



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

October 26, 1937

TO THE SECRETARY:

In compliance with your oral request there is transmitted herewith a statement showing the estimated expenditures of the Federal Government for the fiscal year ending June 30, 1939, on account of aid to agriculture. Total expenditures for 1939, including good roads, is estimated at \$1,590,000,000. This amount is classified by major organizations as follows:

Department of Agriculture, including	
\$330 millions for good roads.....	\$1,116,000,000
Farm Credit Administration.....	114,000,000
Commodity Credit Corporation.....	100,000,000
Reconstruction Finance Corporation.....	3,000,000
Civilian Conservation Corps.....	49,000,000
Rural Electrification Administration.....	33,000,000
Works Progress Administration.....	<u>175,000,000</u>
Total.....	\$1,590,000,000

These figures are classified in greater detail as follows:

Under the Department of Agriculture \$1,116,000,000 (In millions)

General expenses of bureaus, (Details in Exhibit I).....	\$101
Grants to states (exc. of roads).....	24
Soil Conservation Service.....	27
<u>Farm Tenant Act (To be increased to 135M in 1939):</u>	
Tenancy (Title I).....	\$ 10
Submarginal land (Title III).....	<u>5</u>
	15

Department of Agriculture (continued)Agricultural Adjustment Administration:

Agricultural Adjustment and related acts . . .	\$ 1	
Elimination of diseased cattle (Section 37, Act August 24, 1935)	15	
Exportation and domestic consumption of agricultural commodities (Sec. 32, Act August 24, 1935)	29	
Conservation and use of agricultural land resources (includes \$60 M, Sec. 32, Act August 24, 1935)	400	
Cotton price adjustments (Sec. 32, Act August 24, 1935)	5	
Administration of Sugar Act, 1937	<u>28</u>	478
Highways		330
Farm Security Administration		<u>141</u>
		<u>1,116</u>

Under the Farm Credit Administration \$114,000,000

Federal land banks, paid-in surplus	36
Federal land banks, reduction in interest rates	32
Crop and feed loans	30
Administrative expenses	6
Federal Farm Mortgage Corporation, reduction in interest rate	8
Expenses, regional agricultural credit corporations	<u>2</u>
	<u>114</u>

Under the Commodity Credit Corporation \$100,000,000

Commodity loans	<u>100</u>
---------------------------	------------

Under the Reconstruction Finance Corporation \$3,000,000

Loans to Joint Stock land banks	<u>3</u>
-------------------------------------------	----------

Under the Civilian Conservation Corps \$49,000,000

Principally in connection with Forest Service, Soil Conservation and Bureau of Animal Industry (in addition, about \$140 millions for pay and subsistence, etc., for C.C.C. enrollees coming from agricultural areas.)	<u>49</u>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Under the Rural Electrification Administration \$33,000,000

Loans for line construction	\$ 32
Administrative expenses	1
	<u>33</u>

Under Works Progress Administration \$175,000,000

Highways and Roads, Bridges and viaducts, Rural housing, Subsistence homesteads, Fair and rodeo grounds, Forestation, Erosion and land utilization control, Irrigation and water conservation, Game, fish, and bird conservation, Plant, crop and livestock conservation, Rodent and predatory animal control, Other conservation projects, Distribution of surplus commodities	<u>175</u>
Total	<u>1,590</u>

In considering the amount expended by the Federal Government for agricultural aid, consideration should be given to the fact that a large amount of the expenditures of the Department of Agriculture are not, strictly speaking, for aid to agriculture but more properly would fall under the heading of general public welfare. For example, the Department of Agriculture expends annually over five millions of dollars for meat inspection. Such inspections are not wholly for the benefit of agriculture, but are made for the general protection of the consuming public. It spends about a million and a half annually for enforcement of the food and drugs act. Other expenditures of the Department of Agriculture which are made more or less for the benefit of the general public, rather than agriculture, are those made by the Weather Bureau, the Forest Service, Bureau of Biological Survey, and the Bureau of Animal Industry for the eradication of tuberculosis in cattle. Upon such basis the estimated expenditures of the Department of Agriculture might be classified as follows:

UNDER DEPARTMENT OF AGRICULTURE

1. General expenditures:	
a. Of benefit to the general public—	
Weather Bureau.....	\$ 4,700,000
Meat Inspection.....	5,300,000
Eradication of tuberculosis in cattle..	1,600,000
Forest service (including forest highways).....	36,300,000
Biological survey.....	2,700,000
Food and Drugs.....	<u>2,200,000</u>
Sub-total.....	<u>52,700,000</u>
b. Of more direct benefit to agriculture (Exclusive of grants to states and A.A.A.)	
	<u>246,500,000</u>
Total, General.....	<u>299,200,000</u>
2. Agricultural Adjustment Administration:	
a. Conservation and use of agricultural land resources:	
From annual appropriation.....	340,000,000
From permanent appropriation of 30% of customs receipts.....	60,000,000
b. Exportation and domestic consumption of agricultural commodities (Sec. 32, Act of Aug. 24, 1935) (From permanent appropriation of 30% of customs receipts).....	
	29,000,000
c. Elimination of diseased cattle.....	
	15,000,000
d. Administration of the Sugar Act of 1937.....	
	28,000,000
e. Price adjustment payments to cotton producers (1937 crop) (From permanent appropriation of 30% of customs receipts).....	
	5,000,000
f. Agricultural Adjustment and related acts....	
	<u>1,100,000</u>
Total, A. A. A.....	<u>478,100,000</u>
3. Grants to States:	
a. Highway funds.....	
	313,800,000
b. Forest Service.....	
	1,100,000
c. Agricultural experiment stations, extension work, etc.....	
	<u>23,700,000</u>
Total, Grants to States.....	<u>338,600,000</u>
Total, Department of Agriculture.....	<u>1,115,900,000</u>

An objective classification of the estimated expenditures of the Department of Agriculture for 1938, is set out below:

General expenses, including physical improvements

a. Department proper	\$91.6
b. Soil Conservation Service	27.1
c. Farm Tenant Act	3.7
d. Agricultural Adjustment Administration.	22.4
e. Farm Security Administration.	<u>19.6</u>
Sub-total.	<u>164.4</u>

Grants to States

a. Forest Service	1.1
b. Experiment stations	6.2
c. Extension Service	17.5
d. Highways	<u>313.8</u>
Sub-total.	<u>338.6</u>

Grants to Individuals

a. Agricultural Adjustment Administration.	455.7
b. Farm Security Administration.	<u>67.3</u>
Sub-total.	<u>523.0</u>

Loans

a. Farm Tenant Act	9.5
b. Farm Security Administration.	<u>39.0</u>
Sub-total	<u>48.5</u>

Acquisition of lands

a. Forest Service	6.6
b. Bureau of Biological Survey	1.2
c. Farm Tenant Act	1.8
d. Farm Security Administration.	<u>15.5</u>
Sub-total.	<u>25.1</u>

Forest roads and trails

a. Highways	<u>16.4</u>
-----------------------	-------------

Grand total. 1,116.0

AUTHORIZATIONS AND APPROPRIATIONS

The foregoing figures are on the basis of estimated expenditures (i. e. cash withdrawals from the Treasury) during the fiscal year ending June 30, 1938. It is thought that you may also be interested in the picture from the standpoint of authorizations and appropriations.

In considering the Government's budget, there must be kept in mind the distinction between authorizations, appropriations, and expenditures. Authorizations and appropriations represent limitations placed by the Congress upon the authority of administrative officers of the several departments to enter into contracts and to make commitments which ultimately may involve expenditures from the Federal Treasury. The diversified manner in which the Congress grants such authorizations and appropriations requires that the greatest of care be exercised in presentation in order to avoid confusion and misunderstanding. One of the principal difficulties arises because of the fact that the periods in which authorizations, appropriations, and expenditures, respectively, are made, do not coincide. In addition to expenditures pertaining to appropriations for the current year, the expenditures in 1938 include the payment of unliquidated obligations carried over from 1937. On the other hand, they will not include the liquidation of certain obligations pertaining to appropriations for 1938, which will be carried over to the fiscal year 1939. The unused (unexpended) balances of appropriations are written off the books at the end of the third year for which the appropriations are made. The amount thus written off on June 30, 1937 was approximately 130 millions of dollars.

At the beginning of the present fiscal year the Treasury Department was confronted with the following picture concerning funds made available for agricultural and related activities, including good roads:

- First, there was a liability for outstanding obligations under existing appropriations amounting to..... \$363,000,000
- Second, there were unobligated balances of continuing appropriations available for further commitments, amounting to..... 388,000,000
- Third, there were new appropriations in the annual and deficiency appropriation bills for the fiscal year 1938, amounting to..... 722,000,000
- Fourth, there were reappropriations of unexpended balances in the annual and deficiency appropriation acts, amounting to..... 150,000,000
- Fifth, there are permanent and indefinite appropriations not subject to annual voting by the Congress, which the Treasury will have to make available, estimated at..... 6,000,000
- Sixth, there is the sum of \$125,000,000 which is made available under Section 32 of the Agricultural Adjustment Act, as amended by the Act of August 24, 1935, which permanently appropriates each year, without annual voting by Congress, 30% of customs receipts for the preceding calendar year..... 125,000,000
- Seventh, there is a Congressional authorization for good roads for the fiscal year 1938, funds for which have not yet been appropriated by the Congress, amounting to..... 192,000,000
- Eighth, under the Sugar Act of Sept. 1, 1937, unappropriated authorizations for the current fiscal year amount to over..... 54,000,000

Ninth, allocations already made this year under the Emergency Relief Appropriation Act of 1937, amount to..... \$ 73,000,000

Tenth, allocations already advanced or set aside this year by the Reconstruction Finance Corporation to the Commodity Credit Corporation and for expenditures of Regional Agricultural Credit Corporation (exclusive of undisbursed commitments of Reconstruction Finance Corporation to C.C.C. of \$227,552,000) amount to..... 37,000,000

Finally, there are other unappropriated authorizations for the current fiscal year which are conservatively estimated at..... 5,000,000

Thus, the total of these potential obligations facing the Federal Treasury for the agricultural and related activities amount to the sum of..... 2,115,000,000

In addition the Congress has already mortgaged the future to the extent of some \$1,753,000,000 through the authorization of large appropriations for the Department of Agriculture, as indicated below:

	(In millions)	
	1939	1940
Public highways, Act June 16, 1936.....	216	-
(Note: This refers to the service of the fiscal year indicated. The appropriations for 1939 will be about \$281 M and for 1940 about \$125 M. This is accounted for by the fact that Congress appropriates highway money upon the basis of estimated cash expenditures)		
Federal aid to wild-life, Act Sept. 2, 1937.....	3	3
Conservation in arid and semi-arid areas, Act August 28, 1937.....	2	2
Sugar Act of 1937, Sept. 1, 1937 (Exc. of Philippines).....	55	\$ 58

Sugar Act of 1937, Sept. 1, 1937 (Inc. of Philippines)	8	8
Conservation and use of agricultural land resources - Act Feb. 29, 1936	500	500
Exportation and Domestic Consumption of Agri- cultural Commodities (30% Customs receipts) ...	125	125
Farm Security Administration, Title I, Loans Act July 22, 1937	25	50
Sub-marginal land program, Title III, Farm Tenant Act, July 22, 1937	20	20
Cooperative development of farm forestry, Act May 18, 1937	2	2
Cooperative Agricultural Extension Work, Act June 29, 1936	b/ 11	b/ 12
Research into basic laws and principles of agriculture	4	5
Total amount		
Authorized by Congress and not yet appropriated .	971	782

- a/ And an equal amount for each year thereafter.
b/ In addition to amounts previously authorized
and appropriated annually.

The foregoing authorizations relate only to the Department of Agriculture, but they serve to illustrate the difficulties which confront the Treasury in connection with its financing activities.

The practice of committing the Government several years in advance is well illustrated in the case of public roads. Sixteen months ago the Congress authorized a public highways program for the fiscal years 1938 and 1939, in the aggregate sum of \$433,000,000. To date only \$24,000,000 of this amount has been appropriated. The remainder will have to be appropriated in the 1939 and 1940 annual supply bills.

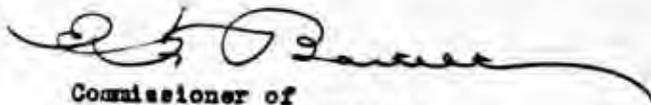
Another objectionable practice involves the reappropriation of unexpended balances. For example, in addition to the direct appropriations made to the Department of Agriculture and the Farm Credit Administration for the current fiscal year, the annual appropriation act provided reappropriations of \$180,916,500 for the Department of Agriculture and \$3,950,000 for the Farm Credit Administration.

A further objectionable practice is the making of so-called "permanent" appropriations which do not require the annual voting by the Congress. ~~Such~~ appropriations of the Department of Agriculture (exclusive of the appropriation of customs receipts under Section 32 of the Act of August 24, 1935), amount to six millions of dollars. Closely allied to this is the practice of earmarking receipts for special purposes. Such practice cannot be too strongly condemned from the standpoint of sound budgetary procedure. The most flagrant of such cases is the action taken by the Congress under the amendment to the Agricultural Adjustment Act (Sec. 32), approved August 24, 1935, which appropriated an amount equal to 30% of the gross receipts from duties collected in each calendar year under the customs laws. In 1938 the amount thus to be made available is estimated at \$125,000,000, of which about \$94,000,000 will be expended. This is a continuing appropriation and will be available year after year unless and until the provision is repealed by Congress. The expenditure of such money is estimated for the fiscal year 1938, as follows:

- 11 -

Agricultural Adjustment Administration

Exportation and Domestic Consumption of Agricultural Commodities.....	\$ 29,000,000
Conservation and use of Agricultural Land resources.....	60,000,000
Price Adjustment payment to Cotton Producers (1937 crop).....	5,000,000
	<hr/>
Total estimated expenditures (The amount not expended (obligated) during the fiscal year lapses and is not available in the succeeding year).....	<u>94,000,000</u>



Commissioner of
Accounts and Deposits

Attachments:

Exhibit I, showing detailed classification of estimated expenditures of the Department of Agriculture, fiscal year 1938, classified according to organization units and sub-divided according to general expenses (including physical improvements), grants to states, grants to individuals, loans, acquisition of land, and forest roads and trails.

Exhibit II, showing detailed statement of authorizations for the Department of Agriculture which have not yet been appropriated.

ESTIMATED EXPENDITURES - DEPARTMENT OF AGRICULTURE - FISCAL YEAR 1938

(In millions of dollars)

	Estimated expenditures 1938	Classification of expenditures					Forest roads and trails
		General expenses including physical improvements	Grants to States	Grants to Individuals	Loans	Acquisition of lands	
DEPARTMENT EXPENSES							
Office of the Secretary of Agriculture.....	.7	.7	-	-	-	-	-
Office of the Solicitor.....	.4	.4	-	-	-	-	-
Office of Information.....	1.3	1.3	-	-	-	-	-
Library, Department of Agriculture.....	.1	.1	-	-	-	-	-
Office of Experiment Stations.....	.9	.9	-	-	-	-	-
Patent Service.....	.9	.9	-	-	-	-	-
Weather Bureau.....	4.7	4.7	-	-	-	-	-
Bureau of Animal Industry.....	10.7	10.7	-	-	-	-	-
Bureau of Dairy Industry.....	.7	.7	-	-	-	-	-
Bureau of Plant Industry.....	8.0	8.0	-	-	-	-	-
Forest Service.....	34.0	34.2	1.1	-	-	8.6	-
Bureau of Livestock and Poultry.....	1.4	1.4	-	-	-	-	-
Bureau of Entomology and Plant Quarantine.....	18.0	18.0	-	-	-	1.8	-
Bureau of Biological Services.....	4.1	4.8	-	-	-	-	-
Bureau of Agricultural Engineering.....	.5	.5	-	-	-	-	-
Bureau of Agricultural Economics.....	4.4	4.4	-	-	-	-	-
Bureau of Home Economics.....	.8	.8	-	-	-	-	-
Commodity Exchange Administration.....	.5	.5	-	-	-	-	-
Food and Drug Administration.....	8.2	8.2	-	-	-	-	-
National Agricultural Research Center.....	.1	.1	-	-	-	-	-
Adjustment between checks issued and cash expenditures.....	7.0	7.0	-	-	-	-	-
Total, Department Proper.....	100.8	81.6	1.1	-	-	7.8	-
ADVANCE TO STATES FOR AGRICULTURAL EXPERIMENT STATIONS AND EXTENSION SERVICE							
Office of Experiment Stations.....	8.2	-	8.2	-	-	-	-
Extension Service.....	17.2	-	17.2	-	-	-	-
Total, Payments to States.....	25.4	-	25.4	-	-	-	-
SOIL CONSERVATION SERVICE							
Regular Funds.....	25.2	25.2	-	-	-	-	-
Emergency Funds.....	3.9	3.7	-	-	-	-	-
Total, Soil Conservation Service.....	29.1	27.1	-	-	-	-	-
FARM TENANT ACT							
Farm Security Administration.....	10.0	.5	-	-	9.5	-	-
Bureau of Agricultural Economics.....	9.0	3.8	-	-	-	1.8	-
Total, Farm Tenant Act.....	19.0	3.7	-	-	9.5	1.8	-
AGRICULTURAL ADJUSTMENT ADMINISTRATION							
(A) Agricultural Adjustment and related Acts (A.A.A.).....	5.1	1.8	-	4.2	-	-	-
(B) Section 37, Act of August 24, 1935 (Bureau of Animal Industry).....	19.0	3.8	-	11.2	-	-	-
(C) Section 36, Act of August 24, 1935 (A.A.A.).....	21.0	1.0	-	20.0	-	-	-
(D) Section 35, Act of August 24, 1935 (Federal Surplus Commodities Corporation).....	8.0	.6	-	7.5	-	-	-
(E) Cons. and use of agricultural land resources (A.A.A.).....	400.0	10.0	-	390.0	-	-	-
(F) Administration of the Sugar Act of 1937.....	28.0	.8	-	27.8	-	-	-
Total, Agricultural Adjustment Adm.....	479.1	27.4	-	406.7	-	-	-
FARM SECURITY ADMINISTRATION							
Functions other than those under Farm Tenant Act.....	141.4	19.4	-	47.2	20.0	18.8	-
ROAD FUNDS							
(A) Regular Funds (Bureau of Public Roads).....	205.8	-	193.4	-	-	-	9.8
(B) Emergency Funds (Bureau of Public Roads).....	4.6	-	4.6	-	-	-	8.6
Total, Road Funds.....	210.4	-	198.0	-	-	-	18.4
GRAND TOTAL.....	1,116.0	104.4	26.5	223.0	40.5	26.1	16.4

PLANNED BUDGET APPROPRIATIONS OF APPROPRIATIONS
 FOR FISCAL YEARS 1939 TO 1940, INCLUDING
 AND EXTENDING TO FISCAL YEAR 1940-1941.

MINUTE 11

249

SUMMARY OF APPROPRIATIONS

Object	Appropriation	Amount Authorized	Amount Appropriated	Amount Available	Remarks
Cooperative Agricultural Extension Work (To extend to fiscal 1940) (See also items under Fiscal 1939 and 1940)	Aug. 29, 1937 50 Stat., 891	200,000.00 (1939) 40,000.00 (Addi- tional each year thereafter)	---	200,000.00 180,000.00	(1939) (1940 and annually thereafter additional sum of \$20,000)
Interest on accounts receivable of loans made and paid thereon	Apr. 8, 1937 50 Stat., 37	7,000,000.00	20,000,000.00	---	---
Interest on all wild-life reforestation fund interest shall be returned stopping the fiscal year ending June 30, 1939, and each year thereafter, from lease on firearms, shells, and explosives issued to persons out of State	Sept. 8, 1937 50 Stat., 317	Indefinite	---	Indefinite (1) 3,250,000.00 (2) 3,000,000.00	(1939) (1940)
Wild Reclamation Service (To provide reclamation in wild and semi-wild lands of the United States)	Apr. 16, 1937 50 Stat., 370	Indefinite	---	Indefinite (1) 2,000,000.00 (2) 2,000,000.00	(1939) (1940)
Wild Life of 1937 (See 50 Stat.) (For purchase and administration of the land)	Sept. 1, 1937 50 Stat., 313	(1) 15,000,000.00	250,000.00 (1939)	50,990,000.00 30,000,000.00	(1939) (1939 and each fiscal year thereafter) (1940)
Wild Life of 1937 (See 50 Stat.) (For purchase to Government of the Philippines for the reforestation program - as now as equal to the amount of land collected or acquired un- der Title 17, 487)	---	Indefinite	---	Indefinite (1) 2,000,000.00 (2) 2,000,000.00	(1939) (1940)
Wildlife and Game Management of Agricultural Land (To provide for the collection of game receipts from lands collected under systems laws with the wild game)	U.S.T., Sept. 11, Title 7, sec. 517a	Indefinite	---	Indefinite 128,000,000.00 (2) 128,000,000.00	(1939) (1940)
Wildlife Administration, Game, Title 7, Part Section 48	July 22, 1937 50 Stat., 322	10,000,000.00 (1939) 20,000,000.00 (1939) 20,000,000.00 each fiscal year thereafter.	10,000,000.00	20,000,000.00 20,000,000.00	(1939) (1940 and each fiscal year thereafter)
Wildlife Service, Game, Title 7, Part 48 (See 50 Stat., 322)	---	20,000,000.00 (1939) 20,000,000.00 each of the ten fiscal years there- after	10,000,000.00	20,000,000.00 20,000,000.00	(1939) (1940)
Wildlife Service, Game, Title 7, Part 48 (See 50 Stat., 322)	---	(1) 2,500,000.00	---	2,500,000.00 2,500,000.00	(1939) (1940 and an- nually thereafter)
Wildlife Service, Game, Title 7, Part 48 (See 50 Stat., 322)	---	2,500,000.00	---	1,200,000.00	Pub. Res. No. 22, Apr. 12, 1937 under \$1,000,000 of funds available to this Corporation for purposes of Act Mar. 3, 1937.
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	June 10, 1936 49 Stat., 1583	Progression from 25,000 1937 to 250,000 for 1947.	7,500.00 (1939)	10,000.00 17,500.00	(1939) (1940 and \$2,500 add. each fiscal year until \$27,500 is reached in 1947)
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	June 10, 1936 49 Stat., 1583	116,500,000.00 (1939) 215,500,000.00 (1939)	24,700,000.00 (1939)	132,000,000.00 215,500,000.00	(1939) (1939)
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	---	Progression from \$1,500, 1937 to \$10,000 for 1940 and annually thereafter.	2,500.00 (1939)	7,500.00 10,000.00	(1939) (1940 and an- nually thereafter)
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	Feb. 20, 1936 49 Stat., 1140, Sec. 15	500,000,000.00 each fiscal year.	340,000,000.00 (1939)	800,000,000.00	Not to exceed such sum for any fiscal year.
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	June 29, 1936 49 Stat., 679	8,000,000.00 (1936) and 1,000,000.00 addi- tional each fiscal year until it reaches 112,000,000 annually thereafter.	19,000,000.00 (1939)	11,000,000.00 13,000,000.00	(1939) (1940 and each fiscal year thereafter)
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	June 29, 1936 49 Stat., 679	1,000,000.00 (1936) and 1,000,000.00 more than the previous year for each of the four fiscal years fol- lowing.	800,000.00 (1939)	4,300,000.00	(1939)
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	---	2,000,000.00 for 1941 and annually thereafter.	---	5,000,000.00	(1940 and each fiscal year thereafter.
Woods to States and Territories for Agricultural Experiment Station (to provide for the purchase of land)	Apr. 28, 1935 49 Stat., 963, Sec. 2	5,000,000.00	---	5,000,000.00	(1939)

(1) annually.
(2) biennially.



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

250

October 20, 1937.

PUBLIC WORKS

MEMORANDUM TO THE SECRETARY:

In compliance with your oral request there is submitted herewith a detailed statement showing the status of the Public Works Program for the next five years, as submitted by the several departments.

The statements have been submitted by representatives of the various departments more or less informally in accordance with a conference held with them.

At such conference the departmental representatives were furnished with forms especially prepared for the purpose of submitting the desired information. They were requested to submit separate statements showing - -

1. Projects or programs already approved by the Congress.
2. Projects or programs not yet approved by Congress.

- 2 -

The statements show with respect to each project of a million dollars or more 1/ the following information: location and type; date started; date to be completed; total cost; authorizing act; appropriations authorized; appropriations provided; additional appropriations required to complete on basis of present authorizations; additional authorizations required to complete; undisbursed commitments on June 30, 1937, and the estimated expenditures for each fiscal year from 1938 to 1942, inclusive.

The following is a summary of the data submitted by the departments (without revision):

5-Year Program (In millions)

	<u>Programs al- ready approved by Congress</u>	<u>Programs not yet approved by Congress</u>	<u>Total</u>
Total cost (estimated)	6,163	1,387	7,550
Appropriations already made	3,807	-	3,807
<hr/>			
Additional appropriations required	2,356	1,387	3,743
<hr/>			
Disbursements (estimated):			
1938	776	1	777
1939	781	26	807
1940	479	197	676
1941	289	341	630
1942	240	335	575
	2,465	100	3,465

The foregoing is classified by types of projects in the following

table:

1/ Projects for less than a million dollars are grouped.

PUBLIC WORKS PROGRAM

(In millions of dollars)

	Total cost	Appropriated	Additional appns. required	Estimated cash withdrawals				
				1938	1939	1940	1941	1942
Total								
Approved program 1/	6,163	3,807	2,356	776	781	479	289	240
Proposed program 2/	1,387	-	1,387	1	26	197	341	335
	<u>7,550</u>	<u>3,807</u>	<u>3,743</u>	<u>777</u>	<u>807</u>	<u>676</u>	<u>630</u>	<u>575</u>
Highways								
Approved program	1,723	1,315	408	324	296	125	-	-
Proposed program	650	-	650	-	-	102	216	216
	<u>2,373</u>	<u>1,315</u>	<u>1,058</u>	<u>324</u>	<u>296</u>	<u>227</u>	<u>216</u>	<u>216</u>
Q. N. C.								
Approved program	161	1	160	1	75	24	24	17
Proposed program	135	-	135	-	7	30	27	22
	<u>296</u>	<u>1</u>	<u>295</u>	<u>1</u>	<u>82</u>	<u>54</u>	<u>51</u>	<u>39</u>
Rivers and Harbors								
Approved program	2,323	1,460	863	250	208	164	140	123
Public Buildings								
(Treasury)								
Approved program	612	569	53	77	71	40	13	5
Proposed program	100	-	100	-	-	9	24	28
	<u>712</u>	<u>569</u>	<u>153</u>	<u>77</u>	<u>71</u>	<u>49</u>	<u>37</u>	<u>33</u>
Penal institutions								
(Justice)								
Approved program	25	13	12	3	5	4	1	1
Proposed program	8	-	8	-	4	3	1	-
	<u>33</u>	<u>13</u>	<u>20</u>	<u>3</u>	<u>9</u>	<u>7</u>	<u>2</u>	<u>1</u>

	Total cost	Appropriated	Additional apprs. required	Estimated cash withdrawals				
				1938	1939	1940	1941	1942
<u>Yards and docks (Navy)</u>								
Approved program	125	51	74	13	15	28	23	18
Proposed program	47	-	47	-	-	3	6	5
	172	51	121	13	15	31	29	23
<u>Foreign Service buildings (State)</u>								
Approved program	23	13	10	4	5	4	2	1
Proposed program	22	-	22	-	1	7	9	5
	45	13	32	4	6	11	11	6
<u>Reclamation projects</u>								
Approved program	996	352	644	87	79	64	60	57
Proposed program	285	-	285	-	1	11	25	27
	1,281	352	929	87	80	75	85	84
<u>National parks</u>								
Approved program	89	38	51	14	15	15	12	10
Proposed program	90	-	90	-	-	22	23	22
	179	38	141	14	15	37	35	32
<u>Indian Service</u>								
Approved program	70	29	41	3	13	9	9	6
Proposed program	45	-	45	1	9	9	8	7
	115	29	86	4	22	18	17	13
<u>Miscellaneous (Interior)</u>								
Approved program	15	1	14	1	4	4	3	3
Proposed program	5	-	5	-	1	1	1	1
	20	1	19	1	5	5	4	4

- 1/ Approved program means projects or programs already authorized by Congress.
- 2/ Proposed program means programs not already authorized by Congress.

Owing to the fact that the Congress follows a number of different methods in providing funds for the prosecution of public works, it is virtually impossible to set up a uniform statement which would show in simple and readily understandable form complete information with respect to all of the different classes of projects.

PUBLIC HIGHWAYS

In the case of public highways, Congress usually authorizes appropriations covering a two-year program under which the Secretary of Agriculture is required to make apportionments to the States prior to January 1, for the ensuing fiscal year. Appropriations in such cases are not made on the basis of a particular program but are made from time to time on the basis of the estimated cash disbursements to be made during the year, without regard to the particular program to which such disbursements relate. The figures submitted by the representatives of the Bureau of Public Roads show that there are now standing on the books the sum of \$408,500,000 yet to be appropriated on account of the authorizations of \$433,000,000 contained in the Act of June 16, 1936. It is understood that \$2,000,000 of this will be submitted for appropriation in the next deficiency bill; \$281,500,000 for the 1939 Agricultural Appropriation Bill; and \$125,000,000 for inclusion in the 1940 annual Appropriation Bill. It is probable that this latter amount will be increased by additional appropriations which will be required to take care of any new program which may be authorized in the next session of Congress. A summary of the public highway program as now authorized is attached hereto as Exhibit I.

RIVERS AND HARBORS

With respect to rivers and harbors in general, the Congress authorizes the construction, repair and preservation of public works on specified

257

ivers and harbors without fixing a definite limitation on the amount to be expended on each project. Expenditures on such projects are usually made from lump sum appropriations. Occasionally, however, Congress fixes the maximum amount to be expended on a particular river and harbor project. It is impossible to estimate the total cost of many river and harbor projects. For example, the dredging of the Boston harbor was authorized by the Act of March 2, 1825, without limitation as to total cost, and the dredging has been going on ever since. On this project alone 13 millions of dollars was expended to June 30, 1937, and, according to the figures submitted by the War Department, there will be expended in the future about a million dollars annually. There are many projects of similar character involving a recurring annual charge against the Budget without reference to a limitation of cost. The statement submitted by the War Department shows that additional appropriations of \$863,000,000 will be required during the next five years to take care of expenditures on projects already authorized by Congress.

ARMY HOUSING, ETC.

In many other cases of public works such as, for example, army housing, the Congress fixes the maximum amount which may be expended on particular projects.

PUBLIC BUILDINGS

In the case of public buildings outside the District of Columbia to be used as Post Offices, Court Houses, Marine Hospitals, office buildings, etc., the Secretary of the Treasury and the Postmaster General, jointly, submit to Congress a list of eligible projects to be given consideration. This list shows with respect to each project the proposed limitation of cost. In appropriating money for such construction programs, however, the Congress does not specify particular projects in the authorizing act but provides

lump-sum appropriations therefor and authorizes the Secretary of the Treasury and the Postmaster General to select projects from the eligible list to the extent of the appropriations authorized to be made available.

In the case of public buildings in the District of Columbia constructed under the supervision of the Treasury Department, estimates for such buildings are submitted to the Bureau of the Budget and each approved project is specifically authorized under a limitation of cost approved by the Congress.

According to the figures submitted by Mr. Lee Martin of the Public Works Branch, Procurement Division, the total cost of projects under construction under the present approved program amounts to \$612,000,000. The Congress has appropriated \$559,000,000 of this amount leaving only \$53,000,000 yet to be appropriated to cover the completion of projects under existing Congressional authorizations.

Mr. Martin suggests that consideration might be given during the fiscal year 1940 to an authorization of \$50,000,000 covering a two-year period for construction outside the District of Columbia, and that an additional \$50,000,000-program might be considered for projects in the District of Columbia covering a five-year period with the initial appropriation to be made available in either the fiscal year 1939 or the fiscal year 1940. Mr. Martin has listed the estimated expenditures under the suggested new authorizations as follows:

Fiscal year	Outside		Total
	In D. C.	D. C.	
1940	4	5	9
1941	6	18	24
1942	10	18	28
1943	12	6	18
1944	10	3	13
1945	5	-	5
1946	<u>3</u>	<u>-</u>	<u>3</u>
	50	50	100

OTHER PUBLIC WORKS

There are still other public works items which are not based upon prior Congressional authorizations but are simply submitted to the Congress as estimates of appropriations in the same manner as estimates are submitted for any other governmental activities. In this class may be mentioned Reclamation projects (with some exceptions), and physical improvements in National parks and on Indian reservations.

RECLAMATION PROJECTS:—Under the act of Congress approved June 17, 1902 (32 Stat. 388), there was established in the Treasury a special fund known as the reclamation fund, representing receipts from the sale of public lands in certain States and Territories to be used for the construction of irrigation works for the reclamation of arid lands. Pursuant to the act of June 25, 1910 (36 Stat. 835), the Secretary of the Treasury advanced to the reclamation fund from the General Fund of the Treasury \$20,000,000. The act of June 12, 1917 (40 Stat. 149), provides for the reimbursement of the money so advanced through the transfer of \$1,000,000 annually from the reclamation fund to the General Fund of the Treasury beginning July 1, 1920, and continuing until full reimbursement is made. Beginning with the fiscal year 1921 there has been returned to the General Fund \$1,000,000 annually, making a total of \$10,000,000 for the 10 years ended with the fiscal year 1930. The Deficiency Act of February 6, 1931, provided for a suspension of the annual payments for a period of 2 years; the Act of April 1, 1932, as amended by the Act of March 3, 1933, and the Act of June 22, 1936, provides for extension until the fiscal year beginning July 1, 1938.

