

DIARY

Book 96

National Academy of Political Science Speech
Delivered November 10, 1937

Part II

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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

Nov 4 1
3pm
1 new part to
Secretary's
home
630 pm

I am glad to accept the invitation of the Academy of
Political Science to discuss before its members ^{and guests} 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 ^{enormously} ~~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

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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.

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 careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are

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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 nearing the end 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,

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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 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

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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 ~~economic~~ 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 that might otherwise have gone into private industry, nor did it absorb taxpayers' funds that might otherwise have gone into private consumption. 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.

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A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are again utilizing their credit resources 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.

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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.

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I turn now 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 about six billion six hundred millions, and our total net expenditures at about seven billion three hundred millions, leaving a net deficit of roughly seven hundred millions.

To seek an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement --, we must therefore accomplish a net improvement of seven hundred million dollars in our budgetary position. In estimating revenues, it is better to underestimate than to overestimate. We should not count on an increase in revenues next year from the existing tax structure, nor should we impose

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additional taxation. Instead, we should plan to bring next year's expenditures within this year's income; and then, if the tax receipts rise above those of this year, the excess should be used to reduce the national debt.

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

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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. 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

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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.

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

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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.

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^{OK}
~~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
careful study of the whole problem, I have come to the
following conclusions: On the one hand, little or no money
can be saved in the regular operating expenses of the

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Federal Government, including the national defense and interest on the public debt. 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, public works, unemployment relief, and agriculture --, *it is apparent* ~~I am~~ convinced that *great* ~~the necessary~~ savings can be made.

Let me give you a rough idea of the possible savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are

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estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

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Third, it should be possible to make a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of business recovery, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The plight of agriculture in the depression called for emergency aid, not only in the farmers' interest, but in the interest of all of us. As many of you know, I have been deeply concerned for more than twenty years with the problems of agriculture, and 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 cannot continue to rely on merely temporary expedients.

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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 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 resettlement. These items total nine hundred three millions for this fiscal year.

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.

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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. 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 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.

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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.

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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 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.

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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 answer to those who have publicly despaired of our ~~ability~~ ability to balance the Federal budget.

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.

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I have already indicated my belief that it would be unwise to raise taxes at this time solely to accumulate a surplus for debt retirement. More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures.

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

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and receipts. The Social Security Act has introduced new 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~~ ^{are handled} 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. ^{see dictation} ~~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.~~

The Federal Government, in connection with the Old-Age Reserve Account and the Unemployment Trust Fund, also invests ^{the} your money ^{which it receives in the manner laid down by} in pieces of paper. But these pieces of paper ^{are} Government bonds and not private promises to pay. ^{in govt. obligations.}

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. ^{to - 0}

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~~, when the Treasury invests ^{receipt} your old-age taxes and ~~unemployment~~ ^{receipt} compensation taxes in Government bonds, 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. However, the rates of interest which the Treasury is required by law to pay on funds invested for ~~the~~ ^{the old age reserve account} ~~accounts~~ are higher than those which can be obtained by purchasing suitable Government obligations in the open market. Hence, the Treasury is issuing special ~~Government bonds~~ ^{obligations} to ~~the~~ ^{this} account, and is using the funds so obtained to reduce the amount of its obligations sold to or held by private investors.

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. *Through this operation*
~~In other words,~~ the Treasury next year will be adding one billion dollars to the supply of funds in the capital market.

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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

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undesirable at this time if it must be achieved by eliminating essential Federal ~~services~~ ^{responsibilities} or by increasing the existing tax burden.

The principal aims 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.

This is the November 5 draft with the President's notations of November 6.

(The ribbon copy with the President's suggestions in his own handwriting is filed in President's Papers.)

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 welcome the opportunity to discuss before the members
and guests of the Academy of Political Science 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 enormously 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 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 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 net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

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 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 another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful 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 for their solution. One of these measures ^{but only one} in the present juncture is a determined movement toward 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 nearing the end 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 surpluses of housing and capital equipment. 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 stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

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.

But the underlying conditions that made deliberate deficit spending the wisest kind of 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 that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. 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.

A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities 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 under such conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes.

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The basic need today is to foster the application of the driving force of private capital to existing 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 ^{much} ~~the bulk~~ of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six millions, leaving an estimated net deficit of roughly seven hundred millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement -- , it would therefore be necessary to accomplish a net improvement of seven hundred million dollars in our budgetary position, as last estimated. In estimating revenues, it is better to underestimate than to overestimate. We should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, 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. Further, our expenditures under the Social Security Act will increase next 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, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new

appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that

existed prior to the depression, *especially because the only part of the \$1.2 billion has been spent for highway work of 1930-1931.*
Second, there is the field of public works, other than

highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by

reason of more active private business, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as

in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. 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.

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.

Only with the solid support of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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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 more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities. ^A ~~But~~ It would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; 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.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred million as compared with more than twenty-seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who have publicly despaired of our ability to balance the Federal budget.

in most cases 1933 and 34
to 210
More than two thirds of this year's anticipated budgetary improvement comes from increased revenue, *but we are doubtful* rather than from ~~reductions in expenditures~~. *this by also working* Next year's progress should be sought in a reduction of expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of government obligations now held by 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. The rate at which it is safe to

reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

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 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.

Handwritten notes on the right margin:
... testimony ...
... records ...
... returns ...

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

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 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.

.....

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 considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures ~~rather~~ *without* ~~than~~ *total of the* by an increase in the tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government. The fulfillment of these aims is the best assurance of the preservation of the credit and currency of the United States,

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

This is the carbon copy which the Secretary used at his conference with the President on November 6. It includes the changes written in on the ribbon copy by the President and other suggestions of the President.

