to US infrastructure

One of the great benefits of the WPA is that it not only positively impacted the US economy in the short run by lowering unemployment, but also for the longer term. Infrastructure spending is the government version of “capex spending,” enabling greater growth in the future. By 1938, three years into its existence, the WPA had made significant contributions to US infrastructure. Harry Hopkins, the head of the WPA, extolled the accomplishments of the WPA in a nationwide radio broadcast on May 8, 1938: “43,000 miles of new roads and 119,000 miles of road improvements, 19,000 new bridges, 185,000 culverts, 105 new airports, 12,000 new schools and other public buildings, 15,000 small dams, 10,000 miles of water and sewer lines, and more than 10 million trees planted and improvements on millions of acres of land.”<sup>2</sup>

LaGuardia Airport in New York, the Cow Palace in San Francisco, Griffith Observatory in Los Angeles, Midway Airport in Chicago, and the on-ramp to the Golden Gate Bridge were all WPA projects. As Hopkins explained, “These things constitute national wealth and national assets. Any private business which builds improvements to its physical plant counts these improvements as assets, and considers itself richer because of them.”<sup>2</sup> America was far richer as a result of the WPA’s infrastructure build out.

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### **The WPA had a compounding effect on job creation**

Building new infrastructure was not the WPA’s only focus – it also employed artists, writers, historians and archaeologists. In fact, important historical and archaeological projects were undertaken by WPA workers. And the WPA provided many other important services for the public good. For example, 200,000 WPA workers helped save lives and avoid greater damage as well as clean and rebuild after the Ohio River Valley Flood of 1937.<sup>2</sup> The WPA was lauded for “salvaging property and saving lives” and then providing remediation services “with such efficiency that many visitors were amazed that there was practically no evidence of the flood left throughout the entire city.” A newspaper ad taken out by a business association in Indiana expressed thankfulness to the WPA, “All honor and gratitude is due to the rank and file of the WPA for their often almost super-human efforts, always giving their best in the interest of humanity.”<sup>2</sup>

While jobs directly created by the WPA may have been temporary, the benefits of the program were long-lasting and had a compounding effect on job creation that went beyond the initial hiring of workers. By minimizing destruction from natural disasters and creating an enormous amount of infrastructure, WPA workers provided an optimal environment for the US economy to grow substantially in the coming decades – and to therefore create more jobs.

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### **A model for 2020 and beyond?**

How to reduce unemployment is a topic of global importance – in the US, total employment fell and unemployment rates rose in all 50 states and the District of Columbia in April as a result of the lockdown,<sup>1</sup> and many other countries are facing employment challenges of their own. Going forward, we are likely to hear a lot of debate about whether more fiscal stimulus is needed, and what kind. I continue to believe that the most effective fiscal stimulus supports the solvency of companies and enables them to keep their employees employed. However, for those that are already unemployed, the best solution may be a model such as the WPA, especially given the need on the part of a number of developed countries – including the US – for infrastructure improvements and replacements.

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#### **Source**

<sup>1</sup>Source: US Bureau of Labor Statistics

<sup>2</sup>Source: “American-Made: The enduring legacy of the WPA: When FDR put the nation to work” by Nick Taylor, 2008.

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#### **Important information**

Capital spending (or capital expenditures, or capex) is the use of company funds to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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