The Deficiency Act approved March 4, 1931, appropriated an additional amount of \$5,000,000 for advances to the reclamation fund from the General Fund, all of which was advanced between April 28, 1931, and November 30, 1931.

The following statement shows the status of the account as of June 30, 1937:

Charges:

Advances from the General Funds	
Under act of June 25, 1910	\$20,000,000
Under act of March 4, 1931	5,000,000
Total	25,000,000
Less repayment of advances ¹	10,000,000
Unreimbursed balance	15,000,000

^{1/} Installments for 1931-37 suspended.

Based upon estimates submitted by the Reclamation Service and included in the annual budget, Congress authorizes the use of monies in the reclamation fund for specified projects. Generally speaking, Congress does not fix a limitation of cost for each project but does specify the amount which may be currently expended on each project.

In the case of the Boulder Canyon project, the Congress fixed the limitation of cost and authorized advances from the Treasury to meet the cost, which advances are to be repaid over a period of years from the earnings on the project.

Under the present authorized program, the Reclamation Service has reported projects involving an estimated total of \$996,000,000 against which \$352,000,000 has been appropriated, leaving \$644,000,000 as the additional appropriations which will be required to complete projects under the program already authorized by Congress.

NATIONAL PARK SERVICE:--The public works of the National Park Service consist of roads and trails, physical improvements, and parkways. National parkway projects are constructed under agreements with States whereby the Federal Government undertakes the construction and maintenance provided

the States furnish the rights of way averaging 100 acres to the mile. Thus, there exists an obligation on the part of the United States to complete the construction if the required land is donated to the United States. The approved projects of the National Park Service amount to \$89,000,000, of which \$38,000,000 have been appropriated, leaving \$51,000,000 yet to be appropriated under existing authorizations.

INDIAN SERVICE:--The Indian Service reports authorized projects involving a total cost of \$70,000,000, of which \$29,000,000 has been appropriated, leaving \$41,000,000 yet to be appropriated on the basis of the total estimated cost. These projects consist of irrigation systems, roads, bridges, and various kinds of physical improvements.

TERRITORY OF ALASKA:--Concurrent Resolution No. 24 of August 13, 1937, authorizes the development of resources of the Territory of Alaska. The Interior Department has not estimated the total cost of this project but advises that the expenditures will run about a million dollars a year for a number of years.

ST. ELIZABETH'S HOSPITAL:--Several projects at the St. Elizabeth's Hospital have been authorized without a limitation of cost. The estimated cost of such projects is \$4,700,000, of which \$600,000 has been appropriated.

BONNEVILLE PROJECT:--The Bonneville Project in Oregon and Washington involving the construction of transmission lines was authorized in Public Act 37 of the 75th Congress. The estimated total cost of such project has not been submitted but the Interior Department has estimated that it will spend at the rate of \$2,700,000 a year from 1939 to 1942, inclusive. Estimates beyond 1942 were not submitted.

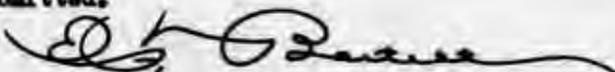


EXHIBIT I
PUBLIC HIGHWAYS

<u>Authorizing Act of June 16, 1936</u>			
Apportioned in December, 1936 (1938 program)	\$216.5 M		
To be apportioned in December, 1937 (1939 program)	<u>216.5</u>		
Total authorizations on books			\$433.0 M
 <u>Appropriated -</u>			
In Act of June 29, 1937			<u>24.5</u>
Balance not yet appropriated			<u>408.5</u>
 <u>To be appropriated -</u>			
In next deficiency bill (December 1936 apportionment)....	\$ 2.0		
In 1939 appropriation bill	281.5		
December 1936 apportionments	\$190.0		
December 1937 apportionments	<u>91.5</u>		
In 1940 appropriation bill (December 1937 apportionment). <u>a/</u>	<u>125.0</u>		
			<u>408.5</u>
 <u>To be expended -</u>			
<u>In fiscal year ending June 30, 1938 -</u>			
Under Dec. 1935 and prior apportionments	157.0		
Under Dec. 1936 apportionments	<u>41.5</u>		198.5
 <u>In fiscal year ending June 30, 1939 -</u>			
Under Dec. 1936 apportionments	175.0		
Under Dec. 1937 apportionments <u>b/</u>	<u>91.5</u>		266.5
 <u>In fiscal year ending June 30, 1940 -</u>			
Under Dec. 1937 apportionments <u>b/</u>			<u>a/125.0</u>
			<u>590.0</u>

Note. From the foregoing it will be noted that the budgets for 1939 and 1940 are already committed to "expenditures" of \$266.5 M and \$125.0 M, respectively, under authorizations already enacted by Congress, making a total of \$391.5. This will be further increased by the amount expended in 1940 under any new program authorized by Congress.

- a/ This will be increased by amount appropriated and expended under any new program authorized by Congress during the coming session.
- b/ Not yet made.

ACCOUNTS AND DEPOSITS
October 30, 1937



October 28, 1937

You suggested that your speech might consist of three parts:

- (1) Reasons why the budget should be balanced;
- (2) How the budget can be balanced;
- (3) Considerations involving the debt retirement question.

NOTE: Today, October 28th, HM, Jr told Haas to include this in the speech.

October 28

10 am

PRESENT:

Dr. Viner
Mr. Rieffler
Mr. Haas
Mr. Taylor
Mr. Gaston
Mr. Seltzer
Mr. Bartelt
Mrs. Klotz

HM, Jr.: The net amount we receive from Social Security, taxes and the States, is 1 billion. Deducting expenses would leave us as the net amount we would receive from those sources of 1 billion, against which we issue 2½% and 3% certificates. However, the cash, we will spend 700 million more cash this year than we take in, so we have a cash deficit of 700 millions. If we did not sterilize the gold, we could retire 300 million dollars worth of public debt. Now, it has taken me all this time to get it, but to put it in the language I understand and boil it down, that's what it is.

Now, looking forward to next year, taking again Social Security receipts, they will be about 1½ billion and expenses, 250 million, in addition to that. We now have decided that any amount we get from any revolving funds, net, should be set aside for debt retirement. That is, an organization like Commodity Credit should not draw on another revolving fund and we will go to Congress each year and ask them to make up the amount of impaired capital in an organization like Commodity Credit has obtained due to a form of subsidy in the Act which -- in other words, make Commodity Credit or anything else stand on its own feet; go to Congress and say we need 50 million or 100 million to make Commodity Credit good and that would come out of the General Fund.

So looking forward to next year, we would have this picture again. We would have 1 billion dollars worth of money coming into the Treasury, to be invested

-2-

in these special certificates plus any amount which would come in net from revolving funds. Again saying we don't have gold sterilization, again leaving that out, because it only confuses the picture, if that was out and we had an exact amount of taxes come in to exactly pay for our total cash expenditures so that they balanced, the question I am asking myself and I want to ask you people, in view of the fact that the fiscal year 1936-1937 -- the difference between that and the one we are in now, I have gained about 2 billion, we are 2 billions better off this fiscal year than we were last -- again I am asking myself, should we at this time in addition to taking this Social Security money at this time and in addition to taking all net receipts from revolving funds, should we on top of that set aside another 600 million to be obtained from taxes to retire the debt? Now, there's the whole picture. Now, before I can make a speech, I have to settle that.

Dr. Viner: This other 600 millions is sinking fund?

HM, Jr: Yes. Have I put it very clearly? We have had some terrible fights here, but that's the picture. Have I stated it about right?

Mr. Seltzer: Yes. There is this: that what you retire out of recoverables would be called sinking fund retirements.

HM, Jr: O. K. A rose by any other name smells as sweet. But that's all right.

Mr. Gaston: Yes, that's true.

HM, Jr: After all, my responsibility is to recommend to the President what the top figure should be on spending and what amount should be for taxes. Now, how much he gives to the War Department or the Navy, that's his job and Bell's; not mine. After we arrive at the top figure, that's my responsibility.

Now, may I say, in helping you to make up your mind, because, in this room, I am afraid to mention it to the President because it looks too good, in a sense -- as far as I am concerned, every ounce of

-3-

strength I have got will be continued to be used towards curtailing unnecessary expenses, because the way the figures look now we could get along with about 6 billion 650 worth of receipts, isn't that right?

Mr. Seltzer: Yes.

HM, Jr.: We could get along with this year's taxes and I think that that's high. We could get along with as much revenue as we have this year. We don't need any more revenue.

Dr. Viner: Allowing how much for sterilization?

HM, Jr.: This is all ex-sterilization. The sterilization thing simply clouds this thing for my thinking, but the question is should we at this stage go out and ask for another 600 million from the taxpayers. I am willing to be cross-examined by you fellows.

Mr. Rieffler: How much does your receipts estimate allow for a drop in business? Where would you be if the business picture for 1938 dropped?

Mr. Haas: The President gave you 6 billion 6 as the necessary figure, but it happens to be the same figure as our estimate for this fiscal year.

HM, Jr.: No. The last estimate Haas gave me for next year was 7 billion. As a matter of fact, he gave me 7 billion 100 something, and Magill and I working on his picture has a figure in mind of between 7 billion and 7½.

Dr. White: Shouldn't the determining factor be the state of business? Could you go on record now as prophesying the business level a year and a half from now? Would it not be better for you to so couch your speech so as to make allowance for a given level; that you will adapt the situation to that level? You can't be a prophet. No one here knows what the business level will be in 1938-1939.

HM, Jr.: I think you are getting away from the point. After all, the 5th of October Haas gave me a figure, an estimate of 7 billion 172.

-4-

Mr. Haas: I want to repeat very strongly that that was made in August and it was very tentative.

HM, Jr: All right. This is the 5th anyway. I don't want to get confused, because the business level -- this is the question, how much did Bell's figures total yesterday?

Mr. Seltzer: 6 billion 775.

HM, Jr: Call it 6 billion 8.

Mr. Seltzer: He can take a couple of millions off of that.

Mr. Riefler: Does that include statutory debt retirement?

HM, Jr: No. Does that include expenses for Social Security?

Mr. Seltzer: Yes.

HM, Jr: The 250 million?

Mr. Seltzer: Yes.

HM, Jr: We will take that off.

Mr. Seltzer: That does not help you because you also take it off receipts.

HM, Jr: I want to take it off.

Mr. Seltzer: And we haven't got Social Security expenses broken down the way it would help you for this purpose.

HM, Jr: How much has he in there for agriculture?

Mr. Seltzer: Agriculture? 600 million for agriculture.

HM, Jr: Roads?

Mr. Seltzer: Roads is split up all through here in

-5-

public works, but I believe he has 255 million for public highways. That's the figure he gave me orally.

HM, Jr: But if we set up this thing and set Social Security to one side, we certainly would have to subtract 250 million if we are talking about how much cash we raise to put it on a cash basis because we deduct 250 million from cash receipts. What's what I am talking about.

Mr. Seltzer: Well, suppose you figure it this way. Bell figures 6 billion 775 expenditures including non-cash expenditures. Supposing we figure receipts of 6 billion 650. Bell would knock off that 125 million easy enough so that your receipts and expenditures on a budgetary basis would exactly cancel out. You would be exactly balanced without sinking fund. That would leave you a billion cash for debt retirement.

HM, Jr: I suppose those figures are correct.

Dr. White: There are two different aspects to this issue. One is monetary and the other is fiscal. The question as to how much taxes you wish to collect and spend is fiscal. That you can decide and take some chance on envisaging what the situation will be. Any determination of how much revenue you will get, how much you will spend -- you will have to modify it if conditions change, but that does not affect the question as to whether or not you utilize this billion in debt retirement -- how much to utilize in debt retirement.

Dr. Viner: What else could you do with it?

Dr. White: My point is whether you would use it as debt retirement or run into a deficit. In other words, whether you should regard the necessity to increase expenditures rather than -- let me pursue that a moment.

HM, Jr: Please don't today. Put it in writing. George has not kept you posted. Write it. If you have an entirely different idea, put it in writing.

Dr. White: I will do that because it bears out my point.

-6-

HM, Jr.: I want to stick to this thesis today.

Dr. White: Which is?

HM, Jr.: I gave it to you.

Dr. White: Well, apparently I did not get it.

HM, Jr.: I did it twice -- that the taxes we take in actually pay for our cash expenditures and that we raise enough taxes to pay for all our cash expenditures, then anything we take in from Social Security less running expenses, which would be 1 billion plus anything we take in from any revolving funds, that those two sums go toward retiring an equal amount, dollar for dollar, of debt in the public hands. Now, is that plain?

Dr. White: It is, but I don't see the issue, because I don't see what you can do with money except retire debt or spend it.

Mr. Seltzer: Shall we retire 1 billion or 1 billion 6?

HM, Jr.: The President is figuring -- the way he told it to Cabinet when he figured it up -- every time he has talked, he has always included 600 million additional for debt retirement. Now what I am talking about, do we want to tax people in addition to raise that 600 million?

Dr. White: And I maintain that that depends on the level of business activity and that is something I don't think any of us could foresee. Therefore, your statement should be couched in such terms as to make possible an adjustment to the then prevailing situation.

Mr. Seltzer: But it has to be concrete. You have to lay out a program for next year. Later you may change your program.

Dr. Viner: The program could be laid out as an economy budget program with more debt liquidation if business conditions justify us. There is an alternative.

Dr. White: You can say we are going to balance the budget in what the President calls a layman's sense, what I call an economic sense. That's really balancing

-7-

the budget. It is too bad he terms it a layman's budget.

Dr. Viner: Or you can balance the budget and in addition carry out the statutory requirements for liquidation. Now I agree with Harry White that it will be a big achievement if you get the first step done. That ought to be the minimum.

HM, Jr: What is the minimum?

Dr. Viner: The layman's balance.

Mr. Seltzer: Using Social Security to retire debt.

HM, Jr: You people all make this so complicated. I made it simple in my own mind. I am going to stick to the proposition that I put. I have to make up my mind am I going to recommend to the President that we have to raise our tax figures. We have Congress meeting on November 4th, the committee, should we include another 600 million or shouldn't we.

Dr. Viner: Mr. Secretary, your estimates of tax receipts for the fiscal year 1939 are going to depend very much on what the level of business is. Therefore, you ought to estimate a minimum amount on the assumption that business is not going to be very good in that fiscal year. That will be a layman's budget. But if business does recover quicker than some people think, then that will also give you statutory debt retirement.

HM, Jr: That's all very nice, but I still come back to you with the question I am asking and no one has answered it. Congress goes ahead and votes so much money...

Dr. Viner: Appropriates.

HM, Jr: Through appropriations. They ask us to make an estimate. The President has to make an estimate in January, the budget message. Now the way it is always done, they build, block on block, total expenditures and Bell gets final figures, which will figure at the present a total of 6 billion \$. Now, let's not talk lowest estimate anybody can make on business, which it isn't. The question is what the country can stand at this time. After Bell and the President get all through, let's say

-8-

the total figure they have, total expenditures, is 6 billion 8. What I am saying is of course we should raise 6 billion 8 in taxes, but should we on top of that put another 600 million debt retirement?

Dr. Viner: But if the estimate of business is based on very bad business conditions, that's all you can estimate.

HM, Jr: Let's say it is based on the very worst. I will take the lowest figure that anybody in this room will give us.

Dr. Viner: Then I will say that 6 billion 8 is sufficient.

HM, Jr: As a matter of fact, since I have been here we have always figured our estimates -- always taken the lowest.

Mr. Seltzer: You are saying no more than has always been the case. Mellon regularly underestimated receipts and surplus revenue went for debt retirement.

Dr. Viner: Yes, but at the moment there is a little different situation in that the business situation is so uncertain that estimates are going to be more conjectural than usual.

HM, Jr: If the Agricultural Committee votes 1 billion for agriculture, you have that. If they vote the total they are going to spend it.

Dr. Viner: Not necessarily.

HM, Jr: But excuse me, they have always spent more than they have estimated. All right. You fellows -- what I have got to do is stand before this country and come out and say that I don't believe we should put aside any money for statutory debt retirement. That's what I am asking you.

Dr. White: At this time. I would say that at this time the conditions do not look certain so that you feel warranted in raising taxes for the purpose of debt retirement. It is a deflationary move which is all right when business activity is reasonably high, but if, as is possible, 1938-1939 may be a bad year, then any such attempt only

-9-

accentuates it and you probably will change your mind sometime between then and now, in which case your promise will have been of no avail.

HM, Jr: Will you answer me point blank, do you feel that at this stage of the game -- ten days off from next Tuesday the President of the United States will send a message to Congress -- I should recommend to him that we should not set aside or try to raise any money for debt retirement?

Dr. White: That's my feeling.

HM, Jr: Now

Dr. White: The way the picture looks now, that's my feeling.

HM, Jr: What other thing have you in mind?

Dr. White: Just that -- that taxes should not be raised for debt retirement. I did not know whether you wanted my opinion. I thought you wanted reasons pro and con. Therefore I had to put it on the monetary basis because it relates to the broader picture of business activity, of contraction of purchasing power, etc., so I called it the monetary aspect of the budget rather than purely fiscal aspect. The latter is what you have outlined for me, cash income and cash outgo. The other at this time I am not in sympathy. Had this been last spring I would have said, yes; possibly more. The way the picture looks now, I think it would be a grave error to go on. It would be futile psychologically if you started it.

HM, Jr: This particular audience are going to say - I get up and say I am opposed to raising new money for statutory debt retirement at this time ...

Mr. Seltzer: You don't put it this way. No. You say this. You say we have a very strong tax structure. On any business conditions you get a lot of money for sinking fund and debt retirement. You don't believe you should add to that tax structure. You are considering very conservative tax estimates. If business is better, fine! you will use the surplus for debt retirement, but you are not going to take it out of the hide of business at this time.

-10-

Mr. Taylor: However, you are going to do this: returns from recoverable assets you are going to utilize for debt retirement.

Mr. Haas: Yes.

Mr. Taylor: That's a damned good point.

HM, Jr.: On the Social Security, you issue, as far as the statement is concerned, as far as your balance sheet is concerned, you simply issue 1 billion in special Treasury certificates. But I have this picture now. Nobody can dynamite it out of my head.

Dr. Viner: You from now on hand to distinguish between public debt and public debt in the hands of the public.

HM, Jr.: It has taken me a week to get that and Walter Lippmann has not got that.

Mr. Rieffler: I would like to raise one question of fact.

HM, Jr.: (Replying to Viner's statement) But that's the whole point. They keep talking Social Security. It's a shift on our books from the hands of the public to the Treasury books.

Dr. Viner: But that's an important shift. That's not merely a bookkeeping practice.

HM, Jr.: We are taking 1 billion from the States and Federal taxes and putting it into the hands of bondholders, holders of Government bonds.

Dr. Viner: Economically, it's just like debt liquidation.

Mr. Gaston: May I make a suggestion, something to shoot at. That is this: that we hold the expenditures, use every effort to hold expenditures to the level of the current fiscal year receipts of 6 billion 650. Now if business in 1938 is no better than in 1937, we should get approximately that revenue.

-11-

Dr. Viner: Oh, no! We ought to get more.

Mr. Gaston: If business in 1938 is not better than in 1936, I am looking for a drop back to the 1936 level, then you will have revenues for your fiscal year 1939 exactly equal or approximately equal to the revenues of 1938, of 6 billion 650, and in that situation with expenditures held down to 6 billion 650 you would have available your billion and a billion only for retirement of debt in the public hands. If you establish such a program, the chances are that the improvement in business will permit you to retire a larger amount of debt, but I don't think a larger amount of retirement should be done unless you get an improvement in business above 1936-1937.

Dr. Viner: That's all right, subject to the figures...

HM, Jr.: We don't have these men very long. Let's for a second hear these fellows.

Mr. Rieffler: I would like to ask a question. First, in this estimate of 250 million expenditures on the Social Security program. Does that take -- what estimate does that make of unemployment payments, if we have a bad year? You will have this year withdrawals from those trust funds for unemployment insurance. Does that take it into account?

Mr. Seltzer: Yes, as well as it can be. We estimate in 1939 we will get 725 million in unemployment trust fund receipts. Thus far, payments out of the unemployment trust fund have been negligible. Now next year we are allowing, I am doing this because there is no data available, 221 millions of outgoing payments and you will still have better than one billion available and you would add that to old age for debt retirement.

Mr. Rieffler: Next, I agree with this statement in general and the statement Herbert made is about as it should be made. I should like to put a footnote on Harry White's statement about monetary aspects. At this time, retirement of debt from public hands is not entirely deflationary. It puts back that money into the capital markets and if you are trying to raise new capital, if there is a stringency in the capital market, this is a machinery. Retirement of debt in the public hands is not deflationary. It might work another way. Depends on circumstances. I agree with the program.

-12-

HM, Jr: Let's just go ahead and hear what you have in your mind.

Mr. Rieffler: I would like to say to the public in your speech that you are estimating receipts on the basis of business activity, very conservatively, as low as 1936 or possibly lower. That on that basis you have a picture in which receipts will cover expenditures and including the Social Security will provide for some retirement of debt from the public hands, which means that...

Dr. Viner: 1 billion.

Mr. Rieffler: ... which means that to the extent that the capital market has been put in difficulties during the past year by the raising of Federal debt that will be alleviated. At that level you are not providing for statutory debt retirement. That you do not believe that you should raise taxes to provide for such retirement. That if the level of business activity is better than this conservative estimate, which it ought to be, you will have your full amount for statutory debt retirement.

Mr. Gaston: That implies there will be no change in the overall tax estimate.

HM, Jr: If I understand you, what you are saying is that if we figure our tax revenue at a very, very conservative estimate, or building our tax revenues -- that's what we have to do because there will be so many changes, we build our tax structure at the most conservative estimate of business, we will build it on such a basis that that will produce enough revenue to pay for the total running expenses of the Government

Dr. Viner: If the business level is what it was in 1936.

HM, Jr: Wait a minute. We will just build the tax program on the basis -- I wouldn't use 1936.

Dr. Viner: You have to use some basis.

HM, Jr: On a very conservative basis. If we have

-13-

underestimated, then anything we get over and above would go to debt retirement, but we don't feel at this stage we should add another 600 million to this tax structure at this time.

Mr. Rieffler: On a conservative estimate of revenues.

HM, Jr: I would make it -- maybe explain a little how we arrived at it.

Mr. Gaston: I would call it the minimum estimate.

HM, Jr: I would explain, taking Federal Reserve figures put in four or five items that we would put in.

Dr. White: Except I don't think the Secretary could prophecy a lower level even though he might feel that way. That's why I don't think he should name 1936.

HM, Jr: I wouldn't name it.

Mr. Gaston: I would say even if ...

HM, Jr: Again I keep saying, what I am asking for, if I stand up and say no statutory debt retirement, you know what that means to some fellows.

Mr. Rieffler: I would put in the picture that even that does mean retirement of debt from the hands of the public. I would make that very strong, that that still involves that picture.

HM, Jr: I appreciate I am putting it up to you.

Dr. Viner: I have nothing more to say. As far as I can tell, we are all in agreement.

HM, Jr: Now I will give Harry a chance.

Dr. White: I am a minority of one, and I am satisfied.

HM, Jr: Nobody interrupt him.

Dr. White: I further feel that the situation is uncertain and has possibilities so that you may not even wish to use a portion of that billion, because though Win

-14-

(Rieffler) is right in saying that it increases the amount in the capital market and, therefore, may not be deflationary, that's true only when business conditions are on the downgrade. When they are, you can pile all the money in the market and it won't help. So I would merely say I am satisfied with that. I personally would like to go along in that direction, but I am alone.

HM, Jr.: I am asking you what you think.

Dr. White: I would somewhere in the speech, if that's what you are referring to, or in the statement have a paragraph which would indicate that you are fully aware or cognizant of the possibility that if necessary you may have to reduce the amount of debt retirement even with respect to that billion.

Dr. Viner: In other words, that you may have to use part of that billion to meet current expenses of the Government.

Dr. Haas: Then it would not be balanced.

Mr. Taylor: I think it's a very unfortunate way of saying it.

Dr. Viner: That's the way they will say it.

Mr. Taylor: I think you have to be particularly careful you don't say it that way.

HM, Jr.: That's an unbalanced budget.

Dr. White: Except I don't like the term unbalanced budget.

HM, Jr.: But you are doing it on a basis. You are. You are using these receipts, you are spending them just the way we are this year.

Dr. White: All right. I have spoken.

HM, Jr.: What I get from you, you are delighted that I am going this far.

Dr. White: That's it.

-15-

HM, Jr: But you are fearful if business depression goes further, I will have to use ...

Dr. White: You will have to use ...

HM, Jr: But why say it? There is nothing in the law that says I can't. That's a blank check from Congress for 1 billion dollars. How can I get up in front of Marvin Jones and pound the desk and say you can't do this if I point the way to a blank check for a billion dollars? Why show them the way? I think the position -- I am trying to make up my mind; I haven't and I am not going to for a couple of days -- should I take the position of enough takes to pay for cash expenditures of the Government ...

Dr. Viner: I would like to say another word. If you find yourself forced to invade the Social Security funds to meet the current expenses, that will be deflationary and not inflationary because again the pledge to balance the budget has failed and unbalancing of the budget in 1936 has been deflationary and not inflationary.

Dr. White: There is a point of view that is irreconcilable here.

HM, Jr: I agree with Jake and the thing I am so fearful of, I can say it in the room without being quoted, I know that the President will grab it because this makes his task 600,000,000 easier and he's going to take it, like that! but I am willing to recommend it publicly, and then if it is good, he can take it. But that's what I am offering.

Mr. Rieffler: One thing more. The Social Security Board is planning exemptions which will practically wipe that out.

Mr. Seltzer: But this thing is against that.

Dr. Haas: They are going to get rid of the reserves problem by spending the reserve. But this checkmates that.

Mr. Rieffler: But you may have to hold this program or you are lost.

HM, Jr: Wayne, do you want to say something?

-16-

Mr. Taylor: I check 1000%. There is one additional thing, which is changing the way we keep our books.

HM, Jr: That's the next thing I have here. This is Prof. Bartelt's suggestion.

Mr. Seltzer: We haven't heard any explosions from Bartelt.

HM, Jr: I told Bell we should show it to Himmelblau tomorrow. Dean Himmelblau is coming and we will show this to him. If I can think at all, I am good, because I happen to be very sick. (Referring to table) Where is Social Security? Does it appear in this?

Mr. Seltzer: It is in there.

HM, Jr: But where is the trust fund?

Mr. Seltzer: That's the trust fund. It does not get into the Budget, but there is something I want to mention. I think we ought to have a fourth section there that shows cash changes in the budget picture where you take in not only operating expenses and investment operations, old age reserve account, but take in all trust funds, so that people could readily see where we get all the money for retirement of debt in the market.

Dr. Viner: You mean cash accounting.

Mr. Seltzer: And you would also reflect building up in the cash position too. Increase in the public debt is merely due to building up cash position. That's another phase and the budget picture, that ought to be in there.

Dr. Haas: It's a trusteeship.

HM, Jr: Could you gentlemen do this for me? Could you go into somebody's room and take a look at that statement and then as soon as press conference is over I would like to get on that thing again. And then you (Viner) are here for two days?

Dr. Viner: As long as necessary.

-17-

HM, Jr: And how about you (Riefler)?

Mr. Riefler: Just for today.

HM, Jr: But as far as you people in this room are concerned, if I could get something to show the President Monday, it would be marvelous.

Mr. Seltzer: We can get something out by Monday.

HM, Jr: And it gets down to clearing the thing. We have enough talent here. And then on this thing, maybe you don't want to see me right afterwards, but I am going to go home about 11 o'clock. I had a chance to read this this morning. My thought in talking about economy, the two illustrations which are the best to use is agriculture and to show you, I would like these gentlemen to take what Bartelt has prepared, the stuff he has given us, and where he begins to talk about authorization of appropriations shows what we are up against. He has done it very well and I don't know any one better to explain how difficult it is to do this thing and he builds up here the picture in agriculture. Well, the Department of Agriculture for 1939, including good roads, comes to 1 billion 6. This is for next year, the way the picture looks now, and he has built it up.

Dr. Viner: Is that the Department of Agriculture or agriculture.

HM, Jr: Agriculture. And taking public works, he shows how we are committed to pay to 1942 and no money to finish them. My thought is to use those two illustrations as devices Congress has used to provide money for agriculture. It is unbelievable. He has it all down here, has done a beautiful job and I don't know how better to explain it than use agriculture and public works. As far as I am concerned, if you fellows could help me make up my mind -- here's a balance sheet plus 600 millions and everything else around the shop is in pretty good shape, but you see I am going to see the President with Bell on Saturday. Before we get down to talking about individual departments, I would like to have this picture. I know the President. If I recommend that we get 600 million for debt retirement, the minute I mention it I will never be able to unsell him on it and I am the fellow who will sell it to the President.

-18-

Mr. Rieffler: I wouldn't sell it to the President.

HM, Jr.: Listen, he's a smart fellow. He did not know what we were working on. He said we needed three budgets, kept saying when a fellow borrows money for improvement, it is ridiculous to charge that to yearly expenses, and he has been groping for this thing and has not got the answer and no one has been able to give it to him. I understand Social Security and once I give him that I will never, never unsell him. I don't know how Danny Bell will feel, but I think Danny Bell will be absolutely opposed. But I am not feeling at all well today. I have nothing from 9 to 1 tomorrow. But I terribly would like to get something on paper. Magill and I are leaving right after lunch to see the President and Bell and I see him Saturday, and that's my schedule.

Mr. Selzter: What do you want on paper, the speech or accounting?

HM, Jr.: Accounting, and a statement from these gentlemen how the whole thing -- the whole thing boiled down. It really centers almost on debt retirement. Everything else, I would say, would center around that. Wouldn't you, Herbert?

Mr. Gaston: Yes.

HM, Jr.: If I come out and say I don't think we ought to issue another 600, business at this level can't stand it, I don't see why we don't call a spade a spade, why -- this is an intelligent audience -- why should somebody else read words into it? That's the whole speech, the part I sent Jake. And did you get one too?

Mr. Rieffler: Yes.

HM, Jr.: Tremendously important, that first half. Then, from then on, how much do we need and then using agriculture and public works to realize how difficult the thing is and how we have to untangle all these eight or ten ways of raising moneys, these devices, these ways of raising money.

First, the budget balance, and that implies holding expenses to the level of 1938, and then go ahead and show

-19-

the actual problems we face to do that, which is a real job. We are not going to hold taxes to business levels; business levels will decide what the taxes are.

Mr. Rieffler: I think I have a suggestion for presentation. Won't bother you with it now. I think I can see how to do it. I had better work it out with the group.

HM, Jr: At 2:30 I have to meet with these people to get ready for RFC. That will run until four. By that time if anything is left of me -- but between now and four, I would like you to concentrate. It isn't the speech. It's setting this policy. I want Harry to sit in as long as he's the minority. Let him sit in.

October 28, 1937

4 p. m.

Present:

Dr. Viner
Dr. Riefler
Dr. Haas
Mr. Seltzer
Mr. Gaston
Mr. Bartelt
Mrs. Klotz

HM, Jr: Haas, you are in charge of the wrecking crew. Who comes first.

Mr. Haas: I understand Herbert has a suggestion which he has put down in writing and Win (Mr. Riefler) has another one which he did not have time to put in writing. It's rather simple.

Mr. Riefler: I can give it to you. It's what I spoke to you about this morning. I suggest you do not change the first part of your speech or give up a full and complete balancing of the budget including sinking fund at all as the objective.

Now, that speech is written in terms -- that first part -- in terms of the level of business activity during the past year and your revenues on the basis of that level of business activity would be in the nature of over 7 billion and would give you the revenue for administrative expenses and provide for your full Social Security reserves and to provide for your sinking fund, and I would go right straight through on that level of presentation. Then, when you are finished, you could take up the fact that revenues do fluctuate with business and you can point out that the period from which these revenues will be collected is a year or so from now when, even if we had a recession, business would probably be up to 1937 levels, but you can say that if those revenues are lower because of business fluctuation you can say receipts will still be enough to cover all cash expenditures and to cover the

-2-

Social Security reserves and, therefore, result in retirement of debt in the hands of the public even though they may not be up to 7 billion necessary to cover the sinking fund. You can follow that by pointing out that if business is higher than last year, revenues will be large enough to provide for sinking fund and additional debt retirement over that.

Mr. Seltzer: Another way of putting what Win just said

HM, Jr.: It's not very convincing to me.

Mr. Riefler: I think it is what you are saying in your speech as written today.

HM, Jr.: Let me be the audience. What I get out of this is Morgenthau makes a strong plea to balance the budget, then he comes along and says that's all fine as long as business does not get any worse. I am interpolating now, because if business does not get any worse than it is, then the revenues are set up on a basis where they will produce about 7 billion, which is ample.

Mr. Riefler: No, you will still have expenditures.

HM, Jr.: Which is ample to take care of the proposed expenditures, which would be around 6 billion 8, if we reduce it to that figure. If, however, business gets worse we are going to keep the tax rate just as it is now and it may only produce 6 billion.

Mr. Riefler: 6½.

HM, Jr.: 6½, which would not balance the budget and, therefore, after making this very, very strong plea and bringing tears to my eyes why it is so necessary to balance the budget, Mr. Morgenthau says that if business gets worse the budget won't be balanced and we will continue to have a deficit.

Mr. Seltzer: That's one interpretation.

HM, Jr.: Now, wait a minute. I would say, Oh, my heavens! What a flat tire that fellow is! I really

-3-

for a moment thought he meant what he said, but if business gets worse, and I guess he thinks it is going to get worse, we are just going to have another cash deficit!

Mr. Viner: Not worse than it is now.

HM, Jr: Just the two of us, Riefler and myself. Then I will take you on, if I have the strength.