- 2 -

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 net 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 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 another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful 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 for their solution. One of these measures in the present juncture is a determined movement toward 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 nearing the end 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,

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high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. 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 stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

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

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interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

But the underlying conditions that made deliberate deficit spending the wisest kind of 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 that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. 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 -

A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities 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 under such conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes.

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The basic need today is to foster the application of the driving force of private capital to existing favorable

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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~~^{much} of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six millions, leaving an estimated net deficit of roughly seven hundred millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement -- , it would therefore be necessary to accomplish a net improvement of seven hundred million dollars in our budgetary position, as last estimated. In estimating revenues, it is better to underestimate than to overestimate. We should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: ^{that a large part of the} ~~on the one hand,~~ ^{done in regular budget items with} ~~little or no money can be saved in the regular operating~~ expenses of the Federal Government, including the national

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defense and interest on the public debt. Further, our expenditures under the Social Security Act will increase next 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, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new

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appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression.

especially because during the past few years many other millions of dollars have been spent for highways

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

out of total of appropriations

Third, I hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by

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reason of more active private business, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as

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in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. 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.

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.

Only with the solid support of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far

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heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities. But it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy

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7) Obviously we reached a
point in our expenditures where
no further reductions can be
made unless it is decided
completely to abandon
many of our activities - In
other words make drastic
national changes in policy. For
instance it would mean consideration
of such things as ^{curbing} national
debt, slowing up ^{or} sound money
flood control, ^{and} soil erosion
protection and security for the aged
and unemployed. Such a course
would ^{require} the approval of either
Congress or the people or that

in
Congress

are definitely in a position to
maintain and balanced federal budget; and I think
believe that there is just as much chance of our country

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as a whole in moving too rapidly in this direction would be in not moving at all.

Relatively few persons realize the striking that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this is estimated at less than seven hundred million as compared with more than twenty-seven hundred millions last year.

in most cases ignorance of the true facts
This net improvement of more than two billion dollars in a single year provides the best answer to those who have publicly despaired of our ability to balance the Federal budget.

More than two-thirds of this year's anticipated budgetary improvement comes from increased revenue, rather than from reductions in expenditures. Next year's progress should be sought in a reduction of expenditures.

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In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of government obligations now held by 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. The rate at which it is safe to

reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

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 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.

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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 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

- 20 -

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 1939 than the present system would yield.

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- 21 -

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 considerations that now demand further definite steps toward a balanced Federal budget. I have ~~shown why~~ in my opinion, this balance should be sought by a reduction in expenditures ^{without} rather ~~than~~ by an increase in the ^{total of the} tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government. The fulfillment of these aims is the best assurance of the preservation of the credit and currency of the United States,

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



TREASURY DEPARTMENT
WASHINGTON

November 6, 1937.

Dear Henry:

I venture to call your attention once more to the question of the expediency of some of the expressions on pp. 12-13 re the agricultural program, if Wallace is not given a prior opportunity to object. I note especially the phrases "excessive demands"; and "unfair to consumers"; and also the implication in the last sentence on p. 13 that the farmer does not know that he has an interest in balancing the budget.

I would suggest that Wallace be given a look at these passages. You would expect him to do the same for you under similar circumstances, and there is less to be gained from public use of these passages than is to be lost if it spoils your relations with Wallace.

(Signed) J. V.

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J. V.

November 8, 1937

10:15 a. m.

Present:

- Mr. Haas
- Mr. Seltzer
- Dr. White
- Mr. Gaston
- Mr. Oliphant

(Referring to attached draft.)

HM, Jr: Page 7. "Our industrial recovery of the last year, however, has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities in order to meet actual and prospective demands for commercial credit."

Is that true today?

Dr. Haas: That's why we put in such conditions.

Mr. Gaston: Conditions under which banks are decreasing their holdings of Government securities and increasing their loans.

HM, Jr: Whatever you fellows decide, I will take it.

Now, all hold on to your seats. I have been through the wringer. My God! What I went through this morning! Watch this very closely. I am going to give you all heart failure.

At the end -- I will read it to you the way he first wrote it and then let you know afterwards what we decided on. At the end of the first paragraph on page 22, where we talk about increase in the total tax burden, the President of the United States says: "But I have also shown that there is a limit to reductions

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Before I read, let me explain. The President said, Now, you don't say anywhere that if business does not cooperate and if business does fall off, that we are going to increase taxes. I said, No, Mr. President; that's exactly what I don't say, and, I said, Please don't have any misunderstanding on that point. What I do say is that if business continues to fall off and we don't get revenue, we are not going to raise taxes and we will have to raise money through deficit spending and if you don't get that you miss the whole point of the speech and it has taken me weeks to arrive at it. So he said, Why don't you say that? So I said, You yourself only told me last week what you don't want to do if we go into another spiral and follow Mr. Hoover in 1932 and make up the deficit through increased taxes. I said, If you don't understand, the whole philosophy of the speech is in there. He said, You don't say that. And I said, I do. He said, Let me write it. This is what he wrote. After listening to that, he wrote this: "But I have also shown that there is a limit to reductions; and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing."

Dr. White: It's so subtle, it's very distorted and almost the opposite ...

HM, Jr: No, there is nothing subtle about that.

Dr. White: I don't think it's a good statement. I don't think it represents what he wants to say.

HM, Jr: (Again reading) "But I have also shown that there is a limit to reductions

Dr. White: Reductions in what?

HM, Jr: Reductions in expenditures. Would you say 'in expenditures'?

Dr. White: In talking about other things, I think ...

Mr. Gaston: No! Reduction of expenditures is in the same sentence.

HM, Jr: (A gain reading) "... and that the balancing of budgets needs the help of industry to keep up total tax

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receipts unless we are again to resort to deficit financing." Perfectly clear to me. George?

Dr. Haag: Uh-huh.

HM, Jr: Well, it's a fact. And Bill Myers said to me, Of course you realize where you are going to be attacked. You say in this speech if business goes back you are not going to levy on this year's tax structure; that you don't expect to tax them, therefore how are you going to finance them? Through deficit financing. He said, As long as you know what you are saying, all right; I agree with you.

Mr. Gaston: Of course, the only objection I see to that is he needs the help of industry to keep up total tax receipts unless we are to resort to deficit financing. That again hints at the idea that it's industry's lagging back.

HM, Jr: You haven't got the half of it. Now, on page 23.

"The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in no event will this Administration allow anyone to starve."

Again the President: "Nor will it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national wealth."

Dr. White: That's all right. Nobody can object to that.

HM, Jr: I got him to change "national wealth" to "national income." Makes all the difference in the world.

Dr. White: I was thinking in terms of national income.

HM, Jr: I said to the President: If you want to sound like Huey Long, I don't.

I don't think it's so bad. If you asked me, "Do you

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believe, Henry Morgenthau, Jr., in greater distribution of national income?". The answer is, "I do."

Mr. Gaston: That's all right. Just the same thing as before. The only one thing to which I object is this theory that the business recession is caused by the strike of business leaders. It may be caused by fear, but I don't think it is caused by any deliberate purpose.

Dr. White: That statement is in there as you read it?

HM, Jr.: The thing he says: "The attainment of these ends" I said "as much" on private initiative; he said, "very greatly."

Dr. Haas: One aspect of that, Mr. Secretary, when things go up you can't take all the credit for their going up.

HM, Jr.: My dear George. Let's see them go up and, by God! if there is anybody in town who talks about too high prices and putting the lid on, I will go around and shoot them. I will be tickled to have them go up on any basis and let business take the credit. You see? I think I would like to see these last two pages typewritten so they read smoothly. I think it's all right. I could not say distribution of national wealth. It's too demagogic. But national income is all right.

Now the President is in a most peculiar humor. And he feels -- there is an editorial in the Wall Street Journal this morning; makes him mad. He interprets it that they say the only thing -- that unless you say flatly you will change the surplus tax that business won't do anything and he said, I am not going to do that. He said, I will make changes where it is necessary, but I will not do that. And he is firmly convinced that business is just going to sit back and fight it out as between business and himself as to who controls America. I can't change him, but knowing that he is in that humor -- and I don't think there is anything in there that I, Henry Morgenthau, don't stand for, because, President or no President, I wouldn't say it. I do believe in greater distribution of national income. It's entirely too highly concentrated

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and we in the Administration haven't done anything and the very day we started with N.R.A. we have made it easier for big business to get control of the Government. Everything we have done has made it easier for big corporations with big surpluses to go on and we keep pushing the little fellow down, and that's what we have done from N.R.A. and through the surplus tax.

Dr. Haas: Except death taxes.

HM, Jr.: Right!

Dr. White: That's distribution of wealth as well as income.

HM, Jr.: But general business, even the big corporation with the big surpluses who don't have to go to the banks, they are sitting pretty, but God help the little fellow!

Dr. White: One technical error in his position to make the undistributed profits tax a bone of contention. It's not worth it. If he saved the bulk of his New Deal policies, what's the difference?

HM, Jr.: All I can say is I am the only person that I know of in his Cabinet who has definitely crossed him on this whole business the last ten days. I have definitely had a showdown with him, and he knows that and he knows that I am his man Friday and I have been with him longer than anybody else and the chances are I will stay with him longer than anybody else. Now, the whole thing gets down to this: does anybody say to me -- I am willing to listen -- is there anything in there that I, as Henry Morgenthau, Jr. or as Secretary of the Treasury, should not say? I will start around the room.

Mrs. Klotz: No.

Dr. White: No. I did not get the full significance in these changes, but

Dr. Haas: As I got the ideas, I think they are all right, but may be just a question of the form of expression.

Mr. Gaston: No. I think they are all right.

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Mr. Seltzer: I have made a slight revision of that paragraph which the President amended and I would like to use this revision with the amendments.

HM, Jr: Since you got that?

Mr. Seltzer: Yes; a slight revision in the language.

HM, Jr: When did you write it?

Mr. Seltzer: This morning.

HM, Jr: This is what the President has done and I can't go back. You should have gotten it to me earlier, Larry. I don't want to show this again to the President.

Mr. Seltzer: No change in thought.

HM, Jr: I can't help it, but if you want to go over and see the President, go ahead and let him tear you limb to limb. It's up to you to find out when I see the President and then give it to me.

Mr. Haas: That's all right. Forget about it.

HM, Jr: You could call me up.

Mr. Gaston: I like page 22, the correction, better after looking at it further. 'Needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.' That's a warning to them not to go too far cuts in the present tax situation.

HM, Jr: After all, I am talking for the whole Administration and there is no guess in going up there and saying something and then have the President come along on the 15th and say something different. I think there is everything in there that he said that I believe in; as far as I know it's all right. Now what we have got to do is forget the 1450 people that I am talking to and think of the rest of the country and the rest of the world where this will be published.

Herbert, on the distribution of the speech, how late do you think we could hold it up or releasing it up there in New York?

Mr. Gaston: Of course, the papers will be very much

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grieved if we don't give them a copy of the speech before six o'clock in the evening so they can get it in type and in the first editions. They can't get it in the first edition if you wait until you deliver. They would like to have it earlier than that. Of course we could give it to the papers in New York and Associated Press and other news services with a definite promise from the man who receives it that it is not going to go outside the office.

HM, Jr: Couldn't you handle that in New York, yourself?

Mr. Gaston: Yes.

HM, Jr: You are going up with us on the twelve o'clock with Mrs. Morgenthau, Mrs. Klotz and I. We get to New York at four. Now, when you are there, think it through and then tell me. Maybe you would have to go to the newspapers yourself.