Mr. Riefler: George knows better than I do how revenue estimates will run, but I would imagine that when you come to estimate revenues for 1938 you will forecast a very severe depression or recession, starting last month, and would still get this level of revenues for fiscal 1939, I should imagine, because you have got -- that's quite a way away -- and you would have time for the recession to get over and recovery. If you are going to estimate revenues below, then you are forecasting a pretty severe depression, which I don't think you will at this time. It seems to me your whole speech is made on the forecast that the immediate business problem is a recession and not a depression.

HM, Jr: When I wrote that thing I was writing with all sincerity and with sufficient fortitude and guts that I was willing to burn all my bridges and say we must not only balance the budget, but we must have 600 million over and above.

Dr. Viner: What's that for?

HM, Jr: Statutory debt retirement.

Dr. Viner: He's including that.

HM, Jr: No. Let me just finish my sentence. I wrote that balanced budget plus 600 million for statutory debt retirement. Now, the proposition I put up to you this morning, in view of what has happened, without going into a long technical explanation, should I adjust myself to the position which I simply am going to fight, not in the trenches of debt retirement, but in the trenches of a cash balance, but then be so forceful and so determined that no matter what happens that we must balance it on a cash basis and if business does fall back, no matter how much it falls off, I will insist that suf-

-4-

ficent revenues be raised to balance it on a cash basis. Now, my first line trench was cash balance plus 600 million. Now I go back to what I say in my opening sentence, should my second line trench be a cash balance and no 600 million or should I -- I believe what I am saying, I had better not say anything because if I begin to qualify it I can hear the catcalls. I go back to my original thing of this morning: should I retreat from the first line, which was a cash balance plus 600 million, or to my second line trench, which is cash balance and no 600 million. My third line is I will balance it by using Social Security money. But whatever I do, I ought to be sure about it, of my facts and if I am sure, just remember this thing: this fellow has made a fine statement which is very true. One of the contributing factors to this thing is that nobody has made a statement about a balanced budget which has convinced them. I get up, who only talk once a year or once in fifteen months, and then qualify it. I would be terribly scared. I appreciate what your motive is. You are trying to make it so that if in case the thing goes worse, HM, Jr is not made a goat.

Mr. Riefler: No. I am trying to do the same thing you are. It depends on your estimate of revenues.

HM, Jr: Well, we can have Macill come in on that. Here we go on the facts. If I make a statement I have to make a stand.

Mr. Riefler: You have to make a stand and not give in one bit.

HM, Jr: When I listen to you, what I got this morning, if business is good, on the basis we set up we will have enough money for cash balance plus 600 million; if not so good, we are in the middle, and if it goes worse we will have to fall back on Social Security.

Dr. Viner: No. I don't think that is correct. You are saying balanced budget in a different sense -- I thought we were in agreement, and that is that the minimum position is cash balance; if business is bad --

HM, Jr: Let's also call it middle position as between

-5-

the two.

Dr. Viner: That's the minimum.

HM, Jr: I did not get that.

Dr. Viner: The middle is balanced budget in the Bureau of the Budget sense, in a legal sense, in the congressional sense of including sinking fund.

HM, Jr: It's most important if that is the irreducible sense in your mind.

Dr. Viner: Oh, yes.

HM, Jr: I did not get that. If things got worse we would drop back and use Social Security money. What do you want me to say? What is my last trench where I am going to fight?

Mr. Riefler: You are going to fight for a level of cash expenditures which may be less than 6,650, but you are going to fight for a level of cash expenditures that will give you, even if business is very much worse than you are forecasting, your revenues will still cover them and retire debt from the hands of the public through Social Security.

HM, Jr: To put it my way, we will take in enough cash to pay for our cash obligations.

Mr. Riefler: And also buy Governments that are out.

Dr. Viner: From Social Security.

HM, Jr: To the full amount.

Dr. Viner: Of Social Security.

Mr. Riefler: That if business is what you are forecasting, it will give you full statutory debt retirement in addition.

HM, Jr: That's all right.

Mr. Riefler: That if business is better than you forecast, it will give you more than the statutory debt

-6-

retirement.

HM, Jr: You did not have time to put that down in writing?

Mr. Riefler: No, I did not.

HM, Jr: When do you have to be back in New York?

Mr. Riefler: A ll depends. I have to be in Newark tomorrow noon. Two o'clock.

HM, Jr: What time does that plane leave to get to Newark at 12 o'clock?

Mr. Riefler: I don't know. I imagine 12 o'clock.

HM, Jr: Because I would like to do is to give you a stenographer and let you go into the room by yourself and dictate this. I would like to get it direct from the horse's mouth.

Mr. Seltzer: Another way of putting what Win says is you are asking them to reduce expenditures by 700 millions in 1939 as compared to this year. That's all it is. You say if they do that, then you are bound to balance the budget regardless of business conditions and if business is as good as it has been in 1937 you will also meet your statutory debt requirements. The essential thing is to reduce expenditures by 700 millions.

Mr. Haas: Where do you get 700 millions?

Mr. Gaston: Present deficit this current year.

HM, Jr: What I am supposed to get up and say is this: that if we take the worst estimate that we can make from all the bluest people we can get hold of, we feel that our estimates would produce enough to make up this 700 million deficit.

Dr. Viner: If the expenditures are kept down to some specified level.

HM, Jr: You realize what that level would be? 700 million from 6,650.

-7-

Mr. Seltzer: No. It's from 7 billion 3, this year, to 6 billion 6. Bell now has a figure of 6 billion 8 and he says he knows he could knock off a couple of million.

HM, Jr: What I would like to do is go through with it and not have the President hedge. He has been saying he's going ahead with a full balanced budget and if he hedges on that, it would be terrible.

Mr. Riefler: This is putting it definitely. This is saying that Henry Morgenthau for the next year pins his flag to a reduction of 700 millions in expenditures and no increase in tax rates on the aggregate and then he says that will produce the following situation.

Mr. Gaston: That's substantially what I have written out here.

HM, Jr: The thing I try to do in this room is not to kid anybody -- much! -- but the statement you made about the President giving up, then I, as the President's mouth-piece certainly give up publicly. What I am willing to do from a monetary and economic standpoint, if that's the right thing to do I am willing to do it. Then if it goes wrong, all right. But I am willing to do it if you think it's in the best interests of the country.

Mr. Riefler: If you say the level of production is going to be 50, of course you are not going through with statutory debt retirement. It depends entirely on your forecast. None of us can advise you to pin your flag to balanced budget with statutory debt retirement with a level of 50 or 60. We just could not possibly say that that could be done. The whole question is, What is this business situation? Now, what I am advocating is that, therefore, you take the thing over into an expenditure level and a tax burden level, which, of course, will produce results comparable with business and I think you can state that in such a way

HM, Jr: Are you terribly tired?

Mr. Riefler: I am tired.

HM, Jr: Would you want to do it this morning?

Mr. Riefler: No, I would rather work on it tonight.

-8-

HM, Jr: Before we get the thing done, is there anybody who is not in agreement that that's the stand I should take.

Dr. White: Would you mind repeating it once more to make sure I understand?

Mr. Riefler: Let's see. Well, you can take your stand on a budget which is balanced in the sense of covering a full balanced outlay, expenditure outlay, sinking fund, and Social Security retirement on the basis of no increase of taxation burdens, taxation rates, and a level of business approximately that of the calendar year 1937.

Dr. Viner: I would not necessarily support those figures, although I would support them. It seems to be the most reasonable one. But there is no other way a Finance Minister can forecast a balanced budget unless he says he is going to keep the tax levying authorities in session all the time and the minute revenues slump below the estimate he is going to slap on some taxes that produce results immediately. Nobody can estimate on that basis. You can't give them a tight guarantee that your estimates will work you. The worst thing you would fall from is the level which in a sense balances the budget, and if business is better than as estimated it will do more than statutory balancing and I would say that's a big promise. I would say your obligation after you make that statement, assuming it be confirmed by the President, that if business does slump worse than we expect that you will scrutinize expenditures, put the brakes on them more drastically than contemplated and increase revenue if that is feasible, but then notice that failure to achieve your end is failure in the sense that your program was unreasonable when you made it or that you failed in reasonable efforts to attain it. You can't both give them a good program and give them a guarantee that regardless of what happens it can be carried out and only unreasonable persons would expect that of you. All they can expect is a good program and honest efforts to obtain it in the light of circumstances existing.

HM, Jr: As I see the thing that I want to do in this approach, I want to make the statement just as frank, open and clear as possible, so there can't be

-9-

anybody that can read into it a hedge. And I think, from my standpoint, it seems to me in view of what has happened, that what we are talking about here, I have about made up my mind that that is the position we will take. Once having made up my mind, it's easier to put it -- certainly enough people can use the English language to put it into words, but that does not prevent us from painting the picture -- for instance, using agriculture as a whole and public works, the mess we are in in those things; how difficult it is to cut it, and how important it is to watch every dollar and bring all those things into the open. That picture ought to be painted.

Mr. Riefler: Yes.

Mr. Seltzer: You won't have room to do it except in broad outlines.

HM, Jr.: That's all right, but it must be done in the speech. The first section, why the budget should be balanced and, second, then how are we going to do it and what are the difficulties in doing it and then somewhere in that would be, third, a talk about debt retirement.

Mr. Seltzer: But to get all those things covered you have to give up a lot of detail.

HM, Jr.: I am more than willing, because here's the point: if I lay down a principle and the President will accept, I am trying to think through with the help of you gentlemen, what should be the policy of the United States, fiscal and monetary beginning July 1? That's what we are talking about. If I can think it through and be satisfied and sell it to him -- we have 3,000 words. There are plenty of people we can turn this material over to. There are a dozen speeches in it. Plenty of stuff that can be handed out to congressmen and senators and leaders of the party, university people, who can use this material once we have it or we could put in appendices. I take it this society up there would be more than pleased to have appendices attached to this speech and give it to the members, and so forth.

Dr. Viner: Oh, yes. They publish the proceedings and no limitation

-10-

H., Jr.: So they will be more than pleased to have Bartelt's report on agriculture showing where we got these figures and all that stuff. But to get back to the principle.

Dr. Viner: I would stress one idea on the expenditures side, that that is the phase of it that is strictly under control. That's the only place you can be sure and truly make estimates and if you are determined to carry through your aims you can be sure because revenues depend on uncertainties.

HM, Jr.: As to the mechanics, you all like pretty much the first part, don't you?

Dr. Viner: I handed my verbal criticisms to George.

Mr. Rieffler: Jake and mine are together.

HM, Jr.: Did anybody look up the part Taylor objected to, the reference to the war?

Mr. Haas: I had Miss Diamond look that up and she did not find any place where the analogy of war was used. In several cases the President and others used fight, which is a different thing, and on the Republican side the word fight was used, but the war analogy was not used.

Dr. Viner: It seems to me when the legal question of what is an emergency came up, the analogy was used.

Dr. White: It was used once.

Mr. Rieffler: Al Smith used it when he advocated a 5 billions work program.

Dr. Haas: She went back to the campaigns of 1931 and 1936.

Dr. Viner: What if it was used before?

HM, Jr.: Maybe we can crib from Al. When I talk I have the greatest difficulty in not using the same method of accenting as he does.

-11-

Mr. Seltzer: If you were able to postpone your meeting with us until after luncheon you might get some drafts.

HM,Jr: Here's my program. We are due at Hyde Park tomorrow at five. I have nothing on for tomorrow forenoon, but I don't want to work with people who are not ready. I had hoped to show the President something on Monday, but I think he would see me Tuesday morning. I would much rather, if you are not going to be ready, to stay here and work out as much as you can and some of you come up to the Farm and give this thing to me Monday and I will take it to the President Tuesday morning. Think that over. I don't imagine we can do much drafting. Isn't this thing taking pretty good form as to what our objectives are?

Mr. Haas: Yes, and I think it will clear up a good deal if you had a draft.

HM,Jr: All right. Let's say this, Riefler is going to do this one particular thing, which is his Boy Scout deed for the day. What are you going to do, Jake?

Dr. Viner: I would like to see the second part, even raw material. If you like, I will also try my hand on handling these three levels of business.

HM,Jr: When and where do you want to do that?

Dr. Viner: I will do it tonight. I haven't anything else to do.

HM,Jr: Then the thing gets down to this: why not let's meet in the office tomorrow morning at 9:30 at which time

Dr. Viner: Could we make it at ten so we can get it typed?

HM,Jr: Not necessary. Let somebody stop at the hotel in the morning, pick it up and bring it in to type. You fellows are pretty well tuckered out. I am not going to press you. Bring this in and we can go over this thing tomorrow morning and see where we are at. What do you think, Herbert, as to the way we are handling it?

-12-

Mr. Gaston: I think that's all right. I want to say, George mentioned that I wrote my idea of this thing which is substantially the general scheme. Will you read it now?

Dr. Viner: I had planned to use that if I were drafting one.

Mr. Gaston: It will take about five minutes. This is not a finished draft. I wrote it hurriedly after leaving the meeting this morning.

(Read draft.)

You see, what I am saying is hold expenditures down to 6 billion 650 and use all of the surplus ~~above~~ that which we expect for debt retirement.

The one thing -- I don't want to argue -- I don't like, that phrase that we are not spending Social Security taxes. I don't agree with that, but I think when we go out and buy a billion dollars of Government bonds, if that is not spending, what is it? May not be spending for public works, but it's spending.

Mr. Gaston: I do say it goes into the capital markets.

HM, Jr.: But I wouldn't, as Secretary of the Treasury, say we are not spending it. We are. We are buying a billion dollars of Governments. I am perfectly willing to say where it goes. We are taking it out of the payrolls and putting it in the hands of the bondholders, but the fact remains it is going out of our pocket. That's the only argument. Then the thought that I am taking a billion dollars away from factories and workers and locking it up is not so. We are turning around and spending it. The bondholders who get one billion dollars worth of cash are going to do something with that cash.

Mr. Gaston: I say you are taking it from taxpayers and giving it to investors.

HM, Jr.: That's all right.

Mr. Haas: There is an important point that the press has taken up, the inference that the people who are beneficiaries under the pension plan would be better off if we locked up the cash, the dollar bills, than they are on

-13-

the present basis. What you are doing, instead of keeping the cash, which would be a foolish thing to do, you transfer this cash into Government obligations and guarantee them 3% earnings on that, which is ...

Dr. White: Instead of using the word 'spending' use 'investing'.

HM, Jr: That's all right, but I also don't want to get the thought over that we are not using it, not putting it to use.

Dr. Viner: We are not impounding the funds.

HM, Jr: That's a good start. Who wants that tonight?

Mr. Seltzer: Viner wants it.

Dr. Viner: Yes, I certainly do!

HM, Jr: We will meet tomorrow at 9:30 and we will see what the professors have.

Now, the only other thing -- I don't think the decision has to be made today, or between now and November 10th -- what we are going to do with the Treasury daily balance sheet. I think that's something that can go over until after the 10th because I could not take you (Bartelt) or Bell on. I am just too weak.

Dr. Viner: We tried to wear him (Bartelt) down for you this morning.

HM, Jr: Well, I will give you another two weeks, but I don't think it's part of the speech. I got that idea during the noon hour.

Mr. Bartelt: I don't think we ought to go into it hastily. I want to give you a pretty good picture.

HM, Jr: In studying it, it has brought out what I wanted. It served as an educational document for me. If I had to make up my mind, I would change it, but I am willing -- Bell is tired, and I wouldn't want to do anything like that without he's being more than satisfied, so I won't rush anybody to a decision.

-14-

Mr. Seltzer: It would also be well to get some good outside accountants.

HM, Jr: One coming tomorrow. What are we going to do with him? He can sit in here and listen. If I say it is confidential, he will keep it, won't he?

Dr. Viner: Absolutely.

October 29, 1937

9:30 am

Present:

Mr. Taylor
 Mr. Gaston
 Mr. Rieffler
 Dr. Viner
 Dr. Haas
 Mr. Seltzer
 Dr. White
 Mr. Bartelt
 Mr. Upham
 Mr. Bell

HM, Jr.: (To Mr. Kieley) I am expecting Dean Himmelblau of Northwestern University. If he comes, will you let me know.

Does Rieffler come before Viner? Match him, Jake, to see who goes first.

Dr. Viner: I lose.

HM, Jr.: Well, I will do it this way. Which do you want? — Heads or tails?

Dr. Viner: Heads I win, tails he loses. So Rieffler wins.

Dr. Rieffler: I tried to do something on the speech, the first part which gives reasons for balancing the budget in the fiscal year 1939.

HM, Jr.: I will want a confidential copy of that to go to Mr. Bell, Haas, and I want one.

Mr. Rieffler: (Reading) "Now exactly what does this statement of public policy imply?" . . . (Full text is attached hereto.)
 2.32 ✓

HM, Jr.: I think when you consider the time, I think that's an admirable paper. I think it is going to be most helpful and I am very appreciative. It's a summation of what we were talking about and it's a beautiful job.

-3-

HM,Jr: I wish Himmelblau were here.

Mr. Bell: With a few minor corrections, Win Rieffler's statement is swell and I think Viner has some language that might well be incorporated.

Mr. Taylor: They fit together.

HM,Jr: Why not give Bell a copy?

Mr. Bell: The corrections I have in mind are minor. I don't think you can speak of 8 billion 8 as tax revenue; you can call it revenue, but not tax revenue.

Dr. Viner: Say revenue receipts.

Mr. Bell: That's right, or just receipts.

Mr. Rieffler: This is just a series of guesses.

Bell : I think it's a swell approach.

HM,Jr: Let me take it. Let me read it. Those things that you (Bell) are talking about are technical language?

Mr. Bell: Yes, that's right. I think it's a swell approach to take this problem, as I understand it, to do it on the debt rather than the budget, which is exactly where it belongs.

HM,Jr: It does not take me ten minutes to do this thing and if you (Rieffler) leave this room at 10:35, you can do it, allowing ten minutes extra. You people listen and then you have the whole thing.

(Read pages 12, 13, 14, 15, 16, 17 and through second paragraph on page 18, of the draft attached.)

Mr. Bell: Very good. I have a few questions. Can't go back over them. I think you say two or three places where the situation is changed. I wouldn't say it so many times. Another place, I think you make rather positive statements that you might want to qualify.

HM,Jr: I just wanted you to get the philosophy which I am willing to say is my philosophy as to why we should

Dr. Viner: He worked all night.

Dr. Rieffler: Until three o'clock.

HM, Jr.: What would you people like to do? Discuss this or hear Viner's and discuss both?

Dr. White: Hear Viner's.

Dr. Viner: I did not stay up until three o'clock so mine is short.

(Dr. Viner read his memorandum, copy attached.)

HM, Jr.: I think you have covered it extremely well, too.

Dr. Viner: I haven't touched the question of expenditures at all.

HM, Jr.: You mean the part about agriculture and public works?

Dr. Viner: Yes, and I did not say anything at all about Social Security; let the other fellows do it. But I would like somewhere in there a discussion of the public debt in the hands of the public as compared to public debt as it stands.

HM, Jr.: I walked down with Bell. We started a discussion and then Bell said that he had not been in on this thing long enough to get the feel of it and he still has not read the thing that preceded it, but it's entirely up to him. I don't want to crowd Bell this morning because it's up to him whether he wants to get in on the discussion this morning, and not having read the ten pages that preceded this on why I think it is necessary to balance the budget

Mr. Bell: I take it that it is necessary. You don't go into figures?

HM, Jr.: No figures, just as to the principle.

Mr. Rieffler: It is a very eloquent statement as to principle.

HM, Jr.: Purely as to principles, but I don't think I could make it any stronger.

-4-

do it. Now you have that and you have the benefit of this discussion as crystallized in Reiffler and Viner. Now, having this, which lays down the 'why' of this thing, how do you feel?

Mr. Bell: I feel it is getting a nice form.

HM, Jr: You do?

Mr. Bell: Yes, sir.

HM, Jr: Anything in there which as a 25-year employee of the Treasury -- I am being serious-- and forget whether it is this Administration or any other, just straight thinking, anything in there which grates or rubs you the wrong way?

Mr. Bell: No. I don't think so, if I got everything, and I think I did.

HM, Jr: You think this is the right approach?

Mr. Bell: I think it is a very good approach. I question whether you want to get out too far on 1939 and in Mr. Rieffler's draft I think you want to make it clear that you are basing your revenues in 1939 on 1938 estimates. I don't think there ought to be any doubt about that.

Dr. Viner: On 1937 estimates.

Mr. Bell: No, you are assuming that revenue in 1939 will be the same as 1938 and that expenditures ought to come down to those figures.

Dr. Viner: 1938 revenues are being estimated in 1937.

Mr. Bell: On 1937 calendar year, that's right. After all, you are making the speech two months before estimates go to Congress and they might be entirely different from what you are indicating and there is no use of your going out on a limb without qualifying yourself, as I see it.

HM, Jr: Well, one of the reasons you might give as to why I am doing this on November 10th -- the main reason I am doing it, I can't say it so baldly, is that I want to serve notice on the Congress which is going to meet and

-5-

take up the agricultural program, I want them to know what the situation is. Why not just say so -- in reference to the Congress which meets which is going to consider this agricultural program, let's just take a look into 1939?

Mr. Bell: I think that's very good.

HM, Jr: I think, George, that's the thing to say. Here they are meeting. Normally, the Secretary of the Treasury wouldn't be making a statement like this on November 10th because we have a special session of Congress which is called to consider among other things an agricultural program which, this year, cost us 1 billion 600. Before they sit down and vote anything, they ought -- the country ought to know what is the situation and this is what the situation is and this is why we have to watch every penny that we are going to vote of new money because the situation is so. That's why I'm doing it on November 10th instead of waiting until the President does it on January 5.

Mr. Bell: I see.

HM, Jr: If somebody -- it's very nice for the President of the United States -- if I were Marvin Jones, it would be nice for the President to write a letter, have an agricultural program, but not do anything to unbalance the budget. Well, what is the budget picture? Why shouldn't we go ahead and spend 1 billion 6? How do I know what the program is?

The President in talking to me last night said, Have you talked to Marvin Jones and I said, No; I am working on this year's corn crop; why should I talk to Marvin Jones about next year's thing when I am still wrestling with this? The President said, That's all right.

Mr. Bell: I wonder if you want to leave this statement in here about RFC in view of yesterday's conference. It is open-ended now.

Mr. Haas: Here is a question. With regard to your taxes, the question of levying the same aggregate burden if the agricultural bill attaches taxes, in my opinion that is increasing your tax burden.

Dr. Viner: It certainly is.

-6-

HM, Jr: The President said last night, and knowing that I was going to spend this evening with Magill and him the Gods being with us, I was willing to take a chance on that. He said, What have you done to provide taxes to pay for this Commodity Credit? I said, Nothing for this year, but, I said, please won't you let me wait until I see you tonight? Now, between now and Wednesday when I want to hit this thing, this tax thing will have jelled, at least I hope it will. Magill and I will lay the whole thing before the President tonight. We hope out of that will come some kind of public statement and it's just my good fortune. I hope that there will be something publicly so that I can use that in this. You see?

Mr. Riefler: It would be much more precise.

HM, Jr: But I am saying, I am hinting pretty broadly here, and everybody would give their eye tooth to know, but if there is a public statement and that's behind us, it makes my job that much easier.

Mr. Seltzer: Too bad if it jells the wrong way, because some of your material is against a jelling in one direction.

HM, Jr: Well, Magill has seen this and I have worked every morning, from 8:30 on until I see you fellows, so Magill and I are together. Everything in there is the result of days and nights Magill and I worked, so my right hand happens to know what my left hand is doing. Don't worry. It's all right. And George has seen it. It's all right, isn't it?

Dr. Haas: Very good.

HM, Jr: So there are no cross-purposes, but I am being a little cautious in what I am saying, that's all. This is all new to you (Upham). What do you think of it?

Mr. Upham: Oh, I think you are going to have a good speech.

HM, Jr: What don't you like about it?

-7-

Mr. Upham: Nothing important. A few little things.

HM, Jr: But as to approach?

Mr. Upham: That's what I was speaking of. I think it's very good.

HM, Jr: You think it is all right?

Mr. Upham: Yes.

HM, Jr: Where could you attack it if you were an editorial writer for the opposition? Where are the weak points? Where will they attack?

Mr. Upham: Well, a very minor note. I would like to keep it completely free of politics. I should not like to make any reference to this Administration or the previous Administration or the great leader, Mr. Roosevelt, as appears on the first page.

HM, Jr: I want to just rub their noses once into Mr. Roosevelt.

Mr. Upham: I prefer to see that taken out.

HM, Jr: I just want to take them like that (makes gesture of sticking his nose into the speech.)

Mr. Upham: It isn't a political occasion.

HM, Jr: I know, but it's good for them. I want to rub their noses into the New Deal once. I am glad you say it, but just once -- I had more than that.

Mr. Taylor: You ought to put it in the last sentence.

Mr. Bell: End it with a snap!

Dr. Viner: They would snap, too.

HM, Jr: What did you say?

Dr. Viner: I said put it in the last sentence. Then you would guarantee there would be no applause.

Mr. Upham: I am just telling you what I think, but you disagree.

HM, Jr.: I think once I want to do it.

I am a little surprised to find so much optimism about this not being a down-swing of some permanence.

Dr. Viner: There must be some bottom or you can't have a balanced budget. You can't have it both ways.

Mr. Bell: I think your opposition will pick up this kind of a story. The Secretary of the Treasury is the first one to come out with a sort of inferred alibi that there will not be a balanced budget in 1939.

Dr. Haas: That depends on the latter part.

Mr. Bell: It may be the thing you most have to face.

HM, Jr.: And I kind of got Rieffler excited on the question so he was willing to burn the midnight oil.

Dr. Rieffler: I think the figures have to be looked through now and I would like to see your estimates. It does seem you can look for quite a business depression and unless you are forecasting a renewal, your averages will show something like this. That's got to be done very carefully to see that this checks up.

Mr. Upham: I heard some people, Louis Bean and and a half dozen or eight Government economists paint a very dark picture. Lee Pressman said unemployment is going down so fast that his group is going to have twice as much relief this winter as last.

HM, Jr.: He's with Lewis?

Mr. Upham: Yes. C.I.O. And these other people just had a completely different tone; they think things are in for a very bad situation in the next couple of weeks. By the time you reach November 10th, if they are right, you will see a precipitate decline in business employment, etc. They may be wrong.

HM, Jr.: Is that the meeting Goldenweiser sat in?

-9-

Mr. Haas: No, they have been meeting ...

Mr. Upham: I am writing you all about this, a summary of the whole thing.

HM, Jr: This is another group?

Mr. Upham: Yes. This is the Committee on Economic Security and I more or less got sucked in on it.

Mr. Haas: Steel is a sore spot and that constitutes a large part of the FBI. The index calculated roughly for October might be 105. I haven't talked to Goldenweiser.

HM, Jr: From 112?

Mr. Haas: Yes, and it's largely accounted for by steel.

HM, Jr: What I want to say is this: I am in this thing and I have got a date which is a good date. Five days before Congress meets. Now, all I said to Bell this morning is this: As Secretary of the Treasury, I think it's my duty to think out certain things for the President and the Treasury -- what I should recommend to him and to the country what our objectives should be. If between now and the first of November, the thing goes much worse, I will ditch it.

Mr. Bell: You will have to change the speech.

HM, Jr: That's all right. I may have to change it the last day. I changed the last one; I changed it, as Mrs. Klotz knows, and almost passed out, at six o'clock. The President read one part and asked me to leave it out.

Dr. White: Why not have one prepared ahead of time? Why not prepare one and not look at it unless you need it.

Mr. Gaston: It ought to be done.

Dr. White: You may never see it.

-10-

HM,Jr: I will ask for it Wednesday morning.

Dr. White: All right. I will do what I can.

Mr. Upham: But don't look at it.

HM,Jr: Have it -- I have a nervous system; what's left of it -- I would like to see it Wednesday morning. You go and give me one Wednesday morning.

Dr. White: All right.

HM,Jr: I don't want to kid myself, but I can't get down to the depths that these people get and I don't see it.

Dr. White: Just to have an ace in the hole.

Dr. Viner: Must not have too many aces in the hole.

HM,Jr: We can go through any draft you like; take out any positive statements, so you are not saying anything at all.

Dr. Haas: I have those alternatives.

Dr. Viner: Either take a chance or not. If you don't take a chance, you won't say a damn thing.

HM,Jr: What I want is a "White" ace in the hole.

Dr. Viner: Is that the kind you keep up your sleeve?

Dr. White: There are a couple of logical difficulties here. Shall we raise them at this discussion?

For example, implicitly and explicitly, any deficit spending that takes place under these conditions must be financed in large part by capital funds. The implication there and elsewhere is that if you go out and borrow, you are drying up the sources that would otherwise go into investment. You are also saying so somewhere else that if you put a billion in, it would be a good thing. It seems to me a critic would say if that is so, why are you hesitating using 1 billion 500 million active gold. You have now 700 million in silver certificates that you could issue now. If these things are good, as you admit they are, and

-11-

doing the opposite is bad, as you say, why have you refrained from doing something which is good. That's one logical difficulty.

HM, Jr: Bell, I wanted you to hear this. You have lots of other things. Don't you want to go?

Mr. Bell: One thing I am working on is a revenue estimate of 7 billion 2. If there is going to be any new estimates coming to 6 billion 8, as this indicates, I think I ought to know about it.

HM, Jr: You will after tonight.

Dr. Haas: I tried to get you on the 'phone.

Mr. Bell: My job is stiff enough to get in with 7 billion 2, and 6 billion 8 is terrific.

Dr. Haas: Danny asked me for very rough, tentative figure and we gave him a figure of 7 billion 775. I frankly think that is high -- the figure is too high.

Mr. Bell: You think it is too high?

Dr. Haas: I do. If you want to be conservative I would figure on what you are getting this year. You will probably get some more. I would take 6 billion 650 like you have this year; probably get a little more than that.

Mr. Seltzer: All through this speech, the Secretary is calling for reductions.

Mr. Bell: That's another place he's putting himself out on a limb, because there can't be a reduction of 700 millions in expenditures. There will be more than 700, probably, in some group, but another group goes in to take the place.

Mr. Seltzer: Would you repeat that?

Mr. Bell: I do not think there could be a reduction of 700 millions in expenditures. I think we probably can reduce relief 700 millions, maybe 800 millions, but your Social Security goes up 100 millions and you have other things that will take up some of that 700, -- housing, farm tenancy, etc.

-12-

HM, Jr: I expect to save it. I think you are estimating too high on agriculture and roads. I think after you and I get through Monday morning with the President, I think you will find the President of the United States, he will tell you that he will only ask for 50 million new money for roads for the year beginning July 1. I think you will have to ask for 75, giving us 1 billion cash expenditures, which is 300 less than we figure.

Mr. Bell: You can't do it.

HM, Jr: All right. That's what he said. He said, Cock-eyed (the road program), they have enough.

Mr. Bell: I admit that.

HM, Jr: They voted 24 million this year and it calls for 400 million more. He said he would only ask for 50. I think they will have to ask for 75. There is a saving right there of 300 million. And then you have a saving of 600 million or 700 million in CCC and relief, below this year.

Mr. Bell: About; yes, sir.

HM, Jr: There's 1 billion right there, and in agriculture I think that the President -- there is a chance that we can unsell him on the processing tax. I think there is a chance of keeping the agricultural program down. I am going to talk 300 millions and I think we ought to keep it down to 400 millions. How much less is that than this year? They voted 400 millions cash for agriculture.

Mr. Bell: It's 500 millions cash for domestic allotment, but we have only put in 440 millions expenditures. I think there is 60 millions in reserve.

HM, Jr: Let's say no saving there, but roads and relief, and how about public works?

Mr. Bell: I don't remember what the figure is now, but exclusive of roads I think it will be 250 millions or 300 millions more.

HM, Jr: He can't have anything more. He already has 700 millions.

-13-

Mr. Bell: I am talking about money already appropriated and to be spent.

HM, Jr: Oh, yes, but nothing new.

Mr. Bell: Yes, but you have 700 millions of public works without appropriating another dollar.

HM, Jr: That's what I say, so you can't ask for another dollar

Dr. Viner: Is it possible to repeal or reduce a passed appropriation?

HM, Jr: That's how much of public works this year exclusive of roads, 800 millions?

Mr. Bell: About that.

HM, Jr: It gets down to roads and agriculture and relief. Out of that it gets down to roads and relief, I say 1 billion, and we will split the difference and call it 700 millions. That's what he has in his mind.

Mr. Bell: Yes, but he can't mean what he has in his mind. It's all right to say I am going to appropriate 100 millions in 1939, but there is already on the books which they will spend and which they obligate and the obligations will have to be liquidated.

HM, Jr: Which is all the more reason why I am willing to go up and be a human sacrifice on November 10th and tell this story to the public.

Mr. Bell: I am not willing for you to. I don't -- Unless we are pretty sure, I don't think you will get any place by being a human sacrifice.

HM, Jr: All I want to do is paint the picture as it is and all this talk about balancing the budget and 600 million debt retirement, as I see the picture today is eye-wash, and I can honestly say as long as I have been here I have never made a statement, publicly or private, that I did not believe and I think that's one of the reasons why I have all the confidence of some of the people in the financial district. Why go on and keep talking

-14-

about baling the budget if we can't do it? It's eye wash. And I would much rather be safe. I don't want to be personal, but Mr. Kennedy, coming out after seeing the President, says 'Very good chance of balancing the budget'. What's the use of saying that?

Mr. Bell: I agree with that.

Mr. Bartelt: May I raise a question about the public debt before Mr. Rieffler goes? I think he suggested distinction should be made between debt held in the hands of the public and trust funds. I was wondering whether further distinction should be made between the special issues in the trust funds and those which are represented by Treasury bonds that were purchased in the market. In other words, are you putting all those together or are you going to make further distinction?

Mr. Rieffler: I was putting them all together because I want to go back to the beginning of the speech where the Secretary placed so much emphasis on opening the capital market by retiring debt from the market to show that there was larger debt retirement in that sense in prospect than would be implied by statutory debt retirement alone. If you want to go on and explain the trust fund, that's all right, but my feeling is that the total is the principal thing.

(Mr. Bell was excused at this point.)

HM, Jr: Taylor, do you want to say anything to Rieffler before he goes?

Mr. Taylor: No, nothing in particular.

HM, Jr: Now, George, when is it humanly possible for you and whoever you want to have work with you -- the President has shifted me. I asked him to see me on Election Day. He said, Never heard of such a thing, but will see me Monday morning before Bell comes.

Mr. Bell: We will work over the week-end and see what we get -- Larry and the boys he uses.

Mr. Seltzer: I can get a draft out today.

Dr. Haas: The work starts after you get the words.

-15-

HM, Jr: Could you people come to the farm on Sunday with something?

Dr. Haas: Certainly can, with something.

HM, Jr: I don't want to ask the impossible.

Dr. Haas: Your time is so short, I think.

Mr. Seltzer: There is no way of making progress unless you have a specific draft. We will knock out a draft; maybe no good; we will change it.

HM, Jr: You will have today and tomorrow. You could come up to New York tomorrow night, take whatever that train is. Some train leaves New York around 8 or 9 o'clock in the morning. Come to Beacon and be met on Sunday.

(Mr. Rieffler left the meeting.)

Mr. Seltzer: There is one point that still bothers me, and that is I think we are still weasling on this balanced budget business. I don't know whether you have decided that. All you are going to ask for is a layman's balance without the statutory sinking fund. Whether you are reconciled to saying, Well, that's my line; if we do any better, Thank God!, we will retire some debt, but I don't honestly believe we are going to be able to do any better without good luck.

HM, Jr: I am glad you asked that question and that's the question I asked the group yesterday. That's where we started.

Mr. Seltzer: But in these drafts the thing is just a weasel.

HM, Jr: The way we do this thing is this: each person take a piece of paper. The question is this: Question 1 is, should I ask for enough revenue for a cash balance, or (2) should I ask for an extra 600 million? We will keep to the theory we are going to cut expenditures to 700 millions.

Mr. Seltzer: That was the trouble with both drafts this morning.

-16-

HM, Jr: Should we ask for additional tax burden in order to get that 600 millions or shouldn't we?

Dr. Viner: Should we ask for additional tax under any circumstances.

HM, Jr: Go back the way I asked the question: should I recommend that the budget be balanced on a strictly cash basis, figuring that the present taxes will produce enough revenue to give us a cash balance or should I recommend with increased taxes 600 million in order to get 600 millions more taxes for the statutory debt?

Mr. Seltzer: I would phrase it a little bit different.

Mr. Bartelt: You have a tax law now that will take care of the Government's budget normally and in which I include accruing liabilities as well as cash commitments. Then I would not oppose new taxes.

Mr. Hass: You have to reduce it 700 million exclusive of sinking fund and Herbert's idea is you would have to reduce it another 600 or a total of 1300 millions.

Mr. Gaston: No.

Mr. Bartelt: If you can reduce expenditures 700 millions and this present tax structure will take care of expenditures, I would say not to impose new taxes.

Dr. Viner: I think 700 millions could be cut with a gain in political decency.

Dr. White: I have 100 million that could be cut.

HM, Jr: How?

Dr. White: From 80 millions to 100 millions could be saved by spending the sterile gold and 700 millions in silver certificates and buying 2 billions in bonds from the Stabilization Fund.

Mr. Bartelt: That doesn't balance the budget.

Dr. White: I said you will save 80 millions to

-17-

100 millions in interest payments.

Mr. Bartelt: It's all right to save interest. That's perfectly all right. I don't object to that.

Dr. White: Everybody benefits; nobody suffers.

Mr. Bartelt: As long as you have that tied up in inactive gold, it's costing you money.

Mr. Seltzer: It's not a budgetary item. I would be willing to do that independently. But that's a small part of your 700.

Mr. Gaston: I vote for it.

Mr. Bartelt: I vote for that.

Mr. Seltzer: Isn't this your problem? Say you could add in your speech and say the thing we can reasonably strive for, taking a conservative view of the situation, is cash balance; if things are better than that, so much to the good, but it's ridiculous to think you can do the other thing, that you can strive right now with any assurance that you get the other thing.

H.M. Jr.: I am glad you are pressing it because you are back where I was at 9 o'clock and you want a clean-cut answer.

Mr. Seltzer: Yes.

Dr. White: Mr. Secretary, he is asking the absolutely impossible. They are asking you to take the position which no one can take, to expect a person to come out with a definite statement which implies a certain state of affairs which he cannot

Mr. Seltzer: I said strive, not underwrite.

Dr. White: It depends on how it is worded. I think you can take the position that -- if it is properly worded -- you would not be guilty of weasly phrases and at the same time you would not be expected to do the impossible, which is to say that you don't care whether business goes to the dogs or not, you are going to balance the budget willy-nilly. If that happens again, it is not

-18-

going to be balanced. Let's recognize that. But you can take a position with regard to expenditures and with that as your objective that you can, but I don't think you will be subject to the criticism that you are weasleworded. You can't take the strong position that no matter what happens you are going to balance the budget. They would like to hear you say that.

HM, Jr: I agree with that.

Dr. Haas: I think what you have to do in your presentation, having accepted a certain level of expenses, convince the audience that there is a reasonable expectation, a very good expectation, that the budget will be balanced exclusive of sinking fund. That's what I had in mind.

Dr. Viner: You think that's all you should aim at, with reasonable estimates?

Dr. Haas: Yes, it looks quite good. It can be done that way.

Dr. Viner: As far as I am concerned, I think that the technical meaning of balanced budget is cock-eyed one; has no sense, but I think the public has generally accepted it.

Dr. Haas: No. I think the adverse press has accepted it.

HM, Jr: I think that this should be done by steps and I think that the first step that I should decide is should I give up the idea, which I have had up to two or three days ago, that I am going to insist on enough revenue to raise 800 million for debt retirement.

Dr. Viner: Enough revenue or sufficient reduction in expenditures?

HM, Jr: Either way, but that's an objective. I think that's the first step.

Dr. Viner: I think there is a lot at stake as to the method of describing it. Increasing taxes is the easy way. Reducing expenditures is the way to clean up our financial mess.

-19-

HM, Jr: I will make the flat statement here that I will do everything I can, as Secretary of the Treasury, to see that expenses go down; I won't leave a stone unturned to cut expenditures.

What you fellows want to get is my philosophy. Let me give it my way.

After listening to all this thing, I feel that the best thing that I can do for my country, as Secretary of the Secretary, at this time, is this: go all through that first part about why we want a balanced budget. There is no reason why I should change that. Two, look the situation in the face as it is now, and that is the thing that we should try to do -- explain intelligently what things we can cut. Now, I don't want to cut Relief below 1 billion; I don't want to cut C.C.C. below 200 millions. I am very much unsold on what they are doing over in Agriculture. I believe that this expenditure of 1 billion 6 is a most outrageous thing and that the place we can really cut without doing any injury is to cut on the agricultural program and roads. Public Works is set at 700 millions; we are committed.

Now I want to make it plain to this audience that at this transitional period which we are in, from where we have been bringing back recovery through deficit spending, that that transitional period -- that it is just as dangerous to move too fast as it is not to move at all, and that while I don't want to leave a stone unturned to cut every single dollar which can be done without being 'penny wise and pound foolish'. On the other hand, in order to achieve this balanced budget, I am not at this time willing to recommend a broader tax base; that whatever this base is, it will have to produce whatever the business profits based on this kind of a tax structure will produce. See? Now, in order to achieve a balanced budget at this time, I believe it would be wrong, deflationary, and everything else, to increase taxes and in that I feel, and I guess it will be more and more clear as we go along, the best we can hope for is to have a cash balance. That's the best we can hope for and that any such thought -- in order to retire 600 millions -- of raising 600 millions more taxes, as far as I am concerned is out the window.

But for once I want to get in this man's (Seltzer's)

-20-

head -- does that leave any question in your mind as to where I stand?

Mr. Seltzer: No. It is the position I wished you to take. It's the only honest one you can take.

HM, Jr.: Any hedging in that?

Mr. Seltzer: No.

HM, Jr.: Does it suit you so that you can sit down today and tomorrow and give me something?

Mr. Seltzer: I think so.

Mr. Bartelt: You say cash balance. I don't like that. I was just wondering whether you meant that. Does that care take of accruing liabilities for Old Age? The only reason I raise it is because it is a cash item.

Mr. Haas: If the Secretary worded it 'exclusive of sinking fund'.

Mr. Seltzer: All the expenditures.

Mr. Bartelt: That's right. It includes that.

HM, Jr.: Now, Mr. Minority. You become the majority. The way I put it, you feel that what I am saying is what is necessary to say at this time or, rather, what should be said?

Dr. White: I am much happier at your last statement than heretofore. I think if it is properly worded -- I think it's all a question of wording -- as far as I personally am concerned, the point of view: I like it much better. It's a very clear statement. I don't think it is weasly.

Dr. Viner: Would you like it better if it was aiming at a billion deficit?

Dr. White: On advice of counsel, I refuse to answer.

Dr. Viner: I would like to know his answer.

Dr. White: I don't think it is pertinent. You tell

-21-

me what the state of business conditions will be. I don't know. I like just the way the statement has been issued. It's satisfactory. How far beyond that I would go, I don't know.

Dr. Viner: I think there is a fundamental issue about to come out as to what sort of advice you get.

Dr. White: If you want that issue settled right now, I will be

Dr. Viner: What is the underlying philosophy underneath the advice you get? I am asking White a question. He says he likes your present statement better than the previous.

HM, Jr: Let's forget we three ladies (HM, Jr, Mrs. Klutz and Miss Chauncey) are present! Go ahead!

Dr. Viner: There is nothing personal involved here. I think one of the ^{most} fundamental issues facing the country in its history is the issue involved now, so I don't want you to think

HM, Jr: Am I doing this in a light way? Could anybody be more serious?

Dr. Viner: I am explaining myself.

HM, Jr: You are explaining this question of White.

Dr. Viner: I say in order that you may appraise the advice you are getting, you want to know what the men are wanting. He refused to answer.

HM, Jr: You (White) take time to answer. What do you think the fiscal and monetary objectives of this Government should be?

Dr. White: I feel that they should definitely go in the direction of a balanced budget, to be achieved just as soon as business conditions permit; that the business conditions of the last year permitted some rapid progress toward it; that had they continued this year I would like to have seen a balanced budget in a cash sense and a balanced budget in an accounting sense, but surplus for further debt reduction -- I feel, I hope that if this is the case, I hope that is what will take place.

-22-

(At this point Mr. Kieley came in and said that Professor Himmelblau had arrived. The Secretary said to have him wait.)

HM, Jr: Start again.

Dr. White: I am in favor of a balanced budget as soon as business conditions warrant it. I think that business conditions of this last year warranted a great stride towards a balanced budget to be accomplished by two ways: reduction in expenditure and increase in tax revenue. Both agreed. Had next year given promise of at least as good, I would favor and strongly would like to have a completely balanced budget, both in the cash sense and in the accounting sense, and if that should happen that is what I am strongly in favor of and a sharp curtailment of expenditures in the very direction you indicated as first to hit agriculture. Now then, if, however, business begins to continue to turn down at the rate the last couple of months seemed to give indication that it is possible, then I would definitely say that an attempt to balance the budget at the expense of (a) either increased taxes (b) reduced expenditures in any substantial degree at a time when business depression is declining, I would definitely oppose, because fundamentally I do not believe that the thing that stands in the way of recovery at a time of declining business, and I must emphasize that 'declining business' is a balanced budget. Things went down in 1934-1935 and the same people who were opposing a balanced budget then are endorsing it now and the first time that business turns down they say, 'Only if the budget had been balanced, I would have gone out and spent money.' The fact that prices are dropping -- after all, inventories are holding up, capital equipment too large, won't stop me as long as you balance the budget, I will save money. They have always said that and is their statement now, and that is, that what stands in the way is not the real cause of the downturn in business. That does not mean that I am not strongly in favor of balancing the budget but when conditions are, I won't say 'right', for it, because that's too weak, but when conditions are such that a balanced budget does not speed up a downward trend which is already in evidence and therefore I say that the position to take is the one you did take and if business continues to go down, I don't know; I guessed wrong about this fall, I hope I am wrong about next spring -- I hope business is better, but if it continues to go down, then I hold that

-23-

an attempt to balance the budget under these conditions, and let us clearly remember that you have decreasing revenue and increasing unemployment -- let's remember 1933-1934; the same conditions will prevail -- and under those conditions to cut expenditures on C.C.C. and on Public Works, to cut on unemployment, I think is counter to the whole philosophy that I understand. To cut unnecessary expenses to the bone, absolutely! at all times, but...

H.M. Jr.: Do you include agriculture?

Dr. White: No, I say agriculture is one of the first things I would hit. I would save 100 millions on interest. I would put more in capital equipment, but any downturn -- I want to emphasize that only when business is going down do I object to commitments to balance the budget either through severe curtailment of expenditures -- and that's where it will have to come.

H.M. Jr.: I would say you could not ask for a more clean-cut statement.

Dr. Viner: No, but I could disagree with him.

Dr. White: As Jake feels, it's a very important matter. I think there are great things at stake. On that philosophy, fortunately this year we have both been in agreement. Let's hope next year we only become in disagreement if things go down and go down rapidly.

Dr. Viner: There are circumstances in which I accept every word he said. I won't accept them as general as he puts them and I am talking in the history of the last five years when I say this is not the moment to deliberately move or persist in a movement of an unbalanced budget. I would say if we had in the past four years, say, had two years of big budgetary deficits and then two years of substantial liquidation, I would say not only would I favor your proposal, I would say through a billion to drown out an incipient depression that seemed to be starting, but we haven't a record of a balanced budget. All we have is a record of deficits and a record of promises and I was going to say that no one believes the Administration now. It is very nearly that. And one year more, I don't see why it should not be.

H.M. Jr.: How could you laugh off the fact that we are cutting the deficit this year by 2 billion & this

-24-

year, 2 billion less than the year before. That's tremendous.

Dr. Viner: Yes, I think that is a substantial step. Everybody says: I don't believe this Government is willing to take any political risk in the interest of balancing the budget. And what I am trying to do is use my little influence to get them converted. If the Government is willing to cut Government expenditures then the Secretary could make a strong pledge. The expenditures will be kept to this maximum. On conservative estimates revenues will produce so much. That's what we are aiming at. We are not guaranteeing revenues to produce that. But if the Government is not willing to cut expenditures, then I say I don't believe anything they say about a balanced budget.

HM, Jr: You and I are together and I think Harry and I are together to this extent: as far as I am concerned, unless the President agrees to do what he has really said to me that he will: really put his mind to cutting expenses, if I don't get anything else -- forget about taxes and business -- he has agreed with me that he personally will sit as Director of the Budget as the head of this Government and hold budget hearings in November and he said, I will take my blue pencil and do it like in Albany, and believe me! he will do it! If he will do that three afternoons a week and really do that and then if after having done that and cut this thing to the bone -- and after all, it's my job here -- my God! it took me two weeks so I could understand it. It has taken this man (Bartelt) three weeks to dig out this public works for no one ever had it to go through 1941-42. Some of this the President has and some of it he has not, but I have yet, when I have given it to him, that he has not taken it and acted on it and absorbed it. After that R.F.C., I don't know what reasons he had, but he moved without consulting Jones. He made a mistake. He should have consulted Jones. I could not. The President should have. Some have to retract a little bit and give Jones time to liquidate some of the things he has in the works, which is only fair. Jones did not have a chance to present his case. But every time I present something to the President, he is reasonable. On saving money there has been no argument. So he is ready. What he wants is for us to feed this stuff to him. When I show him this memorandum that agriculture

-25-

spent 1 billion 590 millions this year, he is going to be just as mad about that as roads, and when he

Dr. Viner: Does that include roads?

HM,Jr: Yes.

Dr. Viner: Include reclamation, Department of the Interior's expenditures?

Mr. Bartelt: Includes expenditures of all agencies; WPA, about 175 million for that.

HM,Jr: It's all bracketed. A very intelligent memorandum. Now when I gave him my roads memorandum, what was his reaction? 'It's crazy! I would not give them 400 millions. If they have 75 millions, it's enough.' Which would mean they would only get 50 millions more.

Dr. Viner: On these matters, nobody can be certain. I think the more informed public, including also the hostile public, are more interested in the trend of expenditures than balancing the budget, because what they want to know is are you going to balance the budget but also are you going to get it by getting more taxes out of certain groups, and the downward trend in expenditures is the thing they are going to look for and that's the thing you can forecast more definitely, in which case you don't go out on a limb.

HM,Jr: What are we going to do with Himmelblau?

Dr. Viner: Get him to work on that thing we had yesterday. That's where his judgment is valuable.

HM,Jr: Who's working on that? I would be very glad to, but this thing will take a week or ten days.

Dr. Viner: Just get his ideas. I think he can render real service.

Dr. Haas: One thing, I think it's very important, in connection with this spending and the philosophy behind it, I think that when you have a patient that is sick you have to diagnose the situation in each instance to find

-26-

out what the ailment is and not apply a dose of patent medicine, the same dose, under all circumstances. For instance, the present situation. Nobody can tell whether one analysis is correct and another is wrong, but you have certain probabilities. We know, in this situation, you have had recovery to date and capital expansion has not gone one. There is one big field where there is large unemployment and that is construction. If you can do something about balancing the budget, people who make long-term commitments, if they are worried about it, that you can take that move, but if you are wrong you still can come back into this spending proposition if that's the last recourse that you can take. Another thing, if your diagnosis shows a certain situation -- capital markets are in a bad situation -- there are other things that you can do that costs the Government nothing and Harry was mentioning one. The interest thing would save some money.

HM, Jr: You mean stop sterilizing gold?

Dr. Haas: And also put 1½ billions you have and silver certificates.

Dr. Viner: And raise the price of gold.

HM, Jr: But Harry and I are psychiatrists, but in this particular case we differ as to the type of insanity which is indicated.

Dr. White: Jake knows, or at least you know, you once asked me who I thought was the best economist around and I said Jake Viner and I still think he is the best. But unfortunately on some things, on the broader philosophies I don't agree, but he is without peer as far as his analytical ability.

HM, Jr: Fortunately, I think, for the Treasury and for the President, he has to meet this problem. I have come through, since Labor Day, less flustered than anyone else he has close to me, he has told me. But with me here, working as I have never worked in my life -- this speech is only incidental -- it's fortunate we have the date, November 10th. Now out of all this I hope will come a statement that I can make committing the Government on fiscal policy as far as we can see it reasonably; no further; calling a spade a spade; not trying to hedge; not trying to cover up something in innuendo or any way

-27-

else; in other words, take the public in our confidence as far as we know our own mind and as far as we see the situation as it exists ten days before the speech; go as far as that and take them in our confidence and state the thing. I can't do any more than to be completely honest and frank. That's why I moved heaven and earth to get the President to give the public the budget summation; information we had no right to withhold from the public. That's all we are attempting to do. We are not going to attempt to try to solve the gold sterilization problem nor the silver problem. Some members of the Treasury came and said, If you want to make good your silver program and show the world you made good, now is the time to issue silver certificates against sterilized silver. I listened to everybody. I tried to make up my mind. I think everything is very good. I am perfectly conscious of the devices which are there. I don't think it is conceited to say I am more responsible than anybody in the Administration and the only device we used was to make a bargain for silver. The President has all these other things and he is not using them. Certainly I am not going to fall back on narcotics for stimulants unless the thing is a great deal different than what it is today, and I say it is different. That's the whole opening thing. Everybody has said his piece. I see the picture. If you people don't know how how I feel -- but I think you do; you are smart enough.

I wish, George, you would take your gang and I think the thing to do is to plan to come up there Sunday. I will talk to you about it. I would like to have a talk with Viner and Taylor and you on this thing that I brought Himmelblau down for. I have to make use of him. And you other people can be excused.

oOo-oOo

Now exactly what does this statement of policy imply? How can it be effectuated. What sacrifices does it entail? Detailed answers to these questions do not exist at the present time. The regular budget hearings are still going on, and the final budget will not be prepared until after they are concluded. I can, however, indicate the nature of the problem.

First of all, I wish to state that it will not be easy to secure a full balance of the budget. It requires more than determination on the part of the Administration and Congress. Loyal support on the part of the people is also essential. It is not possible, furthermore, to make a categorical statement that any given line of policy will produce a precise balance. Expenditures to be made during the fiscal year 1939 will be appropriated during the coming regular session of Congress. Taxes will also be levied during that session, although both of these elements in the picture are directly responsive to policies adapted by the Government they are not wholly under the Government's control, since a major portion of our expenditures are required to provide for essential public services or to meet commitments already in existence. The limit of revenue yields, on the other hand, will depend largely upon the average of business activity over the coming eighteen months. This it is impossible to determine. It is not

-2-

within our control. The best we can do is to make as careful a forecast as we can of the probable average of business activity over the period and to adopt policies that will meet the essence of our objectives even in the event that these forecasts should prove to be fairly wide of the mark. No reasonable man can ask more.

What then are these policies. First of all I want to take up taxation. From the point of view of yield, our present taxation structure is strong. It produced _____ in the fiscal year ending June 30, 1936 and _____ in the fiscal year ending last June. During the current fiscal year we estimate that it will produce _____. This is a revision of earlier estimates made to take full account of any drop in revenues that may result from the present lag in business. At a level of business activity averaging as high as that which has prevailed during the past twelve months they would yield in the neighborhood of \$ _____. These amounts represent a very high level of revenue. I have not believed that we should seek to balance the budget by means of a further increase in the average level of rates upon which these yields are based. The present uncertainty in industry confirms me in this view. In accordance with this policy the tax revisions which the

Treasury is now preparing for submission to Congress contemplate basic revisions in the structure of our taxes designed to remove inequities, but no increase in their aggregate burden. There is just one qualification that I would like to make to this statement. It assumes that expenditures appropriated during the coming year will be held down to the levels recommended in the budget message. Should expenditures exceed those levels, the Administration will be forced to request an increase in tax rates.

Let us turn now to the expenditures. These aggregated in the fiscal year ending June 30, 1936, in the fiscal year ending last June, and it is estimated will amount to \$ in the current fiscal year. If we are to balance the budget next year they must be further reduced, by an amount in the neighborhood of . This represents a reduction of 10 per cent in total. Since the bulk of these expenditures are fixed, however, the proportional reduction in flexible items will have to be very much larger than 10 per cent. The regular expenses of the government including the civil departments, defense, veterans, etc. amount at present to about per year. This compares with \$ per year on the average during the preceding administration when adequate appropriations for defense were not as urgent as they are today. Clearly, no great savings can be made

in these elements of expenditures. Interest on the public debt will require \$. This cannot be reduced. All revenues under the Social Security Act amounting to \$ not absorbed by current grants, expenses, etc. should be invested in the old age trust fund to meet accruing liabilities in coming years. They must not be diverted to other purposes. These three items which are relatively fixed amount in the aggregate to \$. Reductions in expenditures must be concentrated, consequently, on the three remaining classifications in the budget namely, public works, unemployment relief and payments to agriculture. It is just that this is so, for it is these classifications that are primarily responsible for the debt at the present time. Of these three, public works already authorized by Congress in preceding years amount to \$. This is somewhat less than in the current fiscal year. It cannot be increased by appropriations for new projects if we are to balance the budget. Payments for unemployment, including the CCC will amount to \$ during the current fiscal year. They are being reduced rapidly each month, however. We ought to be able to hold them down to an aggregate of \$ during the coming fiscal year. If we do this and at the same time reduce payments to agri-

-5-

culture from \$ _____ to \$ _____, total expenditures, exclusive of debt retirement through the sinking fund will amount to \$ _____ during the coming fiscal year, a reduction of \$ _____ from this year.

The question before us then, - Will revenues be sufficient in the coming fiscal year to produce a balanced budget including a retirement of public debt through the sinking fund on the basis of a reduction in expenditures to these amounts. This will depend upon two factors, the level of business activity during the next eighteen months, and the amount of recoveries we obtain from recoverable assets now held in the RFC, PWA etc. That revenue from these two sources will be sufficient appears to me to be a reasonable expectation. The President recently stopped all new allocations of funds by the RFC and the PWA. That means that practically the full amount of recoveries by these agencies in the coming fiscal year will be available for debt retirement. During the last fiscal year, total recoveries amounted to \$ _____ and during the current fiscal year we estimate they will amount to \$ _____ . Should they amount to \$ _____ during the coming fiscal year, the aggregate revenue from taxation required to produce a full and complete balance of the budget in-

cluding \$600,000,000 of debt retirement through the sinking fund will be \$. Our present tax situation is capable of producing this amount on an average level of business activity, appreciably lower than that which has prevailed during the past twelve months. Personally I do not believe that the present readjustment will involve an average decline below that level. I believe that I am supported in this view by the great majority of accredited analysts of business activity.

I want to be completely candid with you, however. These calculations are of necessity based on forecasts which no one is in a position to guarantee. Let us suppose that they are considerably in error. Should they prove too conservative, as I fervently hope may be the case, revenues available for debt retirement will be in excess of \$600,000,000. I want to assure you that any and all excess revenues will be earmarked for debt retirement and not for increased expenditure. On the other hand, should the event prove that they are not sufficiently conservative, I must admit frankly that we would not have achieved the complete balance of the budget for which we are driving. I would like to add, however, that these forecasts would have to be very seriously in error to reduce revenues to the point where they could not provide for some debt retirement through the sinking fund.

-7-

Before I conclude I would like to make a brief comment on the growing importance of trust fund investments in the location of the public debt. The Treasury has long been responsible for the management of a variety of trust funds, such as the Civil Service Retirement Fund, the Veterans' Life Insurance Fund, etc. It has the responsibility of investing the resources of these funds in Treasury obligations. Now these obligations remain a true part of the public debt - they represent a real accrual of future liabilities on the part of the Treasury. For the present, however, such obligations are not held by the public, - they do not represent expenditures which the Treasury has met by selling obligations in the market. During recent years, the number and importance of these funds has increased considerably, especially since the passage of the Social Security Act which established two new ultimately very large trust funds in the Treasury, one to build up a reserve against liabilities for Old Age Pensions, the other to safeguard unemployment insurance reserves of the States. At the present time, the aggregate volume of Treasury obligations held in all these various funds amounts to \$ _____, and this sum should be subtracted from the gross Federal debt to arrive at a figure which represents truly the amount of Treasury obligations which are available in the market for purchase by banks,

-8-

corporations, insurance companies, and other investors. By June 30, 1938, the end of the current fiscal year they will amount to \$ _____, and by the end of the coming fiscal year, June 30, 1939 which we have been discussing tonight they will amount to \$ _____.

This means that the total amount of public debt retired from the market will exceed sinking fund retirements by \$ _____ during the fiscal year 1939. I mention this merely to show that the capital market will be stimulated by a retirement of public debt on a much larger scale than is provided for by sinking fund retirements alone.

3

At a level of business activity averaging as high as
that which has prevailed during the past twelve months
they would yield in the neighborhood of _____.

332

you are estimated that it will produce _____. These
revisions in earlier estimates would take
full account of any drop in revenues that may
result from the present lag in business. These
amounts represent a very high level of revenue.
I have ~~not~~ believed that we should seek to balance
the budget by means of a further increase in
the average level of rates upon which the yield are
based. The present uncertainty in industry confirms
me in this view. In accordance with this
policy, the tax revisions which the
Treasury is now preparing for submission
to Congress contemplate basic revisions in the
structure of our taxes designed to remove
inequities, but not an increase in ~~the~~ ^{their aggregate} burden. There is just one qualification that I
would like to make to this statement. I assume
that expenditures appropriate during the coming year
will be held down to the levels recommended in
the ^{outlay} budget. Should expenditures exceed those levels,
the Administration will be forced to request an increase in

amounting to \$

to be used. All revenues under the Social Security Act ~~amounting to~~ ^{not absorbed by} ~~grants,~~ ^{grants,} ~~expenses,~~ ^{etc.} should be invested in the ~~trust~~ ^{trust} fund to meet accruing liabilities in coming years. They ~~must not~~ ^{must not} be diverted to other purposes. These ^{which are relatively fixed} items, amount in the aggregate to \$. Reductions in expenditures must be concentrated, consequently, on the items remaining ^{from classification} ~~in the~~ ^{payments of} ~~budget~~ ^{which are} namely, public works, unemployment relief and payment to agriculture. These ~~are~~ ^{are} the items so, for it is these, classification ~~are~~ ^{are} primarily responsible for the deficit of the present type. Of these three, public works already ^{authorized} ~~authorized~~ for by Congress in preceding years amount to \$. This is somewhat less than in the current fiscal year. Amount to be reserved by ~~any new~~ ^{any new} ~~author~~ ^{author} appropriation for new projects if we are to balance the budget. Payments for unemployment, including the A.C.C. will amount

$\$$ _____ during the current fiscal year.
 They are being reduced rapidly each month, however,
 I ought to be able to hold them down to an
 aggregate of $\$$ _____ during the coming fiscal
 year. If we do this out at the same time
 when payments to agriculture from ~~the~~
~~return~~ total expenditures ^{as it has been} ~~will~~
~~be~~ reduced to $\$$ _____ for the next fiscal
 year with exclusion of debt retirement
 through the sinking fund will amount
 to $\$$ _____ during the ^{coming} fiscal year, 1999
 a reduction of _____ from this year.

The question before us, then - Will ~~the~~
 revenues be sufficient in the coming fiscal
 year to produce a balanced budget including a
~~sinking fund~~ retirement of public debt ^{through} ~~the~~
 sinking fund on the basis of a ^{reduction in} expenditures ^{to}
 these amounts, which I am prepared to recommend. This
 will depend upon two factors, the level of business
 activity during the next eighteen months, and
 the amount of revenue we obtain from recoverable

~~reporting on the~~
 assets now held in the R.F.C. P.W.D. etc. That
 these two ^{sources} ~~sources~~ will be sufficient approx-
 imately to be a reasonable expectation. The
 President recently stopped all new allocations
 of funds by ^{the R.F.C. and the P.W.D.} ~~the R.F.C. and the P.W.D.~~ that means that ^{practically} the
 full amount ^{by the agencies} ~~of~~ ^{will be available} ~~is~~
 for debt retirement. By the coming fiscal year ^{being}
 the last fiscal year ^{total} ~~total~~ ^{we estimate} ~~amounted to~~ _____
 and during the current fiscal year, they will
 amount to _____ . Should they amount to _____
 during the coming fiscal year, the approx-
 imate revenue from taxation required to
 produce a full and complete balance of
 the budget including _____ of debt retirement
 through the sinking fund will be _____ . Our
 present tax structure is capable of producing this
 amount on an average level of business activity
 appreciably lower than that which has prevailed
 during the past twelve months. Personally I do
 not believe that the present readjustment will
 involve an average decline below that level. I believe

8
calculation and of necessity, based on
the forecast which no one is in a
position to guarantee.

That I am supported in this view by the
great majority of accredited analysts of
business activity.

I want to be completely candid with
you, however. Let us suppose that ^{they} forecast
is considerably in error. Should they prove
^{conservative} as I fervently hope may be the
case, revenues available for debt retirement
will be in excess of \$50,000,000. I want
to assure you that any and all excess ^{revenue} will
be earmarked for debt retirement and not
for increased expenditures. On the other
hand, should the ~~forecast~~ even prove that
they are not sufficiently conservative, I must admit
that we would not have achieved the
complete balance of the budget for which we
are striving. I would like to add, however,
that these forecasts would have to be very
seriously in error to reduce revenues to the
point where they would not provide for
some debt retirement through the sinking fund.

Before I conclude I would like to
 make a brief comment on the growing
 importance of trust fund investments
 in the location of the public debt. The
 Treasury has long been responsible for
 the management of a variety of trust
 funds, such as the Civil Service Retirement
 Fund, the Veterans Life Insurance
 Fund, etc. It has the responsibility of
 investing the resources of these
 funds in Treasury obligations, ^{now} ~~and~~ these
 obligations which they remain ^{a true} part of the
 public debt - they represent an accrual of future
 liabilities on the part of the Treasury. For the
 recent however, such obligations are not held
 by the public, - they do not represent expenditures
 funds which the Treasury has ^{met} ~~been~~ by
 selling obligations in the market. Over the recent
 years, the ^{importance and} ~~importance~~ of these funds has increased
 considerably, especially since the passage of the
 Social Security Act which established five new ^{ultimate} ~~new~~ ~~ones~~

very large trust funds in the Treasury,
 one to build up a reserve against liabilities for
 Old Age Pension, the other to safeguard
 unemployment insurance reserves at the state.
 At the present time, the aggregate volume of
 Treasury obligations set in all these various
 funds amounts to \$ _____, and this sum ~~should~~
~~be~~ should be subtracted from the
 gross Federal debt to arrive at a figure
 which represents truly the ^{amount of} Treasury
 obligations which are available in the
 market for purchase by banks, ^{corporations,} insurance
 companies, and other investors. By ~~the~~
 June 30, 1938, the end of the current fiscal
 year they will amount to \$ _____, and
 by the end of the coming fiscal year, June 30,
 1939 which we have been discussing tonight
 they will amount to \$ _____. This means
 that the ^{total} amount of public debt retired from
 the market will exceed the sinking fund retirement
 of \$ _____ during the fiscal year 1939. I mention

this ^{may} show that the capital market
will be stimulated by a retirement of
public debt on a much larger scale
than is provided for by sinking fund
retirements alone.

Ref # 416

THE HAY-ADAMS HOUSE
ALL BED ROOMS AIR CONDITIONED
WASHINGTON, D.C.