Mr. Gaston: Yes; I would have to go to them.

HM, Jr: Would you want to have anybody with you to help? I will give you a car and you can go around.

Mr. Gaston: I don't think I need any help.

HM, Jr: Gives you plenty of time?

Mr. Gaston: Yes.

HM, Jr: Why couldn't you do that yourself?

Mr. Gaston: Yes. Yes. I think so.

HM, Jr: Well, think about it and tell me later in the day.

Mr. Gaston: Yes.

HM, Jr: If you go into the New York Times and give it to them and say this is just for you and not to give it out, they wouldn't. You could trust them and the Tribune?

Mr. Gaston: Yes.

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HM, Jr: A nd not have them going around Wall
Street asking for comments. That's what I don't want.

oOo-oOo

Mrs. Klotz 83

held this copy
at meeting Nov 8
at 10:15 am.

**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 welcome the opportunity to discuss before the members
and guests of the Academy of Political Science 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 enormously 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 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 fought with jobs and**

- 2 -

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 *magnificently* 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 net 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 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 another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially

- 4 -

different from those which faced us four years ago. Many measures are required for their solution. One of these measures, but only one, in the present juncture is a determined movement toward 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 nearing the end 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,

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high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. 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 stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

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

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interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

But the underlying conditions that made deliberate deficit spending the wisest kind of 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 that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. 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.

A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities 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 under such conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes.

The basic need today is to foster the application of the driving force of private capital to existing favorable ^{underlying} circumstances. We want to see capital go into the productive

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channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six millions, leaving an estimated net deficit of roughly seven hundred millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement -- , it would therefore be necessary to accomplish a net improvement of seven hundred million dollars in our budgetary position, as last estimated. To be prudent, we should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal

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Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security Act will increase next 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, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let us give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures,

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are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

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Third, ^{including} I hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by some seven hundred ^{and} eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. 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.

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.

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Only with the solid ^{backing} support of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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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 more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities.

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Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided to cripple many essential governmental activities -- in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, and slowing up or abandoning flood control, soil erosion prevention, and relief for the aged and the unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

we are definitely in a transition period between unbalanced and balanced Federal budgets; 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.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred million as compared with more than ^{2 Billion 700 million} ~~twenty-seven hundred million~~ last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly deplored of our ability to balance the Federal budget.

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True
Much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and

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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 fifty millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

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.

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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.

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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 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; provided that the taxpayer cooperates with his Government in carrying out the purpose and the spirit of the tax laws. Of course, tax policy cannot properly be determined from exceptional cases. We must look at the whole picture. We base our decisions on extensive information and upon analysis of actual tax records.

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 individual Federal 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

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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.

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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 considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level

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and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

The attainment of these ends rests as much on private initiative and on the cooperation of private enterprise as it does upon any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in no event will this Administration allow anyone to starve. We are confident that, with the full cooperation of the business world, our present difficulties will be speedily overcome; and that the aims that I have set forth above, which are properly those of private business no less than those of the National Government, will be achieved.

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 welcome the opportunity to discuss before the members
and guests of the Academy of Political Science 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 enormously 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 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 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 net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

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 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 another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful 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 for their solution. One of these measures, but only one, in the present juncture is a determined movement toward 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 nearing the end 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 surpluses of housing and capital equipment. 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 stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

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.

But the underlying conditions that made deliberate deficit spending the wisest kind of 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 that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. 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.

A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities 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 under such conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes.

The basic need today is to foster the application of the driving force of private capital to existing 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 much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six ^{fund} millions, leaving an estimated net deficit of (about seven ⁶⁹ hundred) millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement -- , it would ~~therefore~~ be necessary to accomplish a net improvement of ^{Just} seven hundred million dollars in our budgetary position, as last estimated. To be prudent, we should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal

Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security Act will increase next 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, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction ^{generally} regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures,

are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I ^{surely} hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by some seven hundred ^{and} eighty million ^{dollars} below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. 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.

Balancing the budget is as much in the interest of farmers as in the interest of other parts of our population; and it requires the cooperation of the farmer as well as of other sections of the public.

Only with the solid backing of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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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 more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities.

Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided to cripple many essential governmental activities -- in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, and slowing up or abandoning flood control, soil erosion prevention, and relief for the aged and the unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; 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.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred million as compared with more than ^{Two billion} ~~twenty~~-seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly despaired of our ability to balance the Federal budget.

True, much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and

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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 fifty millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

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 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; provided that the taxpayer cooperates with his Government in carrying out the purpose and the spirit of the tax laws. Of course, tax policy cannot properly be determined from exceptional cases. We must look at the whole picture. We base our decisions on extensive information and upon analysis of actual tax records.

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 individual Federal 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 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

and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

The attainment of these ends rests ~~entirely~~ ^{very greatly} on private initiative and on the cooperation of private enterprise, ~~and~~ ^{This is}

^{the necessary complement to} ~~and~~ any efforts which the Government can put forth.

This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that

in no event will this Administration allow anyone to starve, ^{never} ~~and~~ ^{will it abandon its broad purpose to protect the weak, to you} We are confident that, with the full cooperation of the

business world, our present difficulties will be overcome;

and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved.

Handwritten note on the right margin: "It has not been decided to seek a wide distribution."

November 8, 1937

11:45 a. m.

Present:

Mr. Taylor
Dr. White
Dr. Haas
Mr. Seltzer
Mr. Gaston
Mrs. Klotz
Mr. Oliphant

HM, Jr.: I just want to read the last two pages out loud.

"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 considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden. But I have also shown that there is a limit to reductions; and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.

"The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

"The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in

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"no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national income. We are confident that, with the full cooperation of the business world, our present difficulties will be overcome; and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved."

Dr. Haas: Pages 6 and 7. I think we surmounted that by making changes on pages 6 and 7. The new ones are in your copy.

HM, Jr.: "Even to the extent that our bonds and notes were purchased by non-banking investors," is that the thing? How was it before?

Mr. Gaston: That was not the place. "But the underlying conditions that made deliberate deficit spending the wiest kind of policy during the depression no longer exist." "No longer exists" now reads "have been altered during the progress of recovery."

Conditions are not the same. They have been changed during the progress of recovery. The reason we took out "no longer exist" is that conditions are not the same right now; not quite safe to say that they no longer exist.

HM, Jr.: I get you. All right. Now what else did you change?

Mr. Seltzer: Page 7. Here we have said -- up here, before we said, "A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital." Well, we have cut out that sentence -- "a different situation prevails today" -- and say, "Our industrial recovery of the last year, however, has created large new demands for private capital," so as not to pin it on today's conditions.

Mr. Gaston: And down here, "Any deficit spending under such conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes," you questioned that. We have changed that to read "Any deficit spending under conditions of active demand for private capital would

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have to be financed in large part by capital funds that would otherwise be available for business purposes."

And then this: "The basic need today is to foster the full application of the driving force of private capital." Period. "We want to see capital go into the productive channels of private industry."

HM, Jr: All right.

Mr. Gaston: Page 13. "Balancing the budget is as much in the interest of agriculture as in the interest of other parts of our economy; and it requires the cooperation of the farmer as well as of other sections of the public."

HM, Jr: "As in the interest of other parts of our economy." What does that mean?

Mr. Gaston: Trade and industry. And then we get it down to persons -- "and it requires the cooperation of the farmer as well as other sections of the public."

HM, Jr: "Other parts of our economy." I don't like that. I would rather have it "other parts of our population." I don't like "other parts of our economy." Can't say it.

Dr. White: "Other sections of our economy," or "other fields in our economy," or "other aspects of our economy."

HM, Jr: What's the matter with "in the interest of our population?" I did not like "in the interest of our agricultural as we;; as of other parts of our population."

Dr. White: That's why we can't say it. "Interest of the farmers", if you like.

HM, Jr: "Is as much in the interest of the farmer as in the interest of other parts of our population." Take out the word "agricultural" and put in "farmer" and take out "economy" and put "population". Have it read: "Balancing the budget is as much in the interest of farmers

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as in the interest of other parts of our population." All I wanted to do was change "agriculture" to "farmers."

Mr. Taylor: "As well as other groups".

HM, Jr: That's good.

Mr. Gaston: Then you get down to page 22.

HM, Jr: Please don't make any more changes without first coming to Papa. If you would all listen to this -- this is terribly important, because this is the last time the President has looked at it and the last time, I hope, the President looks at it. This is the summation.

"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 considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden. But I have also shown that there is a limit to reductions; and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.

"The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

"The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget. But I wish to emphasize that in no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give security and to seek

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"a wider distribution of our national income. We are confident that, with the full cooperation of the business world, our present difficulties will be overcome; and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved."

Mr. Oliphant: Takes care of all my worries. Your hands are not tied.

Mr. Taylor: There is one place at the bottom of page 23. There is a thought there that is a little confusing. Balance the budget by a reuction in expenditures without an increase in the tax receipts.

Mr. Oliphant: To keep down expenditures and to keep up receipts; that is, give employment to keep down expenditures and to keep up receipts.

H.M. Jr.: That's what he had in mind.

Mr. Oliphant: Business to shoulder more of the burden and to keep up tax revenues.

Mr. Taylor: Keep up tax receipts. It's secondary.

Mr. Haas: That's just half of it. What the President had in mind, business should do all of its part to keep up business activity.

Mr. Taylor: Why not say "in order to".

H.M. Jr.: "In order to keep up total receipts?" I think it would be all right to stick that in. What do you think, Herbert?

Mr. Gaston: It just does not get in the further thought. It is a perfectly legitimate thought that there are two ends to it, help of industry will keep down relief load and keep up taxes. Both. What else is meant?

Dr. White: Couldn't you put your one thought "In order to keep down expenditures."

Mr. Gaston: I don't think you need it.

H.M. Jr.: I don't either.

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Dr. White: Let it be.

Mr. Oliphant: I think it's all right.

HM, Jr: "In order" does not change the thought.

Mr. Taylor: I think it does.

HM, Jr: Well, if it changes the thought I don't want to do it.

Mr. Gaston: It doesn't change the thought.

HM, Jr: If it makes it clear, I am perfectly willing to put in "in order to".

Mr. Seltzer: I think Wayne has a point and I think even the expression "in order to" helps it.

HM, Jr: "In order to" does not change the thought one bit, but if it is clearer, all right. I don't want to change the thought. I am willing to clarify it. To me it is clearer. To keep us tax receipts, industry has to help us.

Mr. Haas: Leaves it a little vague, and maybe that's what the President wanted.

HM, Jr: If I only said that and had not said 3,000 other words, but I have said 3,000 more. Now, if we are not going to increase the tax burden, we need the help of industry.

Mr. Gaston: I think it's all right. You said one side of the problem was to keep down expenditures.

HM, Jr: I can't change it without going back to him.

Dr. White: Do you want to get another word in place of "properly" in the very last sentence in the speech? You stumbled each time. "Justly". "Accurately". They are easier to say.

HM, Jr: No, I think I can do it.

Mr. Taylor: Rather than words, do you feel in this last thing there is any threat?

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HM,Jr: Absolutely not! It is said just right. You tell me if you think there is any threat.

Mr. Taylor: I don't think there is the slightest threat.

HM,Jr: Herman, any particular comment?

Mr. Oliphant: No. My general comment takes care of any worries I had fully. I guess you weighed the words 'national income'.

HM,Jr: Do you know what it was first? I think I did pretty well. He wrote it 'national wealth'. So I think I did pretty well.