341

Robert McHugh

Treasury

Dr. Y. W. 342
10/29/37

To safeguard against any misunderstanding let me explain precisely what I mean by "balancing the budget." There are two senses in which the term is commonly used with reference to federal finances: First, in the accountant's or non-technical sense, in which it means meeting from current revenues all current expenditures, so that, with an unchanged cash balance, the total debt outstanding remains unchanged; second, in the special technical sense, in which it means meeting from current revenues all current expenditures plus expenditures on account of the statutory sinking fund, so that, again with an unchanged cash balance, the total debt outstanding is reduced by the amount of Treasury purchases of government obligations on statutory sinking fund account. It is in this second, or more rigorous, sense that I wish my declaration of the intention of the government to balance the budget during the fiscal year 1939 to be understood.

The President will not present to the Congress until next January his budgetary program for the fiscal year, 1939, and I cannot of course anticipate at this time the specific terms of his announcement. I venture, however, to forecast the major principles to which his budgetary program will conform. It is my belief that the President will find such possibilities of economy in expenditures as, without serious interference with the proper execution of the government's policies, will make feasible a reduction of expenditures exclusive of sinking fund

to a total not exceeding \$6,650,000,000 as compared to total expenditures exclusive of sinking fund as estimated for the fiscal year 1938 of \$7,346,000,000. To meet the statutory expenditures on sinking fund account, amounting for 1939 to _____, he will probably rely upon an increase in the revenue productivity of the existing tax structure in the fiscal year, 1939 over the fiscal year 1938, resulting from the material improvement of business conditions for the calendar year 1937 over the calendar year 1936. In other words, I expect that in the fiscal year 1939 the present tax system will yield in the neighborhood of _____ or sufficient to meet anticipated expenditures in that year exclusive of sinking fund amounting to _____ and in addition to provide for debt reduction to the extent of _____, on statutory sinking fund account.

I am of course not unaware that if perchance the reverse of the moment in the hitherto steady upward trend of business should prove to be protracted or severe, these expectations as to increased productivity in the fiscal year 1939, of the existing federal tax structure will turn out to be somewhat overoptimistic. After careful consideration, however, of the many uncertain factors upon which ventures in forecasting so far ahead the revenue productivity of the tax system must rest, I am confident that on the least favorable turn of events which on present data can reasonably be anticipated, the yield in the

fiscal year 1939 of the present tax system will fall short of meeting the anticipated expenditures of that year by substantially less than the statutory sinking fund requirements, so that some reduction in the amount of the outstanding federal debt will still result from the fiscal operations of that year. Should, on the other hand, the present reversal in the upward trend of business prove as moderate and as short-lived as there is substantial ground for expecting, then the revenues of the fiscal year, without increase in tax rates, should suffice not only to meet the anticipated expenditures of that year, inclusive of statutory sinking fund requirements, but should provide a modest surplus available for debt liquidation.

The President and Congress together have complete power over the level of expenditures. The level of revenues, however, reflects to an important degree the course of business activity, and can be determined in advance subject only to a substantial margin of probable error. The presentation of any budgetary program for the future inevitably involves, therefore, the assumption of the hazard of revenue estimates which may be falsified by later events. The American public may rest assured, however, that the budgetary program for 1939 will be designed to give every reasonable assurance of the attainment of a strict budgetary balance in that year based upon conscientious economy in expenditures and conservative estimating of prospective revenues.

- 4 -

The Administration has promised to present for consideration by the next regular Congress a comprehensive program of revision of the federal tax structure with a view to achieving a greater measure of equity for the taxpayer and a more economical and efficient administration of the tax-collecting machinery. It does not propose to recommend any increase in the tax burdens on the taxpayers as a whole, and it is determined to attain a strict balancing of the budget without resort to increase in tax rates.

Address of the Secretary of the Treasury to be
Delivered before the Academy of Political Science,
at the Hotel Astor, New York City, Wednesday Evening,
November 10, 1937

343
H. H. Hays
H. H. Hays
H. H. Hays
H. H. Hays

I am glad to accept the invitation of the Academy of Political Science to discuss before its members assembled here tonight the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was unbelievably costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government spent thirty-one billion dollars and sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war we bombed no cities; we

- 2 -

machine-gunned no trenches; we killed no human beings. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was superbly supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

- 3 -

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that certain of our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of a serious business depression.

I claim no prophetic insight into the future. But, after giving serious and prolonged consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago.

many measures are required in their solution. One (over)

these measures in
the present situation
is a balanced budget.

I am fully aware that many of our problems remain un-
solved. I am aware that there still remains a considerable
volume of unemployment; that the speculative markets have
recently been under severe pressure; and that certain of our
business indexes have recently shown a declining tendency.
I am further aware that some persons contend that another
great spending program is desirable to ward off the risk of
a serious business depression.

I claim no prophetic insight into the future. But,
after giving serious and prolonged consideration to all
these and other factors, I have reached the firm conviction
that the domestic problems which face us today are essen-
tially different from those which faced us four years ago.

Many measures are being
in their execution. One of
the

- 4 -

and that their solution, though requiring other measures as well, will best be furthered in the present juncture by a balanced Federal budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. At that time there was no agency outside of the Federal Government with the resources and the courage to bring about a revival.

Today the situation is greatly changed. We are now in the eleventh month of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories, high interest rates, over-extended credit positions, or great

- 5 -

surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This situation stands in sharp contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933. It also stands in contrast to the unhealthy excesses of 1929.

The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances. We want to see capital go into the productive channels of private industry. We want ^{reasonable} business profits to grow. We believe that the bulk of the remaining unemployment will disappear when private capital funds are actively employed in productive enterprise. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

- 6 -

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

The situation today is greatly changed. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first nine months of the present calendar year,

- 7 -

the weekly reporting member banks of the Federal Reserve System reduced their holdings of Government securities by fourteen hundred forty-five millions in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes. The sizeable national problems that remain should be attacked, in my opinion, strictly within the limits of the balanced budget.

.

There is a further consideration of great importance that I should like to emphasize. That is, that the basic philosophy of our deficit spending of the past few years requires that a program of substantial debt retirement be undertaken shortly.

- 8 -

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

We wish to preserve the financial power of the Federal Government to aid in restoring economic order in the future, if the need again arises. To preserve this power, we must liquidate during prosperity the debts incurred during periods of depression.

I turn, then, to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year are estimated at six billion, six hundred and fifty million dollars, and our total expenditures at seven billion 343 millions, leaving a deficit of roughly seven hundred millions.

- 9 -

To seek a businessman's balance of the budget next year, we must therefore accomplish a net improvement of seven hundred million dollars in our budgetary position. In estimating revenues, it is far worse to overestimate than to underestimate. We must not count on an increase in revenues next year from the existing tax structure. We must plan to achieve this seven hundred million dollar improvement by a reduction in expenditures, ~~unless we are prepared to face new or increased taxes.~~

~~I am strongly opposed to increasing the total tax burden at this time. I believe that an increase in taxes would be most unfortunate in its effects upon business recovery and upon the public.~~

we ought not to
 and then if the tax receipts exceed expectations the excess could go of course to reduction of national debt

- 10 -

(Tax discussion to be supplied)

When I say that we look to a curtailment of expenditure so that we may achieve a business mans balance of the Federal budget, I do not mean to imply that our revenues next year may not be greater than those of this year. With active business, our revenues should increase by several hundred million dollars. If our revenues of next year should, as I hope, exceed those of this year, every dollar of additional revenue should be used to retire debt. In addition, every dollar that the Treasury realizes from the liquidation of revolving funds, and from other repayments of loans and capital advances, should be set aside for debt retirement. In no event, in my opinion, should we contemplate total net expenditures in excess of the level of this years estimated receipts. That means that our expenditures must not exceed six billion 650 million dollars for the coming year.

Our problem is clear. Our expenditures must be cut 700 million dollars.

But where can cuts totaling this amount be made? After studying the whole problem day and night for several months I have

- 12 -

come to the following conclusions: First, little or no money can be saved in the regular operating expenses of the federal government, including the national defense and interest on the public debt.

The increased volume of services now demanded of the government make it almost impossible to achieve significant reductions here.

On the other hand, by focusing attention on the four or five classes of expenses that have been mainly responsible for our past deficits, I am convinced that the necessary savings can be made.

I have before me a table in which I have set down my rough estimates of the reductions that should be possible next year in several classes of expenditures.

ESTIMATED POSSIBLE SAVINGS FOR FISCAL YEAR 1938-39

358

358

Savings

1.	<u>Public Works</u> expenditures this year, including emergency funds, but exclusive of highway expenditures, are estimated at	573	
	Next year they should be cut to	<u>500</u>	
	This would save		73
2.	<u>Highway</u> expenditures this year, including emergency funds, are estimated at	253	
	Next year they should be cut to	<u>100</u>	
	This would save		153
3.	<u>Unemployment Relief</u> and the CCC camps this year are estimated to cost	1,680	
	Next year they should be cut to	<u>1,200</u>	
	This would save		480
4.	<u>Agricultural Adjustment Program</u> this year is costing	475	
	Next year the cost should be no more, or	<u>475</u>	
	The saving being		0

5. Miscellaneous and Supplemental Items

This year are costing

\$180

Next year they should be cut to

50

This would save

\$130

6. Total savings on above items

836

7. Less increase in Social Security expenditures

117

8. Net savings

\$719

359

First I have set down the item of public works, whether financed by emergency or regular appropriations, but exclusive of highway expenditures. This item during the current year will account for 573 millions of expenditures. Next year, despite the fact that available unspent appropriations for this purpose already approximate 700 millions, I believe that the expenditures should be limited to 500 millions which would produce a saving of 73 million dollars. I believe further that we should reconsider the public works program already formulated for the future by the various government departments, programs which would involve an average annual expenditure of about 700 million dollars for the next four years.

Second, I have before me the item of highway expenditures, estimated at 253 millions this year; an amount that may well be cut to 100 million next year to produce a saving of 153 million.

In this connection, also, I believe it would be wise to alter the existing programs for the future, which would call for new appropriations totaling more than 400 million dollars during the next two

years. Thus returning to the average federal highway expenditure

annual

Third, I should like to see our outlays for unemployment relief and the CCC camps, which, exclusive of other recovery and relief expenditures, are running at 1680 million dollars this year, reduced to 1200 millions, which would produce a saving of 480 millions.

Next I believe that 130 million dollars or more can be saved next year by reduced outlays for miscellaneous and supplemental items, which this year amounted to 180 millions.

The total savings that I have listed amount to 836 millions. We must deduct from this figure a probable increase of 117 millions in Social Security expenses, leaving a net possible saving, exclusive of ^{any saving in} agriculture, of 719 millions, or more than enough to achieve an ordinary balancing of the budget.

Both because of the real problems involved in the present level of our agricultural expenditures, and because it may not be possible to achieve all of the savings that I have listed, I strongly recommend that the present level and character of our agricultural expenditures be given very serious reconsideration.

I ask you to consider what I have to say on this point in the light of the fact that I have been for more than twenty years deeply concerned with the problems of agriculture, especially farm management and farm finance, and most keenly interested in doing all that can be done to remove the economic disadvantages that the farmers have suffered. That very interest impels me to believe and to state with all the force at my command that agriculture can not rely on merely temporary expedients. We must have a long-range program to maintain the independence and the purchasing power of the farmer. That program must take into consideration his opportunities both in the domestic and the foreign markets and we must keep always in mind its effect on our whole National economy. To endure and to be of permanent help to the farmer the program must be thus soundly based. It will be of no service to the individual farmer or to the Nation's agriculture as a whole to offer what we shall later be compelled to withdraw. *The farmer himself*

The plight of agriculture in the depression called for

does not want subsidies

but rather such fair

I ask you to consider what I have to say on this point in

prices and such

balanced production

of crops as will make

subsidies unnecessary

for a decent economic

status

program to maintain the independence and the purchasing power of the

farmer. That program must take into consideration his opportunities

both in the domestic and the foreign markets and we must keep always

in mind its effect on our whole National economy. To endure and to

be of permanent help to the farmer the program must be thus broadly

based. It will be of no service to the individual farmer or to the

Nation's agriculture as a whole to offer what we shall later be

compelled to withdraw. The farmer himself

The plight of agriculture in the depression called

- 16 -

special aid not only in the farmer's interest but in the interest of all of us. Much that was done was on an emergency basis. Emergency devices must be resurveyed. We must see just what we are doing to determine how far we can go in the future. No more than any other branch of our economic life can agriculture prosper on permanently unbalanced Federal budgets.

Besides the 116 millions included in this year's budget for the general work of the Department of Agriculture, there is an estimated expenditure of 475 millions for the soil conservation program, 33 millions for rural electrification, 55 millions to the Federal Land Banks to provide lower interest rates, 100 million for commodity loans and 125 millions for resettlement. These items total 903 millions for this fiscal year.

I am aware also that discussion is now taking place in Congressional committees of additional measures in aid of agriculture that may involve large expenditures. The magnitude of the sum we are already expending for agricultural purposes demands that the

whole program be re-examined on the basis of a determination of how much we are willing to spend and can afford to spend in this one direction. The farmer's lasting welfare also demands that this be done.

.

There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a substantial reduction in the public debt in this fiscal year. There are serious objections to such a course.

We are definitely in a transition period between unbalanced and balanced Federal budgets. We are making great progress toward a balanced budget. Relatively few persons realize that the net improvement this year in the budgetary position of the Federal Government, will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than twenty-seven

- 18 -

hundred millions last year.

That improvement of revenue →

I am enthusiastic about the direction in which we are going; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

The minimum goal that I propose will by no means be easy to achieve. But it is a goal that we can safely, honestly, and reasonably, hope to reach.

More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. I should welcome a further increase in revenue next year but only if it comes from expansion in business activity rather than from ~~new or~~ increased taxes.

Which would bring in more than the present tax structure.

There are equally compelling considerations on the expenditure side.

I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly

Then 2 billion \$ in a year

towards budget balancing

ought to be put in the

~~budget~~ headlines

our economy as a whole in moving too rapidly in this direction as

there would be in not moving at all.

The minimum goal that I propose will by no means be easy

to achieve. But it is a goal that we can safely, honestly, and

reasonably hope to reach.

More than two-thirds of this year's budgetary improvement

comes from increased revenue, rather than from reductions in expen-

ditures. I should welcome a further increase in revenue next year

but only if it comes from expansion in business activity rather

than from new or increased taxes. *But of course I don't*
in favor of the present tax structure.

There are equally compelling considerations on the expen-

diture side. I strongly favor a vigorous program for the progressive

reduction of Federal expenditures to the minimum demanded by the

Government's increased responsibilities. But it would be clearly

- 19 -

unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

There is a new and important aspect of our budget that must be considered when the economic effects of our expenditures and receipts are being analyzed. The Social Security Act has introduced new items into our budget. A major one of these, the appropriation for the Old Age Reserve Account, involves an expenditure for reducing the amount of the public debt held in the market.

Next year, as a result of this Act and of the related State laws, it is estimated that the Federal Treasury will receive more than one billion dollars net for investment in Government obligations for the Old-Age Account and the Unemployment Trust Fund.

In exchange for its obligations issued for these purposes, the Treasury will receive more than one billion dollars in cash.

This billion dollars will be used to retire public debt now in the hands of private investors. In other words, the Treasury next

- 18 -

year would be adding one billion dollars to the supply of funds in the capital market.

It is true that this very substantial retirement of public debt now held by private investors will not reduce the total public debt. It is a transfer of the public debt from the hands of private investors to the Old-Age Reserve Account and the Unemployment Trust Fund. Nevertheless, the effect on business, and on the capital market, is exactly the same as though the billion dollars were used to reduce the total public debt. One billion dollars will be paid over to private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions.

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal

It is very clear that the credit of the gov. is the ~~public debt~~ ^{in the capital market.} ~~that the credit of the gov. is the public debt~~ ^{It is true that this very substantial retirement of public debt now held by private investors will not reduce the total public debt. It is a transfer of the public debt from the hands of private investors to the Old-Age Reserve Account and the Unemployment Trust funds. Nevertheless, the effect on business and on the capital market is exactly the same as though the billion dollars were used to retire the total public debt. One billion dollars will be paid over to private investors.}

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions.

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal

expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal services or by increasing the existing tax burden.

The principal objects of our budgetary policy have been, and I hope will continue to be, to promote a large volume and healthy character of business activity, a maximum volume of employment at good wages in private industry, fair treatment for our agricultural population, adequate revenues to meet the increased services now demanded of the Federal Government, and the preservation of the credit and currency of the United States, on which depends

The Gov. in the
 old age and employment
 funds all ~~the~~ ~~money~~ ~~and~~ ~~the~~ ~~budget~~ ~~and~~ ~~the~~ ~~budget~~ ~~and~~ ~~the~~ ~~budget~~
 your money, but ~~the~~ ~~budget~~ ~~and~~ ~~the~~ ~~budget~~ ~~and~~ ~~the~~ ~~budget~~
 pieces of paper are
 Gov Bonds and not
 private promises to
 pay, it is sent over
 state, the case to
 say that your money
 is safer in Gov Bonds
 than in a multitude
 of private obligations,
 though of course I am
 in no way reflecting
 on the sovereignty of private
 companies

the security of jobs, property values, and orderly business relations.

[Faint, mostly illegible handwritten text, likely bleed-through from the reverse side of the page.]

Social Security

The old age reserve account
 and the unemployment
 trust account operate
 just like payments made
 by an individual to
 a private insurance company
 such a company invests your
 premiums in real estate farms
 a city morg. in rail roads
 or in ~~industrial~~ a public utility
 bonds, ^{or gov. bonds} or in other forms of private
 investment approved by ^{the} ~~the~~
 different state laws. All that
 the ins. company has are
 bundles of pieces of paper
 representing all kinds
 of promises to repay your
 money to the ins. company

November 3, 1937

11:30 am

Present:

Dr. Haas
Dr. White
Mr. Seltzer

HM, Jr: Now, where do we go. (Draft of speech #10)

Mr. Seltzer: Right there.

HM, Jr: Are you going to tell me what is different?

Mr. Seltzer: All that we did, mainly, was to incorporate the President's suggestions and the first place is page 23.

HM, Jr: What's different?

Mr. Seltzer: The most important change relates to Social Security. You might go over that first.

HM, Jr: Where is that? What page?

Mr. Seltzer: Begins at the bottom of page 22, last paragraph.

HM, Jr: I don't think what the President dictated was so hot.

Dr. White: Some of it was good. That paragraph, I think, was good.

HM, Jr: (Reading) "The funds paid into both of these accounts operate just like payments made by an individual to a private insurance company. Such a company invests your premiums in Government obligations, in farm and urban mortgages, in railroad, industrial, and public utility bonds, and in other forms of investment approved by one or more of the forty-eight different State laws. All that the insurance company has when it has invested your premiums in this manner, are bundles of pieces of papers representing all kinds of promises to repay your money with interest to the insurance company."

-2-

HM, Jr: That's exactly what he said.

Mr. Haas: Yes.

HM, Jr: Did you fellows think that's all right?

Mr. Seltzer: Yes.

Mr. Haas: Yes.

Mr. Seltzer: If he wants you to take the occasion at this time to refute these contentions in the newspapers about Social Security funds, this is a good way to do it.

HM, Jr: He does. He does. He has been so terribly decent about this speech that I think -- very few suggestions made, I think we ought to take it.

Mr. Haas: You did not check this one about "reasonable profits". Larry changed "We want reasonable business profits to grow" to read "We want to see private business expand."

Dr. White: Leave profits out of the picture. Either say we want to see national income ...

Mr. Seltzer (to Mr. Haas) We have not discussed any of the other changes except Social Security.

HM, Jr: Somebody take this and read to me what the changes are.

Mr. Haas: O. K.

On the bottom of page 3 and top of page 4. Here's the change the President has suggested saying: "Many measures are required in their solution. One of these measures at the present juncture is a balanced budget." We just took that.

HM, Jr: That's all right. That's a very important change.

Mr. Haas: Yes, that's an important one.

HM, Jr: Let's run through and show me where the changes are.

Mr. Seltzer: "We want to see private business ex-

-3-

pand" and the President wanted "We want reasonable business profits to grow," and that takes all the force out of saying we want private profits to expand, so we changed it to read "We want to see private business expand."

HM, Jr: That's all right.

Mr. Seltzer: The next was in connection with taxes.

HM, Jr: That's the one he stumbled so on.

Mr. Seltzer: Mr. Seltzer: Right up here in the old draft where we say we must plan to achieve this by reducing expenditures, and "And then, if the tax receipts rise above those of last year, the excess should be used to reduce the national debt." Then this is to be filled in by Magill.

HN, Jr: I have just spent an hour with him and he and Gastor are now trying to write it. I did not accept what Magill wrote at all and I dictated my own. He gave me six pages which I could not use.

Dr. White: Too detailed?

HM, Jr: No. Getting down again into the question of specifying particular changes and this is a speech on Government spending.

Mr. Haas: About "thus returning to the average annual Federal highway expenditure."

Mr. Seltzer: Page 15. "In this connection, also, I believe it would be wise to alter the existing programs for the future, which would call for new appropriations totaling more than four hundred million dollars during the next two years, and return to the average annual level of expenditures prior to the depression -- under one hundred millions."

HM, Jr: Under? Why put 'under'?

Mr. Seltzer: Because the average was under. As a matter of fact, it did not go above.

-4-

HM, Jr: All right. That's all right.

Mr. Haas: The next thing: the farmer himself does want subsidies. Page 15.

HM, Jr: That, I thought, was very good.

Mr. Seltzer: You say you are in favor of a long-range program.

HM, Jr: Is that any change?

Mr. Seltzer: No. Right here (page 18) "The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status."

HM, Jr: That's the President.

Mr. Seltzer: Yes.

Mr. Haas: Those are his words.

Mr. Seltzer: The President wanted this emphasized: Relatively few persons realize that the net improvement this year in the budgetary position of the Federal Government will amount to more than two billions dollars. "This net improvement of more than two billion dollars that is taking place in a single year . . ." provides the best answer to those who have publicly despaired, etc.

HM, Jr: Is that new?

Dr. White: The last sentence Larry is paraphrasing. We say this: "This net improvement of more than two billion dollars that is taking place in a single year provides the best answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget."

Mr. Haas: He asked to have that put in the headlines.

Now this, which would bring in taxes. (Page 18 of the draft.)

Mr. Seltzer: It wasn't very clear. There is a question mark here.

-5-

HM, Jr: The question mark is out. That 'only if it comes from expansion in business activity rather than from increased taxes which would bring in more than the present tax structure.' That is his own language.

Mr. Haas: Larry, show the Secretary what you did.

Mr. Seltzer: Of course, it wouldn't fit just as it is there. What we put down is this: "More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. This clearly indicates that further increases in taxation are unnecessary, for a continued expansion in business activity would produce adequate additional revenues on the basis of the present total tax structure."

HM, Jr: That's all right.

Mr. Seltzer: Then we come to Social Security.

HM, Jr: I read that. That's all right. Now, what else?

Mr. Seltzer: That's about all.

Mr. Haas: Then the gold thing, which you mentioned to Larry.

Mr. Seltzer: The gold thing, it took too much space and did not fit. We also have to curtail to bring you in a half hour. We had tried including gold at this length.

HM, Jr: Let's put it this way. The way I plan to do this is Magill is supposed to come back at 2:30 and tomorrow he goes on the Hill. I want to clear that up -- this missing part -- and I had promised Bell, because I don't know what Bell is going to say about these figures.

Mr. Seltzer: Right.

HM, Jr: But I figured that I had better be present when you go over those things.

Mr. Haas: Oh, yes. Uh-huh.

HM, Jr: Now, can I have this copy at this stage

-6-

or do you people need it.

Mr. Seltzer: No.

HM, Jr: Well, Bell is coming in at five minutes to one. Let me just talk with him. What I am trying to say is the chances are that you will have the rest of this afternoon. The President will not be back here tomorrow. Chances are I will not see him on this question until Saturday.

(HM, Jr: Mr. Morgenthau spoke to Bell on the 'phone and Bell will work with the Secretary tomorrow at 3.)

HM, Jr: I have to get Magill's first. It gives you fellows the rest of today and sometime tonight give it to Bell. That gives him a chance to read it and check it up so when he sees me tomorrow he does not get it cold.

Mr. Seltzer: Will we get Magill's stuff this afternoon or tomorrow?

HM, Jr: I don't know. You will get it sometime between now and midnight, because I am going to work with him the way I did you fellows on Sunday, so between now and midnight it has to be finished.

Mr. Seltzer: Do you know whether it is going to be very long?

HM, Jr: It will not be more than two pages.

Mr. Seltzer: It will run about two pages, you think?

HM, Jr: Yes.

Mr. Haas: Only one item we have not got your views on and that's gold.

HM, Jr: Yes, go ahead.

Mr. Haas: (To Mr. Seltzer) Tell them what you had in mind.

Mr. Seltzer: I was somewhat dubious about mentioning it at all because in so far as you go back to the past we don't want to give any more space to the past than we have,

-7-

which is 7 pages. Your speech is devoted to the present and future. Secondly, if you at all boast about the present gold position of the country, you flag everybody on our gold sterilization program. For example, you bring up what is going to happen to the Stabilization Fund, etc., and you won't have time to get into that. That, it seems to me, is better suited to another speech.

HM, Jr: It's unimportant, as far as I am concerned. If you think it's a mistake, out the window!

Mr. Seltzer: We also have this other factor: that we are very much pressed for space.

HM, Jr: Are you? How many words have you got?

Mr. Seltzer: You have got 27 pages without Magill. Twenty-eight pages including two pages of Magill's. We ought to cut this down to twenty-three.

Dr. White: You are not limited to time.

HM, Jr: Yes; on the radio 30 minutes, and I don't think it ought to be more than 3,000 words.

Dr. Haas: No.

Mr. Seltzer: No. That would be about 25 pages. If we can get gold in

HM, Jr: I am not crazy about it. Somebody suggested it.

oOo-oOo

FIRST DRAFT OF TAX SECTION
 PREPARED BY MAGILL FOR SECRETARY'S
 NOVEMBER 10th SPEECH. DISCARDED
 11/3 AS TOO LONG AND DETAILED FOR
 HIS PURPOSES.

If expenditures can be held within the limits I have outlined, it will be possible for the Congress to make a number of changes in the tax system in the interests of greater fairness. Since the revenues must be maintained at their present level, in order to balance the budget and to provide adequately for debt retirement, reductions in particular taxes must be balanced by increases in others. Nevertheless, I believe that the tax structure as a whole can be put on a sounder and more permanent basis, if it is thoroughly overhauled in the light of accepted standards of tax justice.

One of the basic standards is that the burden of taxation should conform to capacity to pay; and that capacity can fairly be measured by income. At the

present time, the Federal Government is receiving
Orig and 4 carbons made (3 carbons destroyed)

RM/mrl

11-2-1937

First Draft

(a)
FILE COPY

- 2 -

approximately the same amount through the miscellaneous internal revenue taxes, mainly levied on different kinds of sales, that it is receiving through the income tax. Some of the Federal sales taxes are essentially nuisance taxes, since their individual yield is small, since administration is difficult, or since they fall upon articles of general use. The tax structure as a whole would be improved therefore if the direct and plainly known liability of the income tax were gradually substituted for a part of the indirect and hidden tax liability now imposed by these nuisance taxes. I do not advocate a broadening of the income tax base, unless the consumer with a small income is relieved of some of his present indirect tax burden. Moreover, earned incomes, in my opinion, deserve a slight extension of the preferential treatment which they now receive. The tax revision as a whole should be framed in the light of the available

FILE COPY

- 3 -

data on the actual burden of taxation, direct and indirect, upon the different income classes.

The Revenue Act of 1936 made important changes in the method of taxing corporations. The general purpose was to insure that corporate incomes, whether retained for use in the business, or distributed as dividends, would bear like taxes. Since there are legal difficulties in the way of taxing undistributed corporate incomes directly to the shareholders, the end had to be achieved by means of an undistributed earnings tax on corporations. We have assembled and analyzed the information shown on the latest corporation income tax returns, in order to determine the effective rates and burden of all Federal taxes upon corporations of different sizes in the various industries, as well as the operation of the taxes in special cases. The accumulated data shows

FILE COPY

- 4 -

that while the effective rates, on the average, are reasonable, the small and the medium-sized corporation might properly be given somewhat more liberal treatment, through exemptions declining as income increases, and through credits for past operating losses.

The tax on ~~capital gains~~ has received widespread discussion in the press. For reasons which need not be detailed here, it is difficult to devise a method of taxing such gains, which is at once fair, and simple enough to use on a tax return. I do not believe, however, that these considerations justify the repeal of the tax entirely. On the score of capacity to pay, it is hard to see any justification for eliminating the tax on the profits from investments or speculations, while retaining it on the income of the merchant or the salaried man. Enough experience has now been accumulated to enable a considerable improvement in the rates and in the

FILE COPY

- 5 -

method of taxation itself. In particular, provision should be made for carrying over the net capital losses of one year to be applied against the capital gains of the subsequent year.

I shall mention only a few more major topics on which information will be presented to the Congress. Whether or not the income tax is to produce relatively a greater share of the Federal revenues, it is essential that incomes of like size be subjected to like treatment. Consequently, the exemptions accorded to the interest on state and municipal obligations, and to the salaries of state and municipal officials should be ended for the future. The deductions allowable for income tax purposes should in general comprise those expenses, losses, and reserves which are directly occasioned by the activities which produce the income subjected to the tax. Some of

FILE COPY

- 6 -

the deductions, such as that for percentage depletion enjoyed by oil and mining companies, are excessive; and others are not quite adequate. The gift tax and the estate tax should be further coordinated, preferably with a single set of rates and exemptions. Finally, some definite move in the direction of reducing the present serious overlapping of Federal and State taxes might well be undertaken.

Let me say again that whatever changes are made in the tax structure, the total yield must be maintained at the present level, to meet estimated expenditures and to retire the debt. Changes can be made at this time, however, which will improve and strengthen our revenue system as a whole, through a fairer distribution of the total tax burden among the various income classes.

FILE COPY

November 3, 1937

10:30 am

Present:

Mr. Magill
Mr. Gaston

HM, Jr.: Let me do it in my own crude way. I don't know that I can do it. May I just take a look at the speech before this first, to get the feel of the thing.

Mr. Magill: You had it or someone had it inserted about page 10.

HM, Jr.: I just want to see what goes ahead. I don't care where it goes. I am going to talk now.

2.556 'Let us stop at this point and consider the revenue side of the picture, always keeping in mind that the total revenue for next year must produce at least as much as it did this year. The Federal tax system affects every wage earner in the country and we in the Treasury are constantly studying the tax problem so that (I am not going to use wage earner, but business man does not answer that -- the man who pays the taxes; that is what I want to get over.) we can collect these taxes in a manner -- as painlessly as possible.' (That can be explained.) Let me just use that word for the moment, because that's what I mean.

'There is no question in my mind that the present Federal tax laws are, first, entirely too complicated, that in many cases the cost of collection exceeds the revenue, and that the taxpayer finds it difficult and burdensome not only to make out his tax returns, but in the administration of his business.

'We in the Treasury take the position that if we find that any particular tax is a hardship on the individual or the business man, we are more than willing that this particular tax should be modified or withdrawn in favor of some other form of taxes which are fairer and will produce the same amount of money.

'We realize fully that the Federal Government is financed largely through taxes, and if we are to continue

-2-

to collect the vast sums in the future that we have in the past the tax laws must be so written and so administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. We further realize that when only two and one-half million people in the United States pay Federal taxes' -- is that right? You said 5,000,000 tax returns.

Mr. Magill: That's about right on income taxes. All of them pay Federal taxes. You had better limit them to income tax.

HM, Jr.: 'When only two and one-half million people in the United States pay income tax, it is entirely too few for the country as a whole to take a real interest in the Federal tax problem and, therefore, we feel that it is most important that the number of taxpayers be increased through lowering the exemptions.' (I haven't said anything anywhere -- I am just going to keep it general.)

'To sum up the attitude of the Treasury towards the collection of revenue, I wish to say that, first, our fiscal policy for the next year, as stated tonight, is based on our receiving at least as much revenue next year as we do this year. In order to accomplish this we are more than willing to sit down with any individual or group and go over their tax problems and if we find that any particular tax is making it difficult for them to conduct their business or to make a reasonable profit, we stand ready to make public the results of our findings.'

Mr. Magill: Well, I think the general tone is good. There are a lot of catches in it because of the fact that anyone listening to it or reading it will want to see what specific things you have in mind.

I think the main point you want to make is one which underlies what you have said; that is, what we ought to be doing is shifting away from the great number of taxes that we now have that take no account of ability to pay -- that is the great batch of sales taxes -- over towards income taxes.

(Miss Chauncey went out to type up the Secretary's remarks.)

-3-

HM, Jr.: Let me do this again. "Let us stop at this point and consider the revenue side of the picture, always keeping in mind that the total revenue for next year must produce at least as much as it did this year."

Mr. Magill: The first paragraph, the idea is good.

HM, Jr.: That's the way to open it, isn't it?

Mr. Magill: Yes.

HM, Jr.: 'During the past eight months the most exhaustive studies have been going on in the Treasury and many conferences have taken place between individuals and groups with Treasury officials. We have taken the position during these conferences that if any particular tax bears down too severely on the individual or corporation, we are more than willing that this particular tax should be modified or withdrawn in favor of some other form of taxes which are fairer and will produce the same amount of money.'

Mr. Magill: I have written this: 'A number of adjustments ought to be made in the income tax, both on individuals and corporations, and a number of nuisance taxes might well be repealed. We further believe that there ought to be a gradual shift from the nuisance taxes to the income tax as a means for providing a greater proportion of the revenues required by the Federal Government.'

HM, Jr.: All right, we will get together again on it.