Mr. Oliphant: You did pretty well.

HM,Jr: That was the whole battle this morning.

May I say to you, those of you who sweated day and night, I thank you and I think after this is over you had better not come back this week and stay home and take care of your stomach, Larry, and after that I don't care what you do between now and Sunday.

I wish he had not used the word "weak". I guess he did not want to use "under-privileged" again.

Mr. Taylor: Suits me perfectly.

HM,Jr: Satisfy you, Herman?

Mr. Oliphant: Completely.

HM,Jr: Again I thank you.

oOo-oOo

Treasury Department
Division of Research and Statistics

Date Jan. 14......1938

To: Miss Chauncey

From: E. T. Miller

(Mr. Seligman)

Complete set of all drafts of Secretary's speech for your file -- except Nos. ~~8~~ and 9. ~~You have a copy of #16;~~ #9 was written at the Secretary's house, so I presume you have a copy of that also.

Address of the Secretary of the Treasury,
to be Delivered before the American Academy
of Political Science, Wednesday Evening,
November 10, 1937

I should like to use this occasion, as I have used similar ones in the past, to report to the citizens of the country on the financial management of their great corporation, the United States Government. I want, particularly, at this time to discuss Federal spending and the issues involved in a prompt balancing of the Federal budget.

During the last four fiscal years, your Government has spent something over thirty-one billion dollars. Its ordinary receipts during that period have been sixteen billion dollars, and the cumulated deficit, therefore, has been fifteen billion dollars.

Further, your Government is now committed, through acts of Congress, to a number of brand new activities, the costs of which will mount substantially for some years to come.

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Thus, in addition to the contributory Old-Age Benefit System and the Unemployment Insurance System, the costs of which are being met by special taxes, the Social Security Act also calls for large and growing Federal grants to the States to enable them to make benefit payments to the dependent aged who are not members of the Federal Old-Age System.

The Social Security Act also provides for Federal grants and expenditures for aid to dependent children, maternal and child health, crippled children, child welfare, the blind, vocational rehabilitation, and public health work.

All these grants and expenditures, which will amount to more than two hundred millions in the next fiscal year, and which will rise to more than half a billion dollars annually in the course of the next few years, are not

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matched by new special taxes. They impose a new large permanent burden upon the Federal Government.

The agricultural adjustment program, which cost in excess of two billion dollars during the past four years, is another example of a new Federal activity which promises to become a permanent annual charge upon the Federal budget -- a charge of perhaps half a billion dollars a year.

Then there is the Civilian Conservation Corps, on which we have spent more than sixteen hundred millions during the past four years. Congress has yet to determine whether the undoubted advantages of this type of expenditure, both for the several hundred thousand young men benefitted each year, and for the improvement of our national material resources, justifies the permanent retention of this type of Federal activity. If the decision is favorable, we must count on another two hundred millions or more of regular annual expenditures on this account.

Secretary's Speech - 4

Besides these new permanent additions to the annual Federal outlays, we must face the fact that there is now functioning a set of Federal emergency organizations whose expenditures bear very heavily upon the Federal budget. During the fiscal year 1937, the Federal Government spent more than two billion dollars for unemployment relief alone, exclusive of the Civilian Conservation Corps. We also spent on public works last year about five times as much as we spent for this purpose in 1929.

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The problem of balancing the budget is simply the problem of determining how much of these various types of expenditures should be continued, and of raising sufficient revenues to meet all the costs.

As the Secretary of the Treasury, it is not in my province to say which activities, if any, should be curtailed

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or discontinued, and which activities, if any, should be expanded. This must be decided by the citizens of the country acting through their elected representatives in Congress.

As the Secretary of the Treasury, it is my function and my duty, however, to emphasize that the time has now come to re-examine our financial housekeeping; - to determine just how much we want to spend, and for what purposes; - to arrange for meeting every cent of our requirements by current receipts; - and to provide not only against getting further into debt, but for the beginning of a program of debt retirement.

To summarize the picture that I have thus far painted: First, we have an accumulated four-year deficit of fifteen billion dollars, not to mention the deficits of the last three years of the Hoover Administration; second, we are now committed to large and growing appropriations for new

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permanent Federal activities; and, third, we have an enormously expensive set of emergency organizations still functioning. How, then, can the budget be balanced?

To some persons, the situation that I have just described is a shocking and even a hopeless one.

I am not one of these. On the contrary, I believe that our past expenditures have been very much worth while, and that it is clearly possible for the executive and legislative branches of our Government to cooperate successfully at the very next session of Congress to bring about an early balancing of the budget and the inauguration of a period of substantial debt retirement.

Let me give you some reasons why the budgetary situation, past and present, is far from shocking or hopeless to me.

Let me begin by giving you the over-all picture. During the four years ended June 30, 1937, our total expenditures,

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exclusive of debt retirement, were 13.6 billions greater than in the four years of the Hoover Administration.

What were the major items accounting for the increase?

The arithmetic is simple. Nearly two-thirds of the increase, or 8.6 billions was on account of unemployment relief. Another two billions went to the agricultural adjustment program. Another twenty-two hundred millions went for the prepayment of the soldier's bonus. And seventeen hundred millions went for extra public works. There you have a total of about fifteen billion dollars. Reductions in the ordinary operating expenses of the Government and the net recoveries of loans, together with various other items of receipts and expenditures, brought the net increase in expenditures down to approximately 13.6 billions.

Now, let me discuss briefly some of the major items:

First of all, our cumulated four-year deficit does not represent any deterioration in the

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efficiency with which the ordinary operating departments of the Government are administered. We have actually spent less during the last four years for the operation of the legislative, judicial, and civil establishments of the Federal Government, despite their greatly increased responsibilities, than was spent ~~during~~ either of the two previous administrations.