(Draft) Nov. 3

Let us stop at this point and consider the revenue side of the picture, always keeping in mind that the total revenue for next year must produce at least as much as it did this year.

The Federal tax system affects every wage-earner in the country and we in the Treasury are constantly studying the tax problem so that we can collect these taxes in as painless a manner as possible

There is no question in my mind that the present Federal tax laws are, first, entirely too complicated; that in many cases the cost of collection exceeds the revenue, and that the taxpayer finds it difficult and burdensome not only to make out his tax returns, but in the administration of his business.

We in the Treasury take the position that if we find that any particular tax is a hardship on the individual or the business man, we are more than willing that this particular tax should be modified or withdrawn in favor of some other form of taxes which are fairer and will produce the same amount of money.

We realize fully that the Federal Government is financed largely through taxes and if we are to continue

-2-

to collect the vast sums in the future that we have in the past the tax laws must be so written and so administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. We further realize that ^{when} only two and one-half million people in the United States pay income taxes, it is entirely too few for the country as a whole to take a real interest in the Federal tax problem and, therefore, we ~~firmly~~ feel that it is most important that the number of taxpayers be increased through lowering the exemptions.

To sum up the attitude of the Treasury towards the collection of revenue, I wish to say that, first, our fiscal policy for next year, as stated tonight, is based on our receiving at least as much revenue next year as we did this year. In order to accomplish this we are more than willing to sit down with any individual or group and go over their tax problems and if we find that any particular tax is making it difficult for them to conduct their business or to make a reasonable profit, we stand ready to make public the results of our findings.

November 3, 1938

2:30 pm

Present (First part of meeting)

Mr. Magill
Mr. Gaston
Mrs. Klotz

Also present (second part of meeting)

Mr. Haas
Mr. Seltzer
Mr. Upham
Dr. White

HM, Jr: (Reading) "Let us stop at this point to consider briefly the revenue side of the picture, always keeping in mind that the tax system must produce at least as much total revenue for next year as it is producing this year.

"The Federal tax system affects every wage earner and every business man in the country."

Make a note to change wage earner so it will be all inclusive.

Mr. Gaston: Yes. I had in there 'every wage earner in the country who works for a living'.

HM, Jr: I will go through it.

Mr. Gaston: The tax system does affect them.

HM, Jr: (Finished reading the draft.)

I think this is pretty good, but I think it can be refined. Let's do it right now. What do you say?

Mr. Gaston: Yes.

HM, Jr: (Reading from the beginning.) "Let us stop

-2-

at this point to consider briefly the revenue side of the picture, always keeping in mind that the tax system must produce at least as much total revenue for next year as it is producing this year."

That's right, isn't it?

Mr. Gaston: Yes.

HM, Jr.: (Continued reading) "The Federal tax system affects every wage earner and every business man in the country." Why couldn't you simply say 'affects every wage earner, every farmer, every business man'. Simply say it affects everybody in the country.

Mr. Magill: I think that would be better.

Mr. Gaston. Yes. Uh-huh.

Mr. Magill: 'affects everyone'.

HM, Jr.: 'The Federal tax system affects every one in the nation.'

Mr. Magill: I like 'country' better. It also affects, we hope, a lot of people who are not in the country.

HM, Jr.: This is like a telegram. Why not say 'The Federal tax system affects everyone.' Period.

Mr. Magill: I would leave it this way: every one in the country.

HM, Jr.: (Continued reading) "We in the Treasury are constantly studying the tax problem with two objectives always before us." Would you say 'One.'? That's the way I would say it.

Mr. Magill: First, and second.

HM, Jr.: "First that the tax burden shall be distributed as fairly as possible." That's all right. I don't like the next part about the collection.

Mr. Gaston: Make it "So that the collection of taxes shall be as little burdensome to the taxpayer as possible."

-3-

Mr. Magill: We were thinking of administration, but I think collection is good.

HM, Jr: I would leave out collection. "First, that the tax burden shall be distributed as fairly as possible, and, second," -- how did you put it, Herbert?

Mr. Gaston: 'That the collection of taxes shall be as little burdensome to the taxpayer as possible'.

HM, Jr: Is that a correct statement?

Mr. Gaston: Yes.

HM, Jr: Magill?

Mr. Magill: Yes.

HM, Jr: You have two 'possibles'. Do you want that?

Mr. Gaston: I think so.

Mrs. Klotz: I think you emphasize it a little.

HM, Jr: (Continued reading) "It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now presenting -- why not say 'and are just now in process of presenting'?"

"The study has not been directed toward raising new revenue, but to determining whether there are inequalities and injustices in the distribution of the tax burden, whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain, and whether we may simplify collection and make the taxpayer's record keeping less difficult by changes in the administrative provisions of the law."

HM, Jr: I think that's all right.

Mrs. Klotz: Very long sentence.

HM, Jr: Can you divide that sentence up?

Mr. Magill: Yes, we can do that. You can make it into three.

-4-

HM,Jr: Well, look at it afterwards. Just put a question on it.

(Continued reading) "In making this survey we have welcomed..." 'Welcomed' or 'invited'?

Mr. Magill: Well, we have invited.

Mr. Gaston: True.

HM,Jr: "In making this survey"... I don't like survey. Study, isn't that a better word?

Mr. Gaston: Study is a better word.

HM,Jr: "...we have invited the assistance and advice of groups of taxpayers and individuals." Why not simply say we have asked the advice of taxpayers. That covers all.

Mr. Magill: Well, I like the groups; has a little different significance; like the U. S. Chamber of Commerce, American Institute of Accountants, American Bar Association, all of whom we have invited.

HM,Jr: All right.

(Continued reading) "We want to hear about the taxpayer's difficulties." Make it 'We want to hear the taxpayer's side of the story. "We want all the facts we can get, and we have been at pains to seek both facts and opinion." I don't like the word pains.

Mr. Magill: Carefully?

Mr. Gaston: We have sought.

HM,Jr: 'We have sought.' I admit it has been painful, but why say so. 'We have sought both facts and ...

Mrs. Klotz: It is not a strong sentence.

HM,Jr: Can you strengthen it a little bit?

Mrs. Klotz: 'At pains' gives you the feel of exhaustively.

Mr. Gaston: What it means, we have been at some trouble.

-5-

HM, Jr.: 'Have taken great care'. I just don't like the word pains.

Mrs. Klotz: 'We have sought facts and opinions.' Isn't that what we really did?

Mr. Magill: Well, I like 'sought' all right.

HM, Jr.: Herbert, can you strengthen it?

Mr. Gaston: I can't think of a word just now.

HM, Jr.: (Continued reading) "Our tax revenues ~~come~~ largely from individual earnings and business profits."

Mr. Magill: On that previous, I don't know that you need to make it any stronger, because it is an actual fact, as you know, you get the information without seeking for it. It's facts that are hard to get. People are always glad to give you information on what you have done, but you have to be at pains to get the facts. I think 'sought' is O.K.

HM, Jr.: (Continued reading) "Of course, tax policy cannot be determined from one individual case alone. We must look at the whole picture."

Mr. Magill: Why not say we have tried to look at the whole picture?

HM, Jr.: We have.

Mr. Gaston: That's claiming too much infallibility. This is speaking in general; how our tax picture is framed.

HM, Jr.: All right. (Continued reading) "We must take testimony and we must examine tax returns." 'Continuously'? I guess that's all right.

Mr. Magill: I think that's all right for the purpose.

HM, Jr.: (Continued reading) "We realize that our tax laws are too complicated. We realize that there are inequities; we want to eliminate as many of them as we can. Taxation is not just a Treasury problem, but it is a problem before all taxpayers. All are entitled to submit their experience and their opinions and it is our purpose to meet

-6-

"them more than half way."

Mr. Magill: That's rather superfluous. I suggest we might cut that last out. We don't need to argue that point. It's conceded.

HM, Jr: We said that at the beginning.

(Continued reading) "The amount of our income tax revenue is only about half our total internal revenue and less than three million people out of 130 million pay income taxes. Both proportions are probably too small."

"Both proportions are too small." I don't get that.

Mr. Gaston: Strictly speaking, it should be ratios. The ratio of income tax payers to the whole number of inhabitants is too small.

HM, Jr: Do you have to say that?

Mr. Magill: You can cut it out. It's in the next sentence.

HM, Jr: I wonder if you could not make it better. I guess it's all right.

(Continued reading) "We would be applying the principle of capacity to pay more justly if we were to reduce the number of nuisance taxes, and at the same time to extend the income tax. Taxpayers who are squarely confronted with their own tax burdens are bound to take a more active interest in the way the money is being spent by the Government on their behalf."

Mr. Gaston: In place of that 'and at the same time extend the income tax' -- 'and at the same time increase the number of income tax payers.'

HM, Jr: That's much better. Do you want to make it two sentences?

Mr. Magill: I think it would be stronger.

Mr. Gaston: I think they are very directly connected. It does not make any difference. It's part of the same thought, however.

-7-

HM, Jr.: "Less than three million people out of 130 million pay income taxes." Make that a new sentence.

(Continued reading) "To sum up the attitude of the Treasury toward the collection of revenue: Our fiscal policy for next year is based on receiving as much revenue as we are receiving in this fiscal year. We want to adjust inequalities and remedy defects in the tax laws. In doing this we seek the help of the taxpayer, promising him a sympathetic hearing." Why not put that in the past, the way we have the others?

Mr. Gaston: "In doing this we have sought."

Mr. Magill: 'and have given him'.

HM, Jr.: (Continued reading) "If we find that the operation of any particular tax is unfairly burdensome ..." I don't like unfairly.

Mr. Gaston: Of course, the thought is any tax is burdensome. It's a question of whether he's being unfairly treated compared to other tax payers.

HM, Jr.: Is it 'operation' or 'application' of any particular tax?

Mr. Magill: I think either.

Mr. Gaston: Of course you don't need 'operation' -- just 'if we find that any particular tax is unfair.'

Mr. Magill: I like operation or application, for this reason: any tax is burdensome; on the other hand, the way it is applied or the way it operates in any particular business

HM, Jr.: Let's use operation.

Mr. Gaston: I think we might just drop out the whole sentence.

HM, Jr.: What, the last?

Mr. Gaston: Yes.

HM, Jr.: Couldn't you say something like this: We always stand ready to make recommendations to change the tax

-8-

law if we find that its application has proved unnecessarily burdensome? Have you said that before?

Mr. Magill: Not quite. You could say something like this: 'In the next few months we expect to point out to the congressional committees instances in which it appears that taxes are unduly burdensome.'

HM, Jr.: What I like about the last -- whether it's operation or application -- if we find the application of any particular tax is unfair, we stand ready to make public the results of our findings. What I am trying to get over there is -- what I am trying to say is if we find we are wrong, we are man enough to say so.

In doing this we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find any of these tax laws are unfair, we stand ready to say so publicly. If we are wrong, we are man enough to come out and say so. That's the note I would like to leave, because that's what I would like to do.

Mr. Magill: That would make it even stronger. I like putting this stuff in the past because I think it ought to be. Would you be prepared to say this: we have found the operation of some taxes are unfair and we stand ready to make public the results of our investigation?

HM, Jr.: 'We have found the operation of some taxes to be unfair and we are now presenting to the Committee of Congress the information that we have collected.'

Mr. Magill: What we have learned in this way has influenced the recommendations that we expect to make.

HM, Jr.: Let's make it: "If we find that the operation of any particular tax is unfair, we stand ready to say so publicly."

* * * *

The following came in and joined the meeting:

Mr. Seltzer
Mr. Haas
Mr. Upham
Dr. White

-9-

HM, Jr.: (Read the corrected draft to the group.)

Now I am ready for comments. Just for curiosity, I would like to ask Cy Upham.

Mr. Upham: I would think it is splendid. There is repetition at the end. You repeat that you consulted the taxpayers.

HM, Jr.: I said 'to sum up'.

Mr. Upham: I like it very much. Of course, it may mean more to me.

HM, Jr.: What does it mean? That's why I am asking you.

Mr. Upham: I don't know what you are going to do, but I should think that would mean some substantial change in the undistributed earnings tax.

Mr. Seltzer: You do know you are going to have a lower level of income tax. You are going to have more inclusive group.

Mr. Upham: Yes, but that does not mean stimulating business in drying up the source of revenue and removing inequities in taxation.

HM, Jr.: The reason I am asking you is, if you don't mind my saying so -- what you have told me you want to see us make as many changes as possible. The reason I am asking you before the others talk, I wanted to know if this at all satisfied you or, let's say, you think it would in any way satisfy the New York Times?

Mr. Upham: Yes, I should think so if you mean all these things; if you want to make taxes as little burdensome to the taxpayer as possible, and if you are going through and accomplish that, I think that will satisfy everybody.

HM, Jr.: You know me long enough now that I mean what I say.

Mr. Upham: My only question is does it mean a little more to me when you say it. There is a question of degree.

-10-

HM, Jr: Let me put it this way: We tried it a number of ways. We went up with definite recommendations, which the President was not ready to accept in its entirety. Then Mr. Magill brought in six pages to boil it down and as Gaston said, We either did not go far enough or we went too far. So this thing is just what is the tax philosophy of the Secretary of the Treasury. Every word I say here, I mean.

Mr. Upham: That's fine.

HM, Jr: The President of the United States has to read this first, but everything I say here, I mean.

Now, without making -- I could devote 5,000 words to talking about taxes, but all I am attempting to do here is say what I mean. I am more than willing, if we are wrong, to say so publicly. That's what I want to get over. If I am wrong -- speaking of those who are responsible out of the Secretary's office or the Under-secretary's office -- if we are wrong, I am sure I can talk for Magill on this, we are ready to say so. In other words, neither Magill nor I are so interested in any particular form of taxes that we have to save our faces. Face saving doesn't mean anything to us. But what I want to get over to you, do you think that this is enough. Does it mean anything to you in view of the present system of barrage that we are under?

Mr. Upham: Yes. I think it would probably inspire a good deal of hope in the New York Times and me. I think you will find people looking with a good deal of skepticism on Treasury talk, whether you are the Secretary of the Treasury or anybody, about making taxpayers' recording keeping easier. People don't think you can do it.

HM, Jr: Magill has just got out a new tax form, with how many less words than before?

Mr. Magill: Good deal less simple.

Mr. Upham: I think it is splendid. There may be some quarrel with this: where you say less than 3,000,000 people pay income taxes. A good many people regard Social Security as income tax.

HM, Jr: It's not so defined. We can go over the verbiage on this. Either go in your room, Magill, or go

-11-

home, and take each word and give it to me the first thing tomorrow morning.

Mr. Upham: I don't see how anybody could ask more than that.

HM, Jr.: You don't think anybody could ask more than that in a talk on spending?

Mr. Upham: No.

HM, Jr.: Now, Mr. Haas.

Mr. Haas: What occurred to me as you read it -- the first one I jotted down, I think repeated twice in the statement, that we must have a tax system, or whatever it is called, which will produce as much revenue as was produced this year. The thought in the other part of the speech is better expressed if we say that the tax system must produce the same amount as the present system would produce. You see, what if you get a sharp decline on business. On the basis of that it would mean you would have to increase taxes in order to keep it up to the level of this year, which would make that conform to what you have said in the other part of your speech.

HM, Jr.: Wait a minute! Wait a minute! Don't we want a tax system that will produce \$6 billions?

Mr. Haas: Yes. If it was in operation in 1938 then it would be identically the same strength as the present system. In other words, under the same conditions. But in 1939 if business continued down, you might have to have a much stronger system to produce \$6 billion 650.

HM, Jr.: I don't get it.

Mr. Haas: Put it this way: that this year, 1938, the present tax structure will produce \$6 billion 650. If business conditions are the same in 1939, it also will produce \$6 billion 650, but this statement says here that we must have a tax structure in 1939 which will produce \$6 billion 650 and I take it to mean that regardless of what business conditions are, if business conditions go down the present structure would not do that.

HM, Jr.: No. No. What do we say in the rest of

-12-

of the speech?

Mr. Haas: In the rest of the speech we say that the tax structure -- you don't bring up this particular point because you did not discuss taxes. What we had in mind was that the tax structure would have the same strength as the present tax structure; in other words, if after you get through Congress is closed, you have a new tax bill, if you repeat 1938 over again you would get the same revenue as from the present system.

Mr. Magill: The same statement appears here.

HM, Jr.: I am going to let Magill off. He does not mind struggling with it until it is finished tonight. He can give it to me tomorrow.

Dr. Seltzer: You are either saying nothing other than repeating the text book things or saying a good deal. What I mean is, here you are voting in favor of fair or unfair taxes. Well, everybody does. You say that the law should be so written and administered that the taxpayer can continue to make a reasonable profit. I don't know whether anybody would disagree with you there. I don't think it's worth saying unless you believe and want to say that the existing laws, in your opinion, should be changed because they unduly hinder this thing. As it is, you kind of have a homily that might be said by anybody.

HM, Jr.: Well, you fellows are just traveling this road. We went out -- extra, extra confidential -- Mr. Magill and I, with specific recommendations, every 't' crossed, every comma, every period. Well, we didn't get it across. Mr. Magill spent yesterday trying to reduce it to 6 pages and being specific again. After going over it this morning we are attempting to say less now. I had hoped when I gave the speech, next week, that Magill's statement would be out today, but it isn't, so we have a vacuum. So I get up and talk about spending and don't say anything about taxes. I will be just as direct as you. I can't talk about specific taxes because I don't know where I stand. Now, is it better to say nothing, or the things in there -- to its full implication. I mean, we should not have so many taxes that are heavy. I don't think it's right or fair to have a man -- Federal plus State pay 89% income tax. I think we are drying up the source and we have that on the books and when a fellow wins he has to pay 89% and when he loses, 100%,

-13-

and we are drawing those funds from useful purposes. A lot of other cases like that and I don't believe that that sort of thing -- I think we ought to encourage people to use their money and when they die we will get it. I told that to the President. I have to be very frank here and the President if he will approve it and pass it -- and everything in there I think I can say we mean to its full limit. We have gone around the other way on certain definite things and I think that only two people can say it, the President or myself, and the President is not ready to talk and I am and I think the taxpayer is entitled to know do I think the business man should be entitled to make a reasonable profit. I do.

Dr. White: You are saying it all right; if you mean to say it, that's fine.

HM, Jr: I mean to say it. Magill took a month or two months to write the other thing. We could not get it across. Now I think somebody for the Administration -- do we mean that we are going to run this Government through tax on wealth or are we going to do it through income tax? I think the situation is bad enough that the Secretary of the Treasury or the President should say it and I don't think anybody is going to laugh at it when I get up and say it. I think they definitely want to know are we going towards State socialism or continue capitalistic? Revenue is based on a capitalistic system and I believe in it. I think the situation is bad. But Larry is talking that it is unnecessary.

Dr. White: No, in justice to him, he means you are either saying something or not.

Mr. Seltzer: What I am battling about is you are saying something. Either you are a consummate politician and want to say something that nobody could tag you for afterward -- I mean 'that law should be so re-written and so administered'.

HM, Jr: Larry, for Heavens sake, who has said that. Who has said anything like that. During the last six weeks this country has just been going down so rapidly and these fellows want to know what does the President and the Secretary of the Treasury think as far as the business man's profits go. Are we going to have capital levy or are

-14-

we going to let them stay in business. Are we going to do it the way they do in Italy, take 10% of all the capital? I mean, I don't know where you have been living, but people just want to know and I don't know that the President will let me say that, but if he will, I would be tickled to death a week from tonight to get up and say it. There is nothing mealy-mouthed about that. I can't get down to specific things, that I would abolish this and modify that and replace it with another.

Mr. Seltzer: I don't think the alternative is that. I think the alternative is saying I believe that certain of our laws, without citing them, have this effect.

HM, Jr: I think we have gone as far as we can. I think Magill ought to go in his room, take it and do what he can with it.

oOo-oOo

402 Nov 3
230 Jan

Let us stop at this point to consider briefly the revenue side of the picture, always keeping in mind that the tax system must produce at least as much total revenue for next year as it is producing this year.

The Federal tax system affects every ^{one} ~~wage earner and every business man~~ in the country. We in the Treasury are constantly studying the tax problem with two objectives always before us: ^{first} that the tax burden shall be distributed as fairly as possible, ^{second} and that the collection of taxes shall be ~~as simple and convenient and~~ as little burdensome to the taxpayer as ~~is~~ possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now ^{in process of} presenting to a committee of Congress the information we have collected. The study has not been directed toward raising new revenue, but to determining whether there are inequalities and injustices in the distribution of the tax burden, whether there are some taxes

- 2 -

whose cost of collection and whose burdensome effect outweigh the revenue gain, and whether we may simplify collection and make the taxpayer's record keeping less difficult by changes in the administrative provisions of the law.

In making this ~~survey~~ ^{study} we have ~~welcomed~~ ^{invited} the assistance and the advice of ~~groups~~ ^{groups} of taxpayers and of individuals. We want to hear ~~about~~ ^{side of the story} the taxpayer's difficulties. We want all the facts we can get, and we have ~~been at pains to seek~~ ^{sought} both facts and opinion. Our tax revenues come largely from individual earnings and business profits. We do not wish to retain levies which have the effect of drying up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. Of course, tax policy can not be determined from one individual case alone. We must look at the whole picture. We must take testimony and we must examine actual ^{tax}

~~tax~~ returns ~~and~~

- 3 -

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can. ~~Taxation is not just a Treasury problem, but it is a problem before all taxpayers. All are entitled to submit their experience and their opinions and it is our purpose to meet them more than half way.~~

The amount of our income tax revenue is only about half our total internal revenue, ~~and~~ less than three million people out of 130 million pay income taxes. ~~Both proportions are probably too small.~~ We would be applying the principle of capacity to pay more justly if we were to *to increase the number of income tax payers* reduce the number of nuisance taxes, and at the same time ~~to extend the~~ *income tax* Taxpayers who are squarely confronted with their ^{own} tax burdens are bound to take a more active interest in the way the money is being spent by the Government on their behalf.

To sum up the attitude of the Treasury toward the collection of revenue: Our fiscal policy for next year is based on receiving as much revenue as we are receiving in this fiscal year. We want to adjust

- 4 -

inequalities and remedy defects in the tax laws. In doing this we *have sought*
and have given
~~seek~~ the help of the taxpayer, ~~promising~~ [^] him a sympathetic hearing. If
we find that the *operation* ~~operation~~ [^] of any particular tax is unfair ~~and burdensome~~,
we stand ready to make public the results of our findings.

November 4, 1937

9 am

Present:

Mr. Magill
Mr. Upham
Mr. Gaston
Mrs. Klotz

HM, Jr.: (Reading the attached draft of Magill's part of the speech on taxes.)

Why do you say 'By direction of the President?' (first line, third paragraph.) He did not direct us to do that, did he?

Mr. Magill: Yes, he did.

HM, Jr.: All right.

Mr. Gaston: First, as a matter of fact, he did in calling on Doughton and Harrison a year ago and again in the April 2nd message.

HM, Jr.: (continuing to read)

*** we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising new revenue but to determining whether there are inequalities and injustices in the distribution of the tax burden, whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain and whether we may simplify collection and make the taxpayer's record-keeping less difficult by changes in the administrative provisions of the law."

Mr. Magill: I think you can leave out "by changes". That was a phrase I fought for yesterday.

HM, Jr.: Leaving it out makes it all the more inclusive.

-2-

Mr. Magill: I think leave it out, because as a matter of fact we have been simplifying it by administrative changes irrespective of the law.

HM, Jr: I wanted to say something funny.

Mr. Magill: Yes; it's early enough this morning.

HM, Jr: I want to introduce the new Mr. Magill this morning!

(Continuing to read)

"In making this study we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have sought both facts and opinions."

I want to say 'obtained' instead of 'sought.'

Mr. Magill: I think so, and maybe we will get a good laugh out of that.

HM, Jr: (Continuing to read.)

"Our tax revenues come largely from individual earnings and business profits. We do not wish to retain levies which have the effect of drying up the sources of tax revenue."

I would say "We do not wish to impose levies which tend to dry up the sources of tax revenue." That's stronger and simpler.

Mr. Gaston: Yes; it's good.

HM, Jr: (Continuing to read)

"We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequalities; we want to eliminate as many of them as we can."

You say that up above.

Mr. Magill: No, not that.

HM, Jr: "We realize there are inequities; we want to eliminate as many of them as we can." Don't we say that about

-3-

inequities on the first page?

Mr. Magill: You say we have been trying to determine whether there are inequalities. Now we come down and say we realize there are inequities.

HM, Jr.: Is that paragraph necessary?

Mr. Magill: I don't think it's necessary.

HM, Jr.: It's just repeating.

Mr. Magill: I think it's a good statement.

HM, Jr.: It's all right.

Mr. Gaston: I think it is the proper way to round it out.

HM, Jr.: All right.

(Continuing to read.) "The amount of our income tax revenue is only about half our total internal revenue. Less than three million people out of 130 million pay income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of nuisance taxes and at the same time to increase the number of income tax payers."

You mean reduce the number of nuisance taxes?

Mr. Magill: No. Reduce the number of hidden taxes on sales.

HM, Jr.: No, because you say it is a hidden tax you can't be expected to know what we were talking about.

Mr. Gaston: I think there is another way, of going a little further. I would say, 'Because of taxes hidden in the cost of merchandise'.

Mr. Magill: It's short.

Mr. Gaston: But that conveys the idea that it is hidden in the cost of what you buy.

HM, Jr.: Because he never will let that go by, I

-4-

mean the word 'hidden'. He will never let it go by. He won't want to admit that.

Mr. Gaston: You could say 'taxes that are included in the cost of what you buy'.

HM, Jr: He will never let that go by. I think the word to use, and that is a word he has used himself, and that is 'reduce the number of consumers' taxes -- or taxes on the consumer.'

Mr. Gaston: Consumer taxes is good.

Mr. Magill: One question I would have on consumers' taxes is that it is simply a technical question. It's a question of how technical you are supposed to speak or to the person reading it, but I think it is perfectly descriptive.

HM, Jr: I know he will never let me say hidden taxes or taxes hidden in what you buy, in your merchandise; but he will let me say consumers taxes.

Mr. Gaston: Instead of saying consumers' taxes, say taxes on consumers.

Mr. Magill: No; that's worse. I would rather say consumers' taxes. Just a question of how technically you want to speak. Your listeners will understand what you mean.

Mrs. Klotz: Will it be incorrect?

Mr. Magill: It's only incorrect in this sense: there is a tax on the automobile you buy. Technically it's a tax on the manufacturer. Actually you will find it is billed to you separately when you buy the car, so it's a consumer's tax in the sense that you obviously pay it as such, but technically it's not on you.

Mr. Gaston: It is a hair-line distinction. Some States have a gasoline tax which is a tax on the man who sells it, but in the other States it is on the person who buys and has exactly the same effect.

HM, Jr: Any editorial writer pick me up on that?

Mr. Magill: I would not think so, because the

-5-

editorial writer would classify all manufacturers' taxes as consumers' taxes.

Mr. Upham: Yes, I agree with that.

Mr. Gaston: Yes.

HM, Jr.: And the interesting thing is, Wallace can't say anything because he does not consider processing taxes a tax on the consumer.

Mr. Magill: Must be a nice blind-fold, or worse.

HM, Jr.: But, you know, that is his position. I would like to use the word consumer, because, just you and I talking, when is the consumer going to get a break out of this Administration? I like the word consumer.

Mr. Gaston: You hit into a complex there of all these consumers' associations that fight sales tax.

Mrs. Klotz: I objected to nuisance because I did not understand it in that sense.

Mr. Magill: Do you want to say taxes paid by consumers? Because then you would be accurate. Even the Internal Revenue Bureau would not object to that, I don't believe. I think you had better say consumers' taxes.

HM, Jr.: I personally like to play on the word consumer and I am, somewhere else in the speech, not saying it so baldly, when is the consumer going to get a break? But in the thing on Agriculture I may want to bring it in -- we may push the consumer too near the wall and then he might start to react. Here's a whole mass of the population that we might get on the side of the Treasury and that's the housewife. On a certain level of income, people will spend just so much for beef, pork, and no more.

Make it read: "I would like to reduce the number of consumer taxes and at the same time to increase the number of income tax payers."

(Continuing to read) "Taxpayers who are squarely confronted with their own tax burdens are bound to take a more active interest in the way the money is being spent by the Government on their behalf."

-6-

This is what I would like to say. I think that is kind of weasley. 'Taxpayers who are squarely confronted with their own tax burdens are, of course, much more keenly alive to the way the money is being spent by the Government on their behalf.'

Mr. Magill: I think that's all right.

HM, Jr: Is that all right?

Mr. Upham: I like it better.

Mr. Magill: It's quite all right.

HM, Jr: 'Active interest' does not describe the way the taxpayer feels today! (Much laughter from the group.)

This is the way I have it: Taxpayers who are squarely confronted with their own tax burdens

Mr. Magill: are bound to be more keenly alive.

Mr. Upham: Than what?

Mr. Magill: Your 'than' is in the previous sentence, in substance, where you are talking about consumer taxes.

HM, Jr: 'Taxpayers who are squarely confronted with their own tax burdens are

Mr. Magillbound to be keenly alive to the way the money is being spent.'

HM, Jr: "... are bound to be keenly alive to the way the money is being spent by their Government on their behalf.'

Mr. Upham: Stop at Government.

Mr. Magill: That's better.

Mr. Upham: I didn't like 'their Government on their behalf'.

HM, Jr: I would like to leave it off. Not so keen on how they are going to spend it on themselves, but on the other

-7-

fellow. 'Keenly alive to the way the money is being spent by their Government.'

(Continued reading) "To sum up..." Do you want me to sum up?

Mr. Upham: Sounds like you are summing up your speech.

Mr. Magill: I have added this: "The Budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield."

HM, Jr.: I am going to read the whole thing once more. I think it's all right.

You don't think that that last thing there would not come up in the front, instead of the summation? I think that ought to come in the second sentence. "Let us stop at this point to consider briefly the revenue side of the picture. The Budget now nearing completion is predicated on a definite estimate of receipts, etc."

Mr. Magill: Yes.

HM, Jr.: I would leave out briefly. It deserves plenty. Why say briefly? Then the new paragraph: "The Budget now nearing completion, etc."

Mr. Magill: The objection occurs to me, just as a matter of continuity of your thought, you are talking about revising the system before you say anything about the character of the revisions.

Mrs. Klotz: Yes.

Mr. Magill: That's the previous two pages. You are telling them the reasons why the system might be revised and then this, it seems to me, should come at the end.

Mr. Gaston: I agree with Roswell on that particular point. You have previously in the speech considered the revenue side of the speech from this standpoint: whether we ought to have a great deal of additional revenue. Now

-8-

you are considering the character of taxation. At the close you are merely expressing thoughts you have expressed in other parts of the speech. It's a revision within the present limits of yield.

Mr. Magill: You can cut that out 'to sum up' if you wanted to, because the first couple of sentences is a new thought.

HM, Jr: Yes. That is what was bothering me.

Mr. Gaston: It could well be cut out.

HM, Jr: Simply say, 'The attitude of the Treasury toward the collection of revenue is....'

Mr. Magill: Now, 'collection' is not a very good word.

Mr. Gaston: I would cut that whole sentence out.

Mr. Magill: I think I would too.

Mr. Gaston: I would cut that entire sentence out.

HM, Jr: Here's a funny thing. I don't get it yet in the thing. "The Budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield." But what about if business -- does that cover --

Mr. Magill: That covers it, you see. That proposition in one sense is an open-ended proposition.

HM, Jr: That's all right. That's what I wanted. What time are you due on the Hill?

Mr. Magill: I don't know.

HM, Jr: (Then read the draft aloud.) I say it is good. I am satisfied.

Mr. Upham: All the way through I have had a liking for that word nuisance. I am afraid people are going to say, .

-9-

'What do you mean when you want to get through with consumer taxes.?' The biggest consumers tax is Social Security tax."

HM, Jr: The President will say, "Oh, how about liquor and cigarettes?"

Mr. Magill: Yes, that's more likely.

Mr. Gaston: But we are not going to get rid of them.

Mrs. Klotz: Nuisance tax to me always meant an unimportant thing.

Mr. Gaston: You are quite right.

Mr. Upham: I am shooting for big game. I agree with Magill. It's a strong statement and a good statement.

HM, Jr: If the President passes that word, then he has to face immediately after that Marvin Jones and his processing tax.

oOo-oOo

Let us stop at this point to consider ~~briefly~~ the revenue side of the picture, ~~(always keeping in mind that the tax system must produce at least as much total revenue for next year as it is producing this year.)~~

The Federal tax system affects every one in the country. We in the Treasury are constantly studying the tax problem with two objectives always before us: First, that the tax burden shall be distributed as fairly as possible and, second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising new revenue, ~~but to determining~~ ^{rather we have sought to determine} whether there are inequalities and injustices in the distribution of the tax burden, ^{and} whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain, ^{in addition, we want to} ~~and whether we may~~ simplify collection and make the taxpayer's record-keeping less difficult. ~~by changes in the administrative provisions of the law.~~

In making this study we have invited the assistance and the advice of groups of taxpayers and of individuals. We want

-2-

to hear the taxpayer's side of the story. We want all the facts we can get and we have ^{obtained} ~~sought~~ both facts and opinions.^s

Our tax revenues come largely from individual earnings and business profits. We do not wish to ^{impose} ~~retain~~ levies which ~~have the effect of drying up~~ ^{lead to dry} the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. Of course, tax policy can not be determined from one individual case alone. We must look at the whole picture. We must take testimony and we must examine actual tax records and returns.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

The amount of our income tax revenue is only about half our total internal revenue. Less than three million people out of ~~130 million~~ ^{our total population} pay income taxes. We would be applying the principle of capacity to pay more justly if we were to ~~reduce the number of~~ ^{summers taxes hidden taxes or sales,} ~~nuisance taxes,~~ and at the same time to increase the number of ^{if such were kept alive} income tax payers. Taxpayers who are ~~squarely confronted with their own tax burdens are bound to take a more active interest in the way the money is being spent by the Government on their behalf.~~

~~To sum up the attitude of the Treasury toward the collection~~

bound to be keenly alive to

~~of course~~ Our fiscal policy for next year is based on receiving as much revenue as we are receiving in this fiscal year. We want to adjust inequalities and remedy defects in the tax laws. In doing this we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

¶ The Budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

Draft

November 4

Let us stop at this point to consider the revenue side of the picture.