We have spent more for purposes of national defense, but mainly to make up for previous neglect.

Despite the increase in the public debt, our annual interest charges are less today than they were in 1923.

The aggregate of the regular operating expenditures of the Federal Government, including all the items that I have mentioned, plus veterans' pensions and benefit payments, is running today at around thirty-two hundred million dollars annually, (or less than in 1932).

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It is clear, therefore, that a tight rein has been and is being kept on the ordinary operating expenditures of the Federal Government.

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In the second place, I should like to emphasize that approximately six and a half billions of the expenditures of the past four years were expenditures of the kind that will directly reduce the budget requirements of future years.

What are these expenditures?

One of them, amounting to more than two and a quarter billions, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a charge on the budget in 1945 and thereafter.

Another, amounting to more than one and a half billions net, was for loans to banks, railroads, insurance companies, farmers, home owners, and others, and for the capital funds of governmental corporations and credit agencies that made these loans. The proprietary interest of the United States

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in governmental corporations and credit agencies now amounts to nearly four billions. The peak in expenditures of this type was passed two years ago, and from now on the proceeds of these past loans and investments will become largely available for reductions in the public debt.

Another type of outlay during the past four years that will directly reduce the budgets of future years has been our greatly increased investment in public works. These outlays for permanent public works, including eleven hundred eighty millions for public highways and eight hundred thirteen millions for river and harbor improvements, have exceeded thirty-two hundred million dollars during the past four years -- more than twice the outlays for these purposes in the preceding administration, and more than four times such outlays in the one before that.

We deliberately anticipated the requirements of future years in making these outlays. It was good business to do so.

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It gave employment to idle labor, thereby reducing the burden of direct relief. It gave orders to many industries when orders were forthcoming from no other source. And it gave the country permanent new assets in the form of public buildings, public highways, and similar public works which will reduce the demands upon future budgets for such purposes.

In the third place, I should like to point out that the huge demands upon the Federal Government for unemployment relief are now shrinking rapidly.

During the past four years, we have spent nearly nine billion dollars on direct relief, work relief, and the Civilian Conservation Corps -- or an average of about two and a quarter billions a year for these forms of unemployment relief. There are doubtless some who deplore these past expenditures. I do not regret a dollar of them. The most primary considerations of humanity demanded them. Their immediate effect, as you all know, was to give bread,

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clothing, and shelter to millions of men, women, and children -- the helpless victims of a world-wide economic cataclysm.

In addition to that, however, they helped to make the wheels of industry spin once more; and the associated increase in business profits alone, not to mention the vast improvement in employment and in agriculture, has already paid handsome dividends on these expenditures.

The fact that outlays for unemployment relief bulked so large in the deficits of the past four years, moreover, is a fact of great promise now. The number of the needy unemployed has been drastically reduced and the States and local governments are in far better position today to assume their proper share of this just charge upon government than they were during the past few years.

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I have just given you some reasons why I believe that the spending side of our budget picture, serious though it be, is far from hopeless. On the receipts side, I can report to you a far greater degree of improvement than many people have believed possible.

The plain fact of the matter is that the Federal revenue structure today is stronger as well as more equitable than ever before in the history of our country.

When this Administration came into office, the total receipts of the Treasury had fallen to just over two billion dollars a year. In each year since that time they have shown marked increases -- the result both of improvements in our tax structure and of the revival in business.

In the fiscal year ended last June, our total receipts rose to five billion three hundred millions. Even this

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figure does not adequately reflect the strength of our present tax structure nor the great improvement in the national income that has occurred, because of the usual lag in tax collections. This means that there will be another very substantial increase in our tax revenues during the present fiscal year.

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But when I say that the possibilities of an early balancing of the budget are far brighter than many believe, I do not mean to say that the job is an easy one, or that it can be accomplished without stepping on anybody's toes.

The United States Chamber of Commerce is on record as strongly in favor of an immediately balancing of the budget. But what happens in every local Chamber of Commerce when a proposal is made to eliminate a nearby C.C.C. camp or to reduce an allocation for a local public works project?

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Letters and telegrams pour in upon the Congressmen and Senators, complaining of the great harm to local interests if these Federal expenditures are reduced.

Balancing the budget is your problem -- the problem of every citizen of the country, no less than the problem of the legislative and executive branches of the Government. Without a strong determination on the part of the entire public, a determination strong enough to override particular local interests, the budget cannot be balanced.

When I say that balancing the budget is not easy, I have in mind not only the clash involved between the national interests and those of particular sections and localities. I have in mind also the clash of interests, often in the same individuals, between a desire to safeguard the credit and currency of the United States and the desire

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to support various worthy national objects of expenditures.

It is all too insufficiently realized that every one of a long list of proposed Federal expenditures may be highly desirable in itself; while, at the same time, the voting of public funds for every one of these expenditures may nevertheless be bad public policy. This may be true because the protection of the country's credit and currency may demand the withholding of these expenditures.

I urge all of you to give due weight to this consideration when your Congressman or your Senator courageously withholds his support from proposals to increase appropriations, or to continue them unchanged, for various otherwise worthy projects in which you are interested.

Some people are worried lest we curtail expenditures too rapidly. What I can tell you in this respect may reassure such people, though I make a wry face when I have to say it.

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The plain fact of the matter is that the unspent appropriations already made for public works and similar projects are so great that large expenditures for these purposes will continue into the fiscal year 1939 even if Congress does not appropriate another dollar for them.

When we entered the fiscal year 1938 last July 1, the total appropriations available for public buildings, public highways, river and harbor improvements, flood control, P.W.A. grants, soil erosion, emergency housing, and similar purposes stood at more than one and a half billions. Some eight hundred sixty nine millions of this will be spent during the present fiscal year. This will leave approximately seven hundred millions to be spent in the fiscal year 1939 without a single dollar of additional appropriations.