The Federal tax system affects every one in the country. We in the Treasury are constantly studying the tax problem with two objectives always before us: First, that the tax burden shall be distributed as fairly as possible and, second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising new revenue. Rather we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition we want to simplify collection and make the taxpayer's record-keeping less difficult.

In making this study we have invited the assistance and the advice of groups of taxpayers and of individuals.

-2-

We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. Of course, tax policy can not be determined from one individual case alone. We must look at the whole picture. We must take testimony and we must examine actual tax records and returns.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

The amount of our income tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax

-3-

payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

We want to adjust inequalities and remedy defects in the tax laws. In doing this we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

November 4, 1937

11:25 am

Present:

Mr. Taylor
 Dr. Haas
 Dr. White
 Mr. Gaston
 Mr. Seltzer

HM, Jr: Page 4^(p. 43) Does that statement still hold good: "We are in the eleventh month of one of the most active months in the business history of this country"?

Mr. Seltzer: Sure.

Dr. White: One of several. One of many. Little dangerous to spell out 'eleventh month'. The eleventh month was the worst. Maybe you had better say we are now at the close of

HM, Jr: Why not say we are now in the close of one of the

Dr. White: At the close.

Mr. Seltzer: We have six weeks to go.

HM, Jr: I don't like it. I am not going to argue much.

Mr. Gaston: Near the end. Or near the close.

HM, Jr: Nearing the end. How's that?

Page 5. "The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances." "From the present favorable circumstances."

Mr. Seltzer: From the standpoint of the foregoing discussion, yes.

-2-

HM, Jr: I suppose so.

Mr. Gaston: I think he distinctly wants to say if circumstances are favorable.

Mr. Taylor: "Existing" will do the same thing.

HM, Jr: Existing. What I am trying to get away from is at the moment. What I am going to do now is how does the thing fit me today.

Mr. Seltzer: If you feel like doing it, take five pages out of it.

HM, Jr: Well, I won't do that now, but that's all right.

I wish I had made this speech a month ago.

Dr. White: It would still be in print.

HM, Jr: Yes, but the timing would have been different.

Mr. Taylor: Page 7. "Commercial banks" -- out out 'now' and say 'are again utilizing'. Just move it up.

HM, Jr: Are again utilizing their credit resources. Good!

Mr. Seltzer: Any objection to cutting out page 8?

HM, Jr: If you don't mind, today I am just going to run through it once without cutting it. That's another job. I am just looking for things that would stand out, that would hit the President. I am showing this to Eccles. He wants to take it home with him. I am showing it to Mr. Parker, Chief Editorial Writer of Scripps-Howard.

Why do you underline 'account' on page 9?

Mr. Seltzer: You are not giving up the chance of getting more revenue.

HM, Jr: Which side of my mouth am I laughing out off? I wouldn't underline that.

-3-

Mr. Taylor: At the top of page 9, how about changing 'figures' to 'factors'?

Mr. Haas: No; too broad a term.

HM, Jr: We give you figures in a few minutes.

Mr. Haas: Factors of the business situation?

HM, Jr: No, I think you are wrong, if you don't mind. I don't want to get into factors. If I do, I am sunk. I am thinking in terms of figures. I get your point.

Have you fellows had a chance to read my tax thing? I am going to read this out loud to Wayne. This has taken a lot of time. I just want to read this.

(Reading) "Let us stop at this point to consider briefly the revenue side of the picture, always keeping in mind that the tax system as modified must produce at least as much total revenue as the present tax system.

"The Federal tax system affects every one in the country. We in the Treasury in studying tax problems have two objectives always before us: First, that the tax burden shall be distributed as fairly as possible, and, second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

"It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

"We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

"In making this study, we have invited the assistance

-4-

"and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

"Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. Of course, tax policy cannot be determined from one individual case alone. We must look at the whole picture. We must take testimony and we must examine actual tax records and returns.

"The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people pay out of our total population pay income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

"The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point of our policy that the tax system, as revised, must not yield a smaller return for 1959 than the present system would yield.

We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly."

Mr. Taylor: You said that before.

HM, Jr: We feel that it is worth while repeating. This originally had a little heading 'to sum up' but we took that off. But outside of repetition, how do you like it?

Mr. Taylor: Very well.

HM, Jr: Sez you?

-5-

Mr. Taylor: I think it is fine.

HM, Jr.: That's what I wanted to know. That was only finished this morning at 10:15.

Mr. Taylor: I think it is excellent.

Mr. Taylor: Do you want to stick in a 'sincerely'?

HM, Jr.: Where? What page?

Mr. Taylor: 12-b. "We sincerely want to adjust inequalities".

HM, Jr.: Where would you put 'sincerely'?

Mr. Taylor: Right at the beginning.

HM, Jr.: What do you think, Herbert?

Mr. Gaston: I think the whole thing is intended to indicate a sincere effort to get the taxpayer's side and remedy -- I don't think the word sincerely adds anything to it.

HM, Jr.: Do you mind leaving it out?

Mr. Taylor: Not a bit.

HM, Jr.: Herbert, page 14, second paragraph: "Public highways, other public works" wouldn't you say just public works? Why the other?

Mr. Gaston: Of course, public highways are public works.

HM, Jr.: Why not leave out public highways, public works.

Mr. Gaston: That's all right; it is not essential there.

HM, Jr.: I would leave out 'other'.

Mr. Taylor: Top of page 14. "These are running now about the same as 1932." It is a tricky figure, because

-6-

advance in carrying charge. Expenses of running, operating expenses, were higher than in 1932.

Mr. Seltzer: I gave the Budget figures. That gave totals and on that basis we are running on a lower basis in fiscal year 1938 than in 1932.

Mr. Taylor: They will crucify you on that.

Dr. White: It's a question of the total.

HM, Jr.: I think he has a point there. If the regular Departments are running higher, I don't want to use the figure and all you need to do is leave out that sentence. Just leave out that whole sentence.

Mr. Taylor: That's right.

Mr. Gaston: I think it can well be left out.

HM, Jr.: I would leave out that sentence if Taylor is right.

Mr. Gaston: I would go further. I would leave it out anyway, whether he's right or not.

HM, Jr.: I am on page 17 now.

I have asked you five times to include Section 32 money. Where is it?

Mr. Seltzer: It's a source of revenue; it's not a matter of expenditure.

HM, Jr.: All right.

Mr. Gaston: On page 18 I notice that right in the middle of the page, 'that program cannot endure and cannot render lasting aid to the farmer'

Mr. Haas: Of course, that goes into the whole definite thought. When I said 'soundly based' I meant based on how much money you could afford to spend for it, based on practical business sense.

HM, Jr.: Who changed it?

Dr. White: I did.

-7-

HM,Jr: Based is better.

On page 19, after the first paragraph, 'requires the cooperation of the farmer as well as the other sections of the public'. One sentence: don't you think it is about time the consumer got a break?

Bottom of page 19. 'ordinary balance of the budget next year in addition to some measure of debt retirement'. Some?

Mr. Seltzer: Well, what do you want to claim? All you are really claiming is recoveries. ~~You use recoveries~~ for debt retirement.

HM,Jr: 'ordinary balance of the budget next year' period.

Mr. Seltzer: O. K.

HM,Jr: Herbert?

Mr. Gaston: Yes. I think so for November 10th, which isn't September 10th.

HM,Jr: And Herbert, look through. If I say anything about debt retirement, take the darn thing out.

The President O. K'd this once. He's going to do it again Saturday. I will be in a cold sweat until I get through his place.

Mr. Seltzer: The draft he O. K's is the one with half our language; not this one.

HM,Jr: You have plenty of time. That's where the ex-editor of the World comes in. Easy enough to take your shears.

You left out the word 'enthusastic'.

Mr. Seltzer: No. That falls on page 21.

Dr. White: I am a little bit worried about the statement: 'enthusiastic about the direction we are going'.

HM,Jr: We have not got there yet. We are on the top of page 20.

-8-

Mr. Taylor: Bottom of page 20.

HM,Jr: What do you want, Wayne?

Mr. Taylor: Don't like -- I think you ought to say, if you make that comparison between the two years, you ought to indicate that the bonus was in the preceding year.

Mr. Gaston: We are considering it from the standpoint of receipts from the public and expenditures that go out to the public and it doesn't matter if it is bonus.

HM,Jr: I think that's all right. The fact remains we are better off in cash out of the drawer than we were the year before.

'I am enthusiastic about the direction,...' Nuts!

Mr. Seltzer: Aren't you?

HM,Jr: No! No!

Dr. White: You can say there is adequate reason for gratification with respect to progress being made in the budget or something like that -- relate it definitely to the budget.

HM,Jr: Just cut out that whole sentence. Just start 'I firmly believe'.

Mr. Haas: Much better.

HM,Jr: I think it is better. Herbert, are you -- you are with me?

Mr. Gaston: Yes. I was just considering eliminating the whole paragraph.

HM,Jr: No. I think that's a good point.

Mr. Gaston: All right. I check.

Mr. Seltzer: If you leave out the first part of that, it sounds as if you are now regretting that you went

-9-

so fast last year or going so fast this year. You have just picked up a \$2-billion reduction in one year.

HM, Jr: You fellows can shoot this out. Nothing jelled yet. You have time. You can come back.

Mr. Gaston: 'I have already indicated my belief'. Last paragraph on page 21.

HM, Jr: Can you hold that a minute. I am not down there. Middle of the page. 'Not easy to achieve, but a goal we can safely hope to reach'. I would leave that sentence out entirely. A week later the stock market is off five points. The goal will by no means be easy to achieve. I would leave that out.

Mr. Taylor: Yes, sir.

HM, Jr: You see, what I am doing today is adjust this thing to what has happened this week.

Mr. Gaston: Are you ready for the next sentence: 'I have already indicated my belief'. Now I don't think we have talked about \$600,000,000 sinking fund and I think we had better forget it and I would say 'surplus for debt retirement'.

Mr. Seltzer: O. K.

HM, Jr: O. K.

Mr. Gaston: Leaves the implication that we still have a chance of having some surplus. If business just holds up, we will have it. When you predict, just on the eve of a balance from last year's income, you are predicting that 1938 will fall back to the business level of 1936.

Dr. White: If you say to accumulate a large surplus the didactic interpretation

HM, Jr: Cut out the word 'large'.

Mr. Seltzer: I would like to suggest a change. 'More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures'. O. K. 'Reduction of expenses of \$700,000,000 would be an improvement.' Or something like that instead of

-10-

going back to your tax system.

HM, Jr.: I was going to say to leave that out.

Mr. Taylor: Yes, it does not follow at all.

HM, Jr.: I do want to say two-thirds, etc., and the next sentence: This clearly indicates that increases in taxation are unnecessary, etc., I would leave that next sentence out.

Mr. Gaston: You don't then have much explanation of the significance of the statement that two-thirds

HM, Jr.: Herbert, take another look at it when you go out of here.

Mr. Taylor: The first part of that paragraph on page 22, "There are equally compelling considerations on the expenditure side." I think the last sentence takes away from it.

HM, Jr.: What's that?

Mr. Taylor: "But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated."

HM, Jr.: I think that next sentence is kind of superfluous. I am saying cut it down to 700 millions. Why should I shut the door.

Mr. Gaston: Of course, when you say you ought to achieve a balanced budget by reduction of \$750,000,000 expenditures and that you don't favor doing this, there are reasons why you should not raise taxes to do this. I don't know whether we need to say much about reasons on expenditures side.

HM, Jr.: All right. We will put a question mark there, and we won't do anything. I have a question mark. It's only a question mark so far.

Most of the Social Security tax -- at this point Mr. Magill wanted me to tell you people on this illustration

-11-

of the life insurance policy issued to veterans and the way we set that up is a good example. I wish you would think it over.

Mr. Seltzer: He talked to me about it. I thought it was much simpler this way.

Mr. Taylor: And this way is not the same. It isn't so. I haven't read it all through. I have a violent argument to make about that statement.

HM, Jr: What I am going to do is ask you to take the Social Security part and go to Mr. Taylor's room with him, because I have to get a little rest before I see Eccles. Now, what copy can I give Eccles? I have one here. Bell was to have one to read between now and three o'clock. He didn't have the tax part.

Mr. Gaston: He had the tax part.

oOo-oOo

10 - Preliminary 432

Address of the Secretary of the Treasury, to be
Delivered before the Academy of Political Science,
at the Hotel Astor, New York City, Wednesday Evening,
November 10, 1937

I am glad to accept the invitation of the Academy of Political Science to discuss before its members assembled here tonight the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was unbelievably costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government spent thirty-one billion dollars and sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war we bombed no cities; we

- 2 -

machine-gunned no trenches; we killed no human beings.

In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the ~~security~~ security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was superbly supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

- 3 -

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that certain of our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of a serious business depression.

I claim no prophetic insight into the future. But, after giving serious and prolonged consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are

- 4 -

essentially different from those which faced us four years ago. Many measures are required for their solution. One of these measures in the present juncture is a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. We had lost six hundred twenty-three millions of gold to other countries in the first seven months of 1932; and, after a temporary reversal of this movement, three hundred nineteen millions of gold went out during the last ten months of the calendar year 1933. These gold losses, coupled with the withdrawal of both gold and other kinds of currency for domestic hoarding, created an intolerable banking situation; because the loss in bank reserves tended to produce a tenfold contraction in bank credit. Under these conditions, there was no agency outside of the Federal

- 4 A -

Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. The total monetary gold reserves at the beginning of this month were in excess of twelve billion eight hundred million dollars, or nearly three times those of 1929. We now have more than enough gold to meet every conceivable foreign demand; and we have so improved our monetary arrangements through the Stabilization Fund and other means that we can meet foreign demands for gold without any disruption to our banking, trade, and industry.

We are now in the eleventh month of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression.

- 4 B -

The present situation is not characterized by the
existence of huge inventories,

- 5 -

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This situation stands in sharp contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933. It also stands in contrast to the unhealthy excesses of 1929.

The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are

- 6 -

increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

- 7 -

The situation today is greatly changed. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes. The sizeable national problems that remain should be attacked, in my opinion, strictly within the limits of the balanced budget.

* * * * *

- 8 -

There is a further consideration of great importance that I should like to emphasize. That is, that the basic philosophy of our deficit spending of the past few years requires that a program of substantial debt retirement be undertaken shortly.

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

We wish to preserve the financial power of the Federal Government to aid in restoring economic order in the future,

- 9 -

if the need again arises. To preserve this power, we must liquidate during prosperity the debts incurred during periods of depression.

To seek an ordinary balancing of the budget next year, we must therefore accomplish a net improvement of seven hundred million dollars in our budgetary position. In estimating revenues, it is far worse to overestimate than to underestimate. We must not count on an increase in revenues next year from the existing tax structure, nor should we impose additional taxation. We should plan to reduce our expenditures by seven hundred million dollars; and then, if the tax receipts rise above those of last year, the excess should be used to reduce the national debt.

We ought not to increase the total tax burden at this time.

- 11 -

Our immediate goal, then, should be to reduce expenditures by seven hundred million dollars. In addition, every dollar that the Treasury realizes from the liquidation of revolving funds, and from other repayments of loans and capital advances, should be set aside for debt retirement. In no event, in my opinion, should we contemplate total net expenditures in excess of the level of this year's estimated receipts. That means that our expenditures must not exceed six billion six hundred fifty million dollars for the coming year.

Our problem is clear. Our expenditures must be cut seven hundred million dollars.

But where can cuts totaling this amount be made? After studying the whole problem day and night for several months I have come to the following conclusions: First, little or no money can be saved in the regular operating expenses

- 12 -

of the Federal Government, including the national defense and interest on the public debt. The increased volume of services now demanded of the Government make it almost impossible to achieve significant reductions here. Second, and on the other hand, by focusing attention on the four or five classes of expenses that have been mainly responsible for our past deficits, I am convinced that the necessary savings can be made.

I have before me a table in which I have set down my rough estimates of the reductions that should be possible next year in several classes of expenditures.

- 13 -

ESTIMATED POSSIBLE SAVINGS FOR FISCAL YEAR 1938-39

		<u>Savings</u>
1. <u>Public Works</u> expenditures this year, including emergency funds, but exclusive of highway expenditures, are estimated at	573	
Next year they should be cut to	<u>500</u>	
This would save		73
2. <u>Highway</u> expenditures this year, including emergency funds, are estimated at	253	
Next year they should be cut to	<u>100</u>	
This would save		153
3. <u>Unemployment Relief</u> and the CCC camps this year are estimated to cost	1,680	
Next year they should be cut to	<u>1,200</u>	
This would save		480
4. <u>Miscellaneous</u> and Supplemental Items this year are costing	180	
Next year they should be cut to	<u>50</u>	
This would save		130
5. <u>Agricultural Adjustment Program</u> this year is costing	475	
Next year the cost should be no more, or	<u>475</u>	
The saving being		0
6. Total savings on above items		836
7. Less increase in Social Security expenditures		<u>117</u>
8. Net savings		719

- 14 -

First, I have set down the item of public works, whether financed by emergency or regular appropriations, but exclusive of highway expenditures. This item during the current year will account for five hundred seventy-three millions of expenditures. Next year, despite the fact that available unspent appropriations for this purpose already approximate seven hundred millions, I believe that the expenditures should be limited to five hundred millions, which would produce a saving of seventy-three million dollars. I believe further that we should reconsider the public works program already formulated for the future by the various Government departments, programs which would involve an average annual expenditure of about seven hundred million dollars for the next four years.

Second, I have before me the item of highway expenditures, estimated at two hundred fifty-three millions this year; an

- 15 -

amount that may well be cut to one hundred million next year to produce a saving of one hundred fifty-three million. In this connection, also, I believe it would be wise to alter the existing programs for the future, which would call for new appropriations totaling more than four hundred million dollars during the next two years, and return to the average annual level of Federal highway expenditures prior to the depression -- less than one hundred millions.

Third, I should like to see our outlays for unemployment relief and the CCC camps, which, exclusive of other recovery and relief expenditures, are running at sixteen hundred eighty million dollars this year, reduced to twelve hundred millions, which would produce a saving of four hundred eighty millions.

Next, I believe that our outlays for miscellaneous and supplemental items, which amount to one hundred eighty

- 16 -

million dollars this year, reduced to fifty millions next year, which would save one hundred thirty millions.

The total savings that I have listed amount to eight hundred thirty-six millions. We must deduct from this figure a probable increase of one hundred seventeen millions in Social Security expenses, leaving a net possible saving, exclusive of any saving in agriculture, of seven hundred nineteen millions, or more than enough to achieve an ordinary balancing of the budget.

Both because of the real problems involved in the present level of our agricultural expenditures, and because it may not be possible to achieve all of the savings that I have listed, I strongly recommend that the present level and character of our agricultural expenditures be given very serious reconsideration.

- 17 -

I ask you to consider what I have to say on this point in the light of the fact that I have been deeply concerned for more than twenty years with the problems of agriculture, especially farm management and farm finance, and that I am most keenly interested in doing all that can be done to remove the economic disadvantages that the farmers have suffered. That very interest impels me to believe and to state with all the force at my command that agriculture can not rely on merely temporary expedients. We must have a long-range program to maintain the independence and the purchasing power of the farmer. That program must take into consideration his opportunities in the foreign markets as well as at home, and we must keep always in mind its effects upon our whole National economy. To endure, and to be of permanent help to the farmer, the program must be thus soundly based. It will be of no lasting service to

- 18 -

the individual farmer, or to the Nation's agriculture as a whole, to offer what we shall later be compelled to withdraw. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

The plight of agriculture in the depression called for special aid not only in the farmer's interest, but in the interest of all of us. Much that was done was on an emergency basis. The emergency devices must now be resurveyed. No more than any other branch of our economic life can agriculture prosper on permanently unbalanced Federal budgets.

Besides the one hundred sixteen millions included in this year's budget for the general work of the Department of Agriculture, there are, among other items, estimated expenditures of four hundred seventy-five millions for the

- 19 -

soil conservation program, thirty-three millions for rural electrification, fifty-five millions for the Federal land banks to provide lower interest rates, one hundred millions for commodity loans, and one hundred twenty-five millions for ~~re~~settlement. These items total nine hundred three millions for this fiscal year.

I am also aware that discussion is now taking place in Congressional committees of additional measures in aid of agriculture that may involve large expenditures. The magnitude of the sums we are already expending for agricultural purposes demands that the whole program be re-examined on the basis of a determination of how much we should spend and can afford to spend in this one direction. The farmer's lasting welfare also demands that this be done.

.

- 20 -

There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a substantial reduction in the public debt in this fiscal year. There are serious objections to such a course.

We are definitely in a transition period between unbalanced and balanced Federal budgets. We are making great progress toward a balanced budget.

Relatively few persons realize the remarkable fact that the net improvement this year in the budgetary position of the Federal Government will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than twenty-seven hundred millions last year.

The net improvement of more than two billion dollars that is taking place in our budgetary position this very

- 21 -

year provides the best answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget.

I am enthusiastic about the direction in which we are going; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

The minimum goal that I propose will by no means be easy to achieve. But it is a goal that we can safely, honestly, and reasonably, hope to reach.

I have already indicated my belief that it would be unwise to raise taxes at this time solely to accumulate a surplus of six hundred million dollars for debt retirement. More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. This clearly indicates that further

- 22 -

increases in taxation are unnecessary, for a continued expansion in business activity would produce adequate additional revenues on the basis of the present total tax structure.

There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

In addition to these considerations, there is a new and important aspect of our budget that must now be considered in analyzing the economic effects of Federal expenditures and receipts. The Social Security Act has introduced new

- 23 -

items into our budget. A major one of these, the annual appropriation for the Old Age Reserve Account, calls for the investment of this appropriation in Government obligations. The same Act also provides for the investment in Government obligations of moneys paid by the States into the Unemployment Trust Fund.

The funds paid into both of these accounts operate just like payments made by an individual to a private insurance company. Such a company invests your premiums in Government obligations, in farm and urban mortgages, in railroad, industrial, and public utility bonds, and in other forms of investment approved by one or more of the forty-eight different State laws. All that the insurance company has when it has invested your premiums in this manner, are bundles of pieces of paper representing all kinds of promises to repay your money with interest to the insurance company.

- 24 -

The Federal Government, in connection with the Old Age Reserve Account and the Unemployment Trust Fund, also invests your money in pieces of paper. But these pieces of paper are Government bonds and not private promises to pay. It is not overstating the case to say that your money is safer in Government bonds than in a multiplicity of private obligations, though, of course, I am in no way reflecting on the soundness of private insurance companies.

It is very clear that the credit of the Government is the soundest in the nation. And if anything should happen to your Government, nothing else would have any value at all.

When the Treasury invests your old-age taxes and your unemployment compensation taxes in Government bonds, however, it reduces the amount of the public debt held by private investors. This is obviously so if the Treasury buys bonds in the market directly for the accounts. The rates of

- 25 -

interest which the Treasury is required by law to pay on funds invested for these accounts are higher than those which can be obtained at present by purchasing suitable Government obligations in the open market. Hence, the Treasury is issuing special Government bonds to these accounts. Other things being equal, the sale of special obligations to the Old Age Reserve Account and the Unemployment Trust Fund results in a corresponding reduction in other forms of the public debt.

Next year, as a result of the Social Security Act and the related State laws, it is estimated that the Federal Treasury will receive more than one billion dollars net for investment in Government obligations for these two accounts. With a balanced budget, this billion dollars will be used to retire public debt now in the hands of private investors.

- 26 -

In other words, the Treasury next year will be adding one billion dollars to the supply of funds in the capital market.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions.

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a

- 27 -

reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal services or by increasing the existing tax burden.

The principal objects of our budgetary policy have been, and I hope will continue to be, to promote a large volume and healthy character of business activity, a maximum volume of employment at good wages in private industry, fair treatment for our agricultural population, adequate revenues to meet the increased services now demanded of the Federal Government, and the preservation of the credit and currency of the United States, on which depends the security of jobs, property values, and orderly business relations.

460

Nov 4

11:25 a

- 4 -

essentially different from those which faced us four years ago. Many measures are required for their solution. One of these measures in the present juncture is a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now *nearyg the end* ~~in the eleventh month~~ of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

- 5 -

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This situation stands in sharp contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933. It also stands in contrast to the unhealthy excesses of 1929.

The basic need today is to foster the application of the driving force of private capital to the ^{existing} present favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are

- 7 -

A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are ~~now~~^{again} utilizing their credit resources ~~again~~ for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes.

.

- 14 -

Federal Government, including the national defense and interest on the public debt. (~~These are now running about the same as in 1932; and, in view of the increased volume of services now demanded of the Government, I do not believe that significant savings can be looked for here.~~) Further, our expenditures under the Social Security Act will probably increase by a hundred million dollars or more in the next fiscal year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, ~~the~~ public works, unemployment relief, and agriculture --, I am convinced that the necessary savings can be made.

Let me give you a rough idea of the possible savings in these fields.

- 18 -

Despite the magnitude of the sums we are now expending for agricultural purposes, you are all aware that discussion is taking place in Congressional committees of further measures in aid of agriculture that may involve large additional expenditures.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. That program cannot endure and cannot render lasting aid to the farmer unless it be soundly ^{based} constructed. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

A sound program must take into consideration the farmer's opportunities in the foreign markets, as well as in those at home; and the character and cost of that program must be determined with full recognition of its

- 19 -

effects upon our whole national economy and of the limitations imposed by the Federal finances.

Balancing the budget is in the interest of our agricultural as well as of other parts of our population; and it requires the cooperation of the farmer as well as other sections of the public.

With the solid support of the public, I believe that economies totaling seven hundred millions or more can be achieved in the four fields that I have cited. Since the estimated increased costs of our social security program are more than offset by estimated reductions in miscellaneous and supplemental items, it should be possible to achieve an ordinary balancing of the budget next year, ~~in addition to at least some measure of debt retirement, and without increased taxes.~~

.

- 20 -

There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a ~~substantial~~ substantial reduction in the public debt in the next fiscal year. There are serious objections to such a course.

We are definitely in a transition period between unbalanced and balanced Federal budgets. We are making great progress toward a balanced budget.

Relatively few persons realize the remarkable fact that the net improvement this year in the budgetary position of the Federal Government will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than twenty-seven hundred millions last year.

This net improvement of more than two billion dollars that is taking place in a single year provides the best

- 21 -

answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget. .

~~I am enthusiastic about the direction in which we are going;~~ but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

The minimum goal that I propose will by no means be easy to achieve. ~~But it is a goal that we can safely, honestly, and reasonably, hope to reach.~~

I have already indicated my belief that it would be unwise to raise taxes at this time solely to accumulate a ~~large~~ surplus ~~of six hundred million dollars~~ for debt retirement. More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. ~~This clearly indicates that further increases in taxation are unnecessary, for a continued~~

- 22 -

~~expansion in business activity would produce adequate additional revenues on the basis of the present total tax structure.~~

There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

In addition to these considerations, there is a new and important aspect of our budget that must now be considered in analyzing the economic effects of Federal expenditures and receipts. The Social Security Act has introduced new items into our budget. A major one of these, the annual

November 4, 1937

3 p. m.

Present:

Mr. Magill
Mr. Seltzer
Mr. Haas
Dr. White
Mr. Oliphant
Mr. McReynolds
Mr. Taylor
Mr. Upham
Mr. Bell
Mr. Gaston
Mrs. Klotz

HM, Jr: This thing has gotten so important, it isn't a question of getting down to words; it's a question of the whole policy being at stake now.

Now this is what has happened. I had -- in the first place, may I say that anything I say here today is terribly confidential. For those who have not seen the speech, and there are a few who haven't, most of you have, I can sketch it in a few words.

The first section of the speech lays out why we should stop spending above the present level. It compares the difference between now and 1932 and why conditions are different now than they were in 1932-1933, and then we go on to explain where the money can be saved and that we should attempt to save 700 millions the coming year and bringing the total expenditures down to the total receipts this year, and if we do that we don't have to ask for new taxes; we are opposed to any new taxes, and the budget will be balanced. We make no effort to even talk about statutory debt retirement. I crossed that last week.

What we do say is that if the budget is balanced we then will have 1 billion in Social Security with which we can take 1 billions dollars worth of Government securities in the hands of the public, retire them and set up in the place of that billion of special securities

-2-

on the Treasury books. The total debt will be changed, but we shift it from the hands of the public into the hands of the Treasury.

We then have about three pages on taxes, which are the philosophy, my own philosophy, about treating people fairly. We say if there is anything that bears down unnecessarily hard, we are courageous enough to say so.

And that's the general philosophy without going into any special things.

Now, Mr. Eccles comes along and talks equally confidentially to me, and for once we had two hours without Taylor having to pull us apart. We both kept our good humor and Eccles' philosophy -- I will try to put it as simply as this -- that the thing that is the matter is the high cost of labor; that when labor got so high, through various things happening, one thing after another, that he has charts to show it, that instead of labor getting the benefit of the increase the people are only working two and three days a week and, therefore, the labor man is not getting the benefit of increased wages on a weekly or monthly basis, that the cost of the products have gone up and gone higher, building costs are up 20%, that labor and a dozen industries that control building supplies have either accidentally or on purpose have got a combination of keeping up building needs and therefore building has gone like that (gesture of HM, Jr) and as long as that situation is so and the cost of hiring skilled labor is so high, people will not build houses and railroad people will not buy railroad supplies, etc.

The whole thing is built up on that particular philosophy and he justifies the whole depression due to the cost of labor and he has a lot of charts to show it.

So I said to Eccles, As to your general talk, whether that particular thing is responsible for the depression or not, I said, I am not going to argue with you. I don't think it is. But I agree with you on everything you said about costs and why people will not build houses, etc; I agree with you. We are together

there. I will sign your document on surplus taxes. The only things he brings on taxes -- we are not very far apart -- he wants to have some exemptions for the small man, and he wants to give a fellow a two-year exemption if he will spend the money for expansion, not for debt retirement because that's deflationary. We are not very far apart on that. That's the only thing he talks about on taxes.

But this is where we go opposite roads. He says that at this stage we must speed up our expenditures and that we must spend through Hopkins and through Agriculture fast, to stop this deflation. And that's where we go apart. He read my speech carefully and said my speech is deflationary; that it would have been very nice a month ago, but I just can't give it; shouldn't. That this is a problem that only one person can handle and the President -- why should I go out on the end of a limb; this is the President's problem; has to say these things in his message to Congress on the 15th; I am a fool to do this; this is the President's party.

So I said to Eccles, Well, let's just stop at the point of what we are going to do for the next couple of months. He's very frank. He does not want us to do something which he thinks will temporarily cure the situation for fear that if we do, that will let up the pressure on the President, but do what he thinks is fundamental. Of course I talked about gold, stop sterilization and spend gold. Well, again he said that he had that in the back of his mind for fear the President would grab it too quickly.

I say that we can take 50 millions a week and pay off our bills with gold; pay for 450 millions notes in December, and altogether 1 billion between now and the first of January. Eccles says all that does is to increase the excess reserves and there is plenty of money there to do the job; doesn't pay anybody to work.

What he wants to do -- then it came out -- he wants us to take the gold, not pay off any debt, but spend it by putting it through Hopkins and Wallace. He first said we won't increase the budget, but I said, of course, that's silly. He said we won't increase

-4-

the debt but we will increase the budget. Now what he wants to do is deposit -- we will use round figures -- 1 billion of gold and spend it through increasing our expenditures over and above the budget summation by, say, a billion. I can't go along with it. I just can't see it.

I am trying to be very quiet and terribly fair, both to him and to myself. That's the whole story. Now I said to him, Have you any reason to believe that the President will do this? He said, He listened to me. I said, Have you any more than that? He said, No. Well, I said, I talked to the President last night and had one of the worst rough and tumble talks with him in I don't know when, and all he would say is that there are 2,000 men holding a pistol to his head and they are going to fight this thing out to see who controls America. Every time we get in a jam that's what the President says and I have yet to find the 2,000 men because I don't think 2,000 men would see their fortune go in half in order to control America if they can't control their own business. I don't believe there is any indication of it. My feeling is that the President wants to sit there, as in a poker game and sit there until hell freezes to see who can last the longer. In the meantime, while this is going on, the ground is slipping from under our feet as fast as I have seen it slip since I have been in Washington and up to last night at six o'clock, I can't see any sign on the part of the President that he wants to do anything and I told Eccles this: that before he comes out with his attack on labor and puts the whole blame on labor, how are we going to stand here with all this gold locked up? Then again we came back to the point where he says deposit the gold, spend it through excess expenditures. There's the whole picture. I think I have put it down as simply as I can; boiled down two hours conversation.

We have got this speech here. It is the 10th of November and I swear I don't -- I am a big enough person -- as far as Henry Morgenthau, Jr. is concerned it's not so important, but we are playing and the stakes is the United States. That's what we are talking about and I am willing to do anything to get results and, as I say, Henry Morgenthau, Jr., is the less important.

Want to break the ice, Herbert?

-5-

Mr. Gaston: I should think that you want first to try the effect of what you propose. We may have to have large expenditures later on. I don't think you ought to advertise fear by being too soon about such a demonstration.

HM, Jr: Do I gather you mean deposit the gold and pay off the debt weekly?

Mr. Gaston: Yes. That's what I would do. It's quite possible before the winter is over we will be driven into very much larger expenditures for relief.

HM, Jr: I should say one very important thing, then, you would throw the question of excess reserves in our lap and we will need legislation to handle and whatever legislation you need to handle it, I am more than willing that you should have it.

What would be the effect if I sent word up to New York that I could not speak or was not ready? The situation was such that

Mr. Gaston: I think it would be better if you made a speech even if the character of your speech was changed.

HM, Jr: I think if I announced I would not speak it would just scare them.

Mr. McReynolds: Do more damage than anything you could do.

Mr. Magill: Oh, absolutely, I would speak!

Mr. Taylor: Can't you eliminate from the field of possibility any of Marriner's recommendations?

HM, Jr: How, Wayne?

Mr. Taylor: All right. The labor situation. As far as anything immediate, you can't do anything about it if you wanted to do it.

HM, Jr: Check.

-6-

Mr. Taylor: No. 2. You can't take Agriculture and Harry Hopkins' expenditures and play on them like an accordion. They won't act quickly either; impossible to do it. Impossible to increase or decrease in a month or two months' period, such as Marriner is suggesting, those particular expenditures.

HM, Jr: It could be done with WPA when it was first started.

Mr. Taylor: But now you have an entirely different situation. You could do a much better job, if that's what you want to do, if you take an aeroplane and fly it from here to San Francisco and drop off \$100,000 each mile. You would get a nice distribution there. That's the only way you could do it quickly. I think you have to eliminate all three from the picture.

HM, Jr: Of course, what I can't get out of my head and that's this: certainly up to within a couple of days, certainly up to Monday, the President was all for cutting expenditures.

Mr. Bell: That's right.

HM, Jr: And demonstrated that he did want to cut expenditures. Took it out of George Haas, a slice right off his ear. And I think that there are certain things that the community wants to know and I think one is are we going to spend more money or less money, so what I am going up there and saying is we are not going to spend any more than we are now. Now if I go up as Secretary of the Treasury and make a wobbly-speech and say I don't know whether we are going to spend any more money or not, I just add to the fear. I am not sure that Marriner is right that this is a deflationary speech. I am not sure. I think what people want to know is this: have we a policy down here and what is it. I facetiously keep saying, Let Henry Wallace tell me what is his program. Does he want to grow more crops or less crops? It's the same thing here. Do we want to spend more money or less money? The interesting thing is in this talk I had with the President, when we got all through we had a misunderstanding and he did not understand what I was talking about; for some reason he thought I was talking about raising the price of gold and for fifteen minutes

-7-

we argued. Mrs. Morgenthau heard us. When I finally could get a word in, I said: What I am talking about is I am just raising the point should I bring some people down Saturday and Sunday to discuss whether we should stop the sterilization of gold, deposit our gold and lower excess reserves? Oh, he said, wonderful! go ahead. Bring your people down. That's marvelous! Sure, bring them down and talk about it.

Now, I have gone all through this thing with some of the boys here. I have gone over it with Wayne Taylor and some of the others. I say the only way you can correct this thing is to make the shoe pinch, and pinch hard enough. I would just like, before this thing goes too far, to correct that part of this deflation which the Treasury is responsible for. We are responsible for locking up $1\frac{1}{2}$ billions of gold and I would like to correct that before this thing goes so far. Now, Eccles or no Eccles, you could see that he won't do anything on his excess reserves, but if we just did that -- oh, yes, another thing. He said, Why, the result of that would be so quick everybody would jump in and everybody would be worse off than ever.

Mr. Gaston: I think you need to distinguish between a deflationary policy and deflationary speech.

HM, Jr: But what I am getting out -- for instance, I could, say, Sunday night announce two things (1) that the Treasury stop sterilizing gold and (2) that we were going to pay off the debt each week of 50 millions with gold and pay off 450 millions in December with gold. It works out around 900 million. Then, having done that, then I go ahead and say we must keep expenditures down. One balances the other.

Mr. Gaston: I think -- these trick words, deflationary and inflationary -- what at this juncture is fear inspiring and what is not. I think if you were to go up there and connote that things were dreadful, you would scare people to death. If you went up and make a speech that, after all, the ship is on an even keel and we are not wrecked, it would be confidence inspiring and not fear inspiring. Regardless of what we may have to do in the future, I would rather make this kind of a speech than the kind that would scare them.

-8-

Mr. Seltzer: I would like to see you put in that speech your new gold policy.

Mr. Taylor: I don't think it belongs in there even if you decide to do it.

HM, Jr.: The time to do it is Monday. At the rate this thing is going, the time to do the gold thing is Monday morning. Last night was the first time I got these feelings in my bones and I got this thing in my mind that the President has to do something now; this week. I had not got that feeling until yesterday. The thing finally crystallized yesterday and I called him up, but something has to be done now. And I don't believe Franklin D. Roosevelt is going to go up and lash hell out of labor.

Mr. Taylor: Even if it were right, there is not a chance in the world he would do it.

HM, Jr.: I am going to ask the fellows who have not been sitting in at all. What would you think, Mac?

Mr. McReynolds: If the President will support -- with the President's knowledge of what you are doing and his willingness that you should go ahead and do it, that you should give the speech. As far as your gold sterilization is concerned, if that needs to be done it can be done today, Monday or a week from Thursday, whenever it needs to be done, but I don't think that ought to be tied up with what you have got and you are always going to have response whenever you come to talk about a balanced budget after a long period of increasing the deficit and my judgment is that the effect of your speech as it is now drawn would be ten times as good as it would if you got up and said we are going to spend 7 billion more next year to prime the pump. If you come to the point, the first of January or before, when the President has to change, if conditions justify it, then is the time for him to change, but I think you ought to go ahead with it. I don't think there is enough of what has yet come in to warrant your putting your tail between your legs and running, and I don't think you ought to do it.

Mr. Bell: Well, I have some reservations about certain parts of the speech. I can't see that it is

-9-

wholly deflationary. Maybe where you retire a little debt or anticipate it is deflationary, but not enough to hurt. I have some hesitation in having the Secretary of the Treasury stick his neck out by saying that there will be a reduction of 700 millions in expenditures and then have the President, two months later, send a budget message which shows that the 700 million reduction has not been obtained. On the gold, I don't see how depositing the gold in the Federal Reserve system and retiring debt will have any effect on the business situation except to raise the price of Government securities. The banks will take the money and try to invest it in Government securities. I don't see that that will have any, or very little, effect on the business situation, but I should think that the speech changed a little should be delivered about as it is.

HM, Jr: I will come back for concrete suggestions in a couple of minutes.

Mr. Oliphant: I would not deliver that speech, but I would deliver the sort of speech that Secretaries of the Treasury before you have delivered. I know your natural aversion to getting up and not saying very much, but it may be a case where you need to sacrifice your feeling about that, and then go there and sort of make a general statement that Secretaries of the Treasury make on occasions of that sort and the reason I say that is because I have that feeling in my bones that you mentioned a few moments ago, largely from a thought that came to me from Leo Pressman of their increased flood of telegrams. The reason I suggest it is because certainly the situation is either different or may be different, greatly different, from what it was when you framed that speech in your mind and I think you ought to keep your hands completely free and I would agree with Dan that it would be most unfortunate for you to make that statement about cutting expenditures and have the President be forced to send a message to Congress recommending it and putting people in position to say the Secretary did not foresee this as short a time ago as November 10th. I know it has always been your role not to make a speech unless you had something real to say, but this happens to catch you with too little time to really take cognizance of this very rapidly shifting picture that we got this afternoon and the thing to do is have someone draft for you the general sort of orna-

-10-

mental speech that Secretaries of the Treasury ordinarily make on occasions of this sort, and then your hands will be perfectly free to meet your problems as the feelings in your bones shift.

Mr. Magill: That's not quite my feeling. I look at it two ways.

I will say, first, there may be some changes in the speech that ought to be made. I think Dan's point is important. I don't know how that is going to shape out. The first question is what is the Treasury's policy? What do we want to do and, second, what effect is it going to have on the public to announce what we really have in our minds. My own feeling would be -- I have thought about it previously -- to do the sort of thing Herman says and give them a "stuffed shirt" speech would be almost as bad as to give them no speech at all. Everybody is going to be on to what you are doing. Now on the other hand, I take it that this speech as drawn does actually represent our best judgment as to what the Treasury policy should be on the subject.

My own guess is that, so far as the country is concerned, that it would be very much welcomed. It will have a distinctly good effect. I think if it could have been coupled with the kind of tax statement we had in mind that the effect would have been excellent. So while I have no particular use for these terms "deflationary" or "inflationary" either, I don't believe in the deflationary part at all. As far as it will have any ill effect, it will be very much the contrary. What is happening, as I get it, is because of people's forecast of what is going to happen in the future and the depression is due to a state of mind that they don't think they know what this Administration is going to do. They think you are going on with a 3 billion deficit. You come out and tell them this and I think your lay-offs will begin to stop.

Mr. Oliphant: Maybe I should have introduced my statement with this statement: that it is my conviction that sitting in this room we don't know what the Treasury policy is and we can't because of the rapidly changing picture. And this: as to other things, when we are in a crisis, we have to operate on a 24-hour basis. I did not have in mind a stuffed-shirt speech, I assure you.

-11-

HM, Jr: You point out who should write it.

Mr. Oliphant: Gaston. I did not suggest a stuffed shirt speech. A stuffed shirt speech is not unique with this Administration. There has been many creditable speeches by Secretaries of Treasury which did not announce Treasury policy when it was not ...

H^{rm} Jr: There was a fellow in here last Friday. Viner brought him in. That's Himmelblau, who has 300 small businesses he does accounting for besides teaching. Each one of the people is running his business on this picture: that they are cutting their budgets, cutting their expenditures, waiting to find out what the Government is going to do. He has the confidence of 300 businesses and if the Federal Government would only indicate, not that they are going to save any money, because nobody would believe me if I said that, but if they would just indicate that they are not going to spend any more, that would be satisfying to his clients. Of course, the thing that I think is there -- the fact that there is no Treasury policy, no monetary policy, is one of the things that adds to the fear. They just don't know which way we are going and if I haven't got the courage to say what it is --- I have been trying first to make up my own mind. The President agreed to this speech last Saturday. He made his corrections and he agreed to it. Last night he began to have his doubts, but Saturday he agreed to it and he took all the time he wanted. No one hurried him. He took all the time and he agreed to it. He has agreed certainly that to save money at this time is what the country wants.

Mr. Bell: Didn't you say he had some doubts?

HM, Jr: Last night; yes.

Mr. Bell: He had seen Eccles in the meantime.

HM, Jr: Exactly. And he said I should see him. He had seen Eccles and said I should see him. I said, Should I see him? I haven't, but I am having lunch with him today. He said, I think you ought to get his memorandum and read it. I want to give Hopkins credit. I talked to him. I did not get any signs from Hopkins

-12-

that he had to spend any more money. Did you?

Mr. Bell: No, sir.

HM, Jr: And he gets that every day.

Mr. Bell: Hopkins is cooperating beautifully.

HM, Jr: I know about Pressman and I know the meeting he was at.

Mr. Oliphant: I happened to run into Leon Henderson .

HM, Jr: The two are just like this (making gesture) playing into each other's hands and fortunately we had somebody meet them where they were and we got the whole story. Pressman dishes it out and Henderson dishes it back.

Mr. Bell: You also get the same kind of story from Aubrey Williams.

HM, Jr: Well, I wish you would all think this thing over. What I am going to do now is get Bell's corrections and suggestions and I would like to see you all again in the morning.

Mr. Taylor: While you have us here, I would like to ask a question. What this situation is, it's a sit-down strike on the part of business and capital. There isn't any other thing that's the matter with it.

Mr. Bell: How about buyers?

Mr. Taylor: All part of the same thing. What are the two principal things they are sitting down about?

Dr. Haas: Do you think, Wayne, that capitalists, the ones who have taken the biggest licking so far, do you think they would sit down and give themselves that beating?

Mr. Taylor: They don't know whether they are doing it that way or not. For some reason, they have sat down. One of the reasons they are sitting down about, they all come out with the same two things.

Mr. Oliphant: If they see a profitable business in

-13-

front of them, they don't and if they don't they do. If they do, they don't.

Mr. Taylor: I assume there is a bad situation. You have a sit down strike between business and capital.

Mr. Gaston: No.

Mr. Oliphant: No.

Mr. Taylor: What the hell do you call it?

Mr. Seltzer: Of course the automobile people would like to make, well, as much business as they want to.

Mr. Taylor: If you will bear with me for a moment, I think there is a sit down strike on the part of business and capital and they are sitting down for two things. One is, the tax structure and the other is they want to know what the direction of the Administration towards labor is and those are the only two things that they have in their minds. Can you do anything in any one of those two fields -- labor and the tax structure?

HM, Jr.: Let's go around. George.

Mr. Haas: I would say that before you would consider spending there are other things you can do -- preliminary. In other words, don't give the patient a major operation because of the risks involved in it. You should give them more delicate medicines and one of those is that I think that you have had a deflationary policy. You had a business cycle that had not spent itself. The deflationary policy started not in any one thing. First, we put speed on by sterilizing gold. Then the Reserve Board ran their reserve requirements up much too rapidly. At the same time Government expenditures dropped off very sharply. Now you could drop off Government expenditures sharply if you did not do the other two things or not to the extent that you did the other two things and it may be a matter of opinion as to the first thing we should do and -- as a good many people agree with me on that -- you should change and let the world know that you have changed your policy from deflationary to an inflationary. Now the word inflationary does not bother me and I should think it would bother other people less than it did before because I think one thing has demonstrated that we have

-14-

got some brakes.

With regard to this balancing of the budget, if you diagnose the situation carefully you find the field -- when you examine the business situation, that this business cycle has not spent itself; you will find fields where there is an actual shortage in capital goods, the field of construction, particularly people who make commitments in that field, want to know the direction of Government finance. I don't think you can take one particular remedy and say that will do, but I think if you came out clearly with some action that clearly reversed your deflationary action and were done in a big way, then I think you can make your budget balancing speech and the inference would be that the Secretary is making this and he intends to take every action to bring business activity up to a balanced budget; that he is fully aware that the only way you can balance the budget is through prosperity, but he expects prosperity.

HM, Jr: The first reaction of Eccles was that an immediate price change would be bad, and Eccles did not want a price change at this time because, he said, if you get a fillip the President will not move any on labor.

Dr. Haas: One thing on labor is that I agree that labor costs have mounted very sharply. But take interest rates. You will pay almost any rate of interest and you will pay high labor costs too, provided you have got a profit outlook ahead of so.

So what I would do, I would, at this moment my off-hand opinion right now would be, I would consider very carefully doing this gold before your speech and on the run of that, give this balancing the budget speech. You may not want to time yourself. You may be able to meet Danny's objection. But at the same time, give the speech somewhat along the lines as it is now written and then later on if you are forced to spending, it seems to me you have an out. You sized the situation up. You have every justification for sizing it up. It's not the deep depression of 1933. It's somewhat different. If it goes into something else, then I think the circumstances are different and I think you can apply different remedies and I don't think anybody is going to hold you to it.

-15-

HM, Jr.: All right. We will take the research fellows first.

Dr. White: Well, with me, I find my mind is somewhat opposite from what has been said, largely by Herman first and George. You know where I stand on the gold matter. With respect to the speech, it appears to me that the important objective, which I take it you have; certainly I have -- and which I think is the only objective is business conditions, future and present business conditions, and it appears to me that the speech has to be regarded, and your views have to be regarded in the light of their relation to, their effect on, business conditions and on future as well as present -- long-range business conditions. There, it seems, you are taking a very definite position, which represents a certain view. With respect to the desirability of one move or another, it appears to me that must be evaluated in the light of how it contributes to business conditions and I might say there is by no means unanimity of position with respect to the stand that is being expressed here that what is needed is a balanced budget or assurance of a balanced budget to bring about improved business. There is difference of opinion on that score.

It appears to me that it is necessary to go a little slower, therefore, since the Administration policy is extremely important in this. It is a vital -- it's a matter possibly of depression, possibly of recession, but potentialities of developments under these conditions are so enormous that we have to proceed very carefully. Hence I should like very much to see you take the position which is counter to the Administration position on so vital a matter unless you are perfectly sure that you are right, Mr. Secretary. So long as there is a reasonable measure of doubt, and may I say, Mr. Secretary, that there is a very definite, a reasonably definite doubt, and I think I could support the opposite view with a great deal of cogency and others could too. Since the matter is so vital and since, further, that you are taking a strong position on this point, may not alter conditions in the way you would like -- it might bring about opposite conditions -- under those circumstances it should be the Administration position -- after all, the Secretary of the Treasury is not committed to have a definite policy on a balanced budget when, and this is the qualification,

-16-

when there is a larger issue at stake of business conditions. He can have his view when that view is the unanimous view of those who are significant in the Administration. Then he can make a strong speech. I should like to see you make the speech and I think it would require some changes. It would lose in force. Granted. And it would lose in effectiveness. But I think you can still have a pretty good speech and leave yourself where you are not taking the position, which I feel is not warranted by sufficient unanimity at this time in so major a crisis.

HM, Jr.: Let me ask you this question. Supposing I began to pay off each week the bills with gold and paid off the 450,000,000 on the 15th of December with gold, what do you think the effects would be -- the announcement of that, say, Sunday night?

Dr. White: I think it would be bullish. I would not expect too much because you are dealing with psychological reactions of the business man and they are not always rational. The question in our minds is not whether it will be bullish, but on the contrary how bullish. The most you can say is it won't be greatly effective. That's the first step we can take and it may surprise us.

HM, Jr.: Let me ask you this. Have you had time -- I raised this Tuesday -- have you traveled along the road far enough to feel that you are ready to recommend that?

Dr. White: Very strongly. We have been thinking about this for a long time. We took this position a few weeks ago and it is not something I thought of over night.

HM, Jr.: I saw your memorandum.

Dr. White: That includes my judgment, but it's not a question I have thought about.

HM, Jr.: But you are ready to recommend it?

Dr. White: Definitely.

Mr. Bell: What effect does the deposit of 300 million have?

Mr. Seltzer: An excellent effect in this respect:

-17-

that if your Government bond market and higher grade bonds had collapsed with other securities in the last couple of months, your situation today would have been much worse.

HM, Jr: High grade private bonds have stayed up beautifully. What we have done is we have turned the thing from banks selling to banks buying and they started the last week in September.

Mr. Bell: Isn't that about the effect of your gold policy in these two steps, to help the price of Government securities and the other, long-term, will help but it will not help the capital market in the sense that you will get new issues?

HM, Jr: You will have to take me a little on faith in this, but certainly everybody, if I could name him, he would have the respect of everybody in this room. I consider him one of the most respected and intelligent bankers in the country. He is urging me to make this move on gold sterilization simply to show that Washington recognizes that having made that move we have gone too far and we simply want to remove it, and he assures me that if we do that that all of the influence which he has, and which is very, very considerable, will be put behind to explain to the financial community that this is a wise move. Now he is a man of sufficient influence that a statement from him of that kind is of tremendous importance. Now I wouldn't do this thing just on one man's say so, but what I was getting at with the President last night was to invite the same sort of people and have them down here for two days and talk the thing over, the same people who howl about taxes, but if I can get two-thirds of the financial community of New York to say 'this is fine; we will back you up and we will sell it to the country,' that's half the story. That's half the story.

And the President keeps talking about people holding a pistol to his head and I said, to this man, This is between you and me. I can't do anything for you and you can't do anything for me. We don't have to give anything. And this gentleman did not ask any promises. He was begging me to do it and he did not say 'If you do this, we will back you up if you do so and so,' and he never raised that question. He never said, 'We

-18-

won't sell this thing unless you do such a thing in the tax field; begging me; practically going down on his knees for me to make this kind of a gesture and never once bargained with me. This is just something that Henry Morgenthau, Jr., has to decide. 'You can't do anything for me; I am not asking you. It's just between the two of us. There is no bargain.' If we can do something which is sound and we don't have to deal or sell our soul or give up any of the reform of this Government, I say try it. What harm can there be? I am not trading. Eccles wants to trade with me. Nobody is going in my back door making any deals with me. This is just between the President and the Secretary of the Treasury; nobody else. It does not tie his hands. He can build ten TVA's as far as I am concerned.

Mr. Seltzer: I fully agree on the gold policy, that we ought to change it. That's your question?

HM, Jr.: Speech first.

Mr. Seltzer: Speech? There is this. On an ordinary balancing of the budget, taking next year by itself, you are setting up a billion surplus for debt retirement. It's true that a long time in the future we are going to have some additional obligations and that's why we set up a surplus, but the current effect is a billion surplus for debt retirement.

Mr. Bell: Funny surplus.

Mr. Seltzer: It is none the less a surplus. If, therefore, you dump in through gold an additional billion in the capital markets, some of the reasons for seeking this other surplus disappear. However, notwithstanding, I would hold to your present position on the basis of balancing the budget in the ordinary sense in the belief that business conditions will permit it. I keep in mind, however, that you are going to take away from the taxpayers a billion more than you give back to them except in the form of debt retirement.

Mr. Upham: So far as the speech is concerned, I should like to see you make very much the kind of speech you have written, although I have not seen the exact language. I think it is all the more important that

-19-

you make that kind of speech if we are going to find ourselves faced with the necessity of spending more money. I think that kind of speech will be about the only kind of reassurance there is to business.

HM, Jr: Suppose I make it as it is, softening it a little, on the 10th and then on the 15th the President sends a message to Congress advocating the spending of more money.

Mr. Upham: Then the monkey you said you did not mind being (General laughter)

HM, Jr: I did not say monkey.

Mr. Upham: But the public is going to be awfully glad that there is such a monkey in Washington.

HM, Jr: Couldn't you use something else? (Laughter)

Dr. White: If you want to sacrifice yourself, but before you fight for victory I think you want to be sure victory is desirable. Fight to the last ditch if you were positive that the thing you were fighting for was right and that's where I have my most sincere doubts.

Mr. Oliphant: Suppose on the night of the 9th, Mr. Secretary, you were assailed with much graver doubts than you have now as to the possibility of a serious depression with large increase in expenditures in January and February. With your candor and frankness in public utterances and in your private conversations, I don't think -- though I haven't read the speech, but taking your summary of it -- I think you would be put to it to make it the next day and I don't want to see you hands tied by the speech.

Mr. Gaston: That means two speeches.

Mr. Taylor: You can't make a speech on the 10th and then have the President say the opposite thing five days later.

HM, Jr: Of course, I am seeing him Saturday. I would personally feel very much happier about making the speech if we did the gold thing Sunday night for Monday morning papers and then making this speech -- then got that thing

-20-

across and then make the speech or make an announcement Wednesday night and incorporate it in the speech that I feel the situation is such at this time in order to balance the budget we have to release this gold which is locked up and put it to work, and having done that, that will make this thing possible if anything.

Mr. Haag: Your speech as you now have set it up is not a balanced budget speech of the type some people have in mind that you balance the budget regardless; that is, if you increase expenses you increase taxes. If you analyze it, if the budget is going to be balanced it's because business conditions

HM, Jr: But it is pretty cleverly done.

Mr. Bell: I think that part of the speech is pretty good, that you are not expecting this thing to continue.

Dr. White: But it could be changed, not a great deal, and still make it less subtle.

HM, Jr: Here's the thing I asked myself. Let's say that it did not -- I think I am big enough -- is this the kind of speech that should be made at this time by the Secretary of the Treasury. Let's start all over again. Let's forget the heartaches and the brains and the tired hours and everything else, and I am big enough if we started all fresh and we knew a month ago that the situation was going to be as it is now, would I be making this? To have to sit down and write a fresh speech naturally just scares me to death.

Dr. White: I don't think that's necessary. I think we could take that and write something as the occasion requires.

HM, Jr: Do conditions require doing something for gold now and we should do it Sunday night? That's number one. Should it be done? And I can tell you right now I am not going to argue with Mr. Eccles about it. I won't try to sell Eccles this thing. He's coming in tomorrow morning again, but I am not going to sit down and give myself a series of sick headaches between now and Sunday night.

Mr. Taylor: You simply tell him you decided to

-21-

do it. You have this group coming down over the weekend. You could talk it over with them and that's where I assume you got the idea. That's one man's opinion. You can consult that group because they are the group you want to sell it for you.

HM, Jr: That's right. It's the most combined -- I would have two-thirds of the financial community and I don't have to give them this. You don't believe it?

Mr. Upham: Yes. Two-thirds of the financial ...

HM Jr: Two-thirds of the financial market. Two-thirds of the people who sit around the various clubs and talk the thing over the table.

Mr. Taylor: On the basis of that discussion you will determine whether or not that particular thing is an important factor in the situation.

HM, Jr: Oh, yes! But I also feel if a fellow is going to do that Sunday night, as a month from now ...

O. K! Mr. Taylor: Sure! If that's the answer you get, I don't think you are going to get that answer.

Mr. Upham: I don't either.

Mr. Taylor: I don't think that that is a factor in the situation.

HM, Jr: I have already gotten it.

Mr. Taylor: You have got it from one man.

HM, Jr: It so happens that the whole group were opposed to our sterilizing. I am not going out to sell it to them. I am going to ask them.

Dr. White: You are going to confine yourself to that one question?

HM, Jr: Yes.

Mr. Taylor: The reason I ask what is the reason for this recession, there are a lot of things more important to them than this gold.

-22-

HM, Jr: I am going to tell them I am not at this time going to talk taxes; I am just going to talk gold.

Mr. Taylor: So you will be sure to get their reaction on gold.

HM, Jr: 'Do you think I ought to do something about gold at this time? And, gentlemen, when you come down I am going to ask you, please, don't come down if you want to talk taxes because I don't want to talk taxes at this time.'

Mr. Oliphant: Or utilities.

HM, Jr: Or anything else, but I want to emphasize taxes. All right, Dan, let's you and Herbert Gaston and I get your suggestion. Will you all think this thing over very, very carefully?

(All left the meeting with the exception of Bell, Taylor, Gaston and Haas.)

Mr. Bell: I have not had a chance to study it -- both drafts. They are largely alike -- some things in one and not in the other. The one I have been reading more carefully was the one I read last night.

Some of the questions I would raise would be very minor. You say you are glad to discuss this problem before the members assembled here tonight. Seventy-five percent will be guests. You realize that. And that the war was 'unbelievably costly'. Well, it's not unbelievable because it is a fact that stares you in the face and I would like to find some other word.

And 'we deliberately used an unbalanced budget'. I wonder if that's what you want to say, that you deliberately went on to a program of spending in spite of an unbalanced budget.

HM, Jr: No.

Mr. Gaston: No. We deliberately unbalanced it.

HM, Jr: I think you are wrong. I think if you

-23-

asked the President he would say he deliberately did this.

Mr. Gaston: Under those situations you wanted more expenditures than revenue. You deliberately wanted an unbalanced budget.

HM, Jr.: That's what he followed.

Mr. Bell: I suppose you want to say this: 'On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.'

Mr. Haas: That's all right.

Mr. Bell: Well, I think it is all right to say that.

Mr. Haas: He has to say that if he comes to these conclusions.

Mr. Bell: That's all right if the economists think that's a good thing to say. I assume you want to hit the difference between 1933 and 1929.

HM, Jr.: Between 1933 and 1937. George would get sore if you called him a politician.

Mr. Bell: 'The basic thing is to foster the application of the driving force of private capital to the present favorable circumstances.' At this moment they are not very favorable.

HM, Jr.: That has been changed to existing. You are quite right. We changed that.

Mr. Bell: I don't know what this means over here. 'In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist.' Technical conditions. We don't know the reasons for the stock market decline. We say technical.

Mr. Gaston: He goes on to say what those technical conditions are.

-24-

Mr. Bell: Were they technical?

Mr. Haas: You might substitute another word.

Mr. Bell: We are creating a new term in budget. The 'ordinary' budget.

HM, Jr: That is very deliberate.

Mr. Bell: I know what you mean and you have explained.

HM, Jr: I am always frank with my people, Bell. The President called it 'layman's'. We call it 'business'. Now we call it 'ordinary'. If you can give me a better term

Mr. Bell: I can't other than just to say 'seek a balanced ordinary budget including Social Security and excluding debt retirement. I admit that's complicated. I don't object to it, but it creates a term.

Now, you talk about 700 millions reduction in expenditures. 'In addition, every dollar that the Treasury realizes from the liquidation of revolving funds, and from other repayments of loans and capital advances, should be set aside for debt retirement.' That means to keep within the budget you have outlined I have to get 850 million reduction in expenditures instead of 750 millions.

HM, Jr: How would you put it?

Mr. Bell: I don't think you can use repayments of loans and capital advances for debt retirement whenever your deficit exists

HM, Jr: Cut that out. You mean that's another 150 million?

Mr. Gaston: It does mean another 150 million.

HM, Jr: Throw it out. This is good, Dan. You have been very helpful. Throw it out.

-25-

Mr. Bell: Page 24.

Mr. Taylor: Stop at page 23. I did quite a lot of work after talking to the boys in my room on Tuesday, changing the wording in that section, the Social Security thing. That's where Dan is now. They are not very big. Most of them are eliminations. Starting on page 23. Instead of saying 'operating very much', I would say 'handled very much like'.

HM, Jr: I am not going to argue. If this makes Wayne happy, go ahead.

Mr. Taylor: Down below, starting the sentence "All that the insurance company has...", I would cut out that sentence.

HM, Jr: You know that's the President of the United States.

Mr. Taylor: I realize that.

Mr. Bell: That suits me.

Mr. Taylor: Here's what I want to do, Dan. I want to say: "The manner in which these funds must be invested is laid down by the State laws and embodies the very sound principle of diversified risks."

Mr. Bell: You can't do that with the Government.

Mr. Haas: You go on to explain it.

Mr. Bell: Of course, I see how you do it.

Mr. Taylor: Top of page 24. It would read: "The Federal Government, in connection with the Old-Age Reserve Account and the Unemployment Trust Fund, also invests the money which it receives in the manner laid down by Congress in Government obligations. Government obligations, of course, represent the most diversified risk available in this country as they rest on the tax obligations of all industries and all individuals." I substitute ...

Mr. Bell: That's all right.

-26-

HM, Jr: It rests on the sovereign right of the State. That's the technical way, isn't it, Bell?

Mr. Bell: Yes; it's sovereign power.

Mr. Taylor: I would cut out "But these pieces of paper," etc.

Mr. Bell: Does that eliminate everything with reference to your money and your funds?

Mr. Taylor: Yes.

Mr. Bell: Because you are talking to people who haven't got any interest in this.

Mr. Taylor: If you will notice, I have cut out all "pieces of paper".

Mr. Bell: Then that's the question I was raising, exactly.

Mr. Taylor: In the last paragraph on page 24, I would say, "When the Treasury invests" and don't say, "Now, when the Treasury..."

Over on the next page, at the bottom of page 25, change it from "With a balanced budget" to -- stick an 'if'

HM, Jr: No, I would leave it that way.

Mr. Taylor: Then I would cut out the last sentence, "In other words the Treasury next year will be adding one billion dollars to the supply of funds in the capital market." Absolutely irrelevant.

Mr. Haas: No, it is not.

HM, Jr: In other words, the Treasury would be adding one billion?

Mr. Taylor: That's not what you are talking about. Has no bearing on what you have been talking about before.

HM, Jr: Will you fight that out?

-27-

Mr. Bell: On page 25 of mine, I think you said 24, "Now when the Treasury invests your old-age taxes and your unemployment compensation taxes -- those are not old-age taxes because they are not earmarked. I want to cut out "your" and "taxes".

Mr. Haas: You really invest the appropriation.

Mr. Taylor: Change it to old-age "receipts" and unemployment compensation "receipts".

Mr. Bell: That's right. Or funds. Funds is just as good.

"However, the rates of interest which the Treasury is required by law to pay on funds invested for these accounts are higher than those which can be obtained by purchasing suitable Government obligations in the open market." I don't think you can say that.

Mr. Haas: Correct it or cut it out.

HM, Jr: I would do one or the other.

Mr. Bell: Next page. Change "bonds" to "obligations." "Hence the Treasury is issuing special obligations, etc." "...is using the funds so obtained to reduce the amount of its obligations sold to or held by private investors." Indirectly only, because you are using the funds to finance the deficit and thereby reducing your borrowings by that amount rather than reducing the amount in the hands of investors.

Bottom of page 27. (Page 26 of attached draft.) This is not important and I don't know whether it should go in: "I have shown why, in my opinion, this balance should be sought by a reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal services...." Make it Federal relief for services.

HM, Jr: All right.

Mr. Taylor: Change it to responsibilities.

-28-

Mr. Bell: All right.

That's all I have, except the general question of using the figure of 750 millions without laying a little more stress on the assumption of the revenue not coming above this year's and trying to hold expenditures. You very definitely said that. "I am convinced that this reduction can be made." I hate to see you make that statement because I am not convinced.

HM, Jr: All right. We will qualify it.

Mr. Bell: I am not convinced and I don't want you to say it.

HM, Jr: How would you change it?

Mr. Bell: Well, I think what could be done, in the first part of the speech, is to lay a little more stress on the assumption that next year's revenue will be the same. That what you are going to talk about for 1939 is that revenue will be the same. If we are going to have a balanced budget in 1939, we have to reduce our expenditures by 750 millions to come down to your estimated revenue and that shows you the task before you.

HM, Jr: I think that's very important.

Mr. Bell: There is one more thing, and we will get a chance at these figures again. You talk about a billion reduction in the debt. In setting up the old-age revenue and the unemployment trust fund revenue against expenses under the Social Security Act and expenses under trust funds, we come out with about 840 millions excess investments.

HM, Jr: For next year?

Mr. Bell: Yes, so we may want to change that billion or we may want to say Social Security fund and some other investment funds to make it a billion.

oOo-oOo