It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending.

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This very fact, however, makes it all the more urgent that we take steps immediately, in continuation of the steps recently taken by the President, to bring forward the day when our total Federal outlays, including adequate provision for debt retirement, shall be well within the limits of our total receipts.

With the solid cooperation of the public, that day will not be long delayed. Without that cooperation, our budgetary position might well become one that would justify the grave fears previously but mistakenly held with respect to it. In our sympathy with such objectives of crop control, and wages and hours control, we must not lose sight of the fact that control over the safety of the dollar and of the credit of the United States is of no lesser importance.

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It is by no means necessary, even if it were possible, to make immediate wholesale eliminations of Federal expenditures. It is necessary, however, that we see precisely where we are going --; and that we see the picture whole. During the present fiscal year, for example, we have been reducing our outlays for unemployment relief by approximately three-quarters of a billion dollars below those of the previous year. If, next year, we reduce these outlays by another four hundred millions or so, down to a level of twelve hundred millions, inclusive of the Civilian Conservation Corps camps, with the prospect of a further tapering off of these expenditures in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions

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for public works of all kinds for the fiscal year 1939, and such expenditures in subsequent years are brought down to the half-billion dollar level, this source of fiscal deficits will be eliminated.

In connection with another of our major budgetary difficulties, I should like to see a winding up, or at least a stabilization on a lower level, of many of our revolving funds and administrative agencies for emergency purposes; and a lopping off of unspent appropriations and unused borrowing power. The practical difficulty with these revolving funds and with the carrying over of unspent appropriations and unused borrowing power is the great temptation to seek out new uses for them.

The agencies concerned, and even some Members of Congress, sometimes fail to appreciate that a re-allocation of an unspent balance, or a further use of money acquired

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by a revolving fund through collections of loans and sales of investments, constitutes a brand new expenditure so far as the Treasury is concerned. The continued existence of unused appropriations and of certain of our revolving funds greatly increases the difficulty of strict budgetary control.

Finally, from the standpoint of practical budgetary control, which is nothing more than good financial house-keeping, I should like to see completely eliminated as many of the emergency agencies as is possible. The difficulty with only reducing appropriations for these agencies is that the mere fact of their continued existence provides them with an ever-present temptation to expand the sphere of their activities, and therefore their demands upon the Federal Treasury. We make some progress when we scrape the molasses out of these barrels; we would make more if we broke up the barrels themselves.

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If our budgetary problem is approached in the way that I have outlined so that the simple but important issues involved are clearly understood by our citizens -- and I believe that this will be the case --, we shall solve our fiscal problems as definitely and as surely as we have been solving our underlying economic problems.

When this Administration took office, the domestic problems that we faced were far more numerous and far more serious than the problems that we face today. Our banking system had collapsed, our foreign trade had all but disappeared, the man who had a job considered himself lucky to hold it regardless of wages, our farmers were losing their farms and home owners their homes, black despair hovered the length and breadth of our land.

In this situation the American public and their representatives in Congress gave a vast amount of power to the

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executive branch of our Government. You trusted the President. You gave him far more powers than he ever found it necessary to use.

How well these powers have been used I shall leave altogether to your own judgment. I shall cite no long list of figures to measure the enormous improvement in the country's economic condition that resulted from the exercise of these powers. As I said once before, this enormous improvement is confirmed by the first-hand experience of every man and woman in the range of my voice.

To obtain this improvement we spent fifteen billion dollars in excess of our receipts during the last four years. Was it worth it? Well, a businessman who has a chance to raise his income from forty thousand dollars to seventy thousand dollars a year by borrowing fifteen thousand dollars would certainly jump at the chance of borrowing that

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money at almost any rate of interest. That is precisely what we did. This fifteen billion dollar expenditure in excess of our receipts has raised the national income from less than forty billions in 1932 to approximately seventy billions in 1937. Our fifteen billion dollar investment in America is currently yielding us a return of two hundred percent a year.

I want to emphasize the fact that many of the great powers granted the Administration during the emergency were left unused. We have obtained two billion eight hundred million dollars of national profit from the reduction in the weight of the gold dollar. It would have been easier to have spent this profit rather than to borrow the equivalent sum for relief expenditures. What did we do? We used six hundred three million dollars of that gold profit to retire the national bank notes and the Government bonds

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underlying them. We allocated twenty seven million dollars of this profit to the Federal Reserve banks for their direct loans to industry. We used a little less than two million dollars to provide for melting losses. We put the remaining two billion dollars in a stabilization fund to protect the dollar; and every cent of that two billion dollars is intact in the Treasury, to be made available when appropriate for the reduction of the public debt.

If this Administration had been irresponsible in the use of its great powers, it could have printed currency by Congressional authorization, to meet its obligations, even though borrowing was the safer course. It chose the safer course. To make further assurance of the safety of the American monetary and banking system, it provided for a self-supporting system of bank deposit insurance, as a result of which the great mass of our people will never again suffer

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losses as a result of bank failures.

It was the strong support of the American public that made it possible for this Administration to bring this country out of the depression and to carry through its many fundamental reforms. With this same support, this same Administration can be trusted to provide for an early balancing of the budget.

PRELIMINARY DRAFT

#2

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 and before the radio audience the subject of
Federal spending and its relation to the balancing of the
Federal budget.

My discussion will fall into three parts. First, I
shall outline briefly the character of the spending program
of the last four years. Second, I shall outline the reasons
why a prompt balancing of the Federal budget is now desir-
able. And, third, I shall tell you why I am confident that,
with the firm support of the public, we shall succeed in
balancing the budget in the coming fiscal year.

During the last four fiscal years, your Government has
deliberately prosecuted a great spending program. Its

Secretary's Speech - 2

purpose was clear from the outset. It was formulated directly in response to the chaotic and intolerable conditions that faced the American people in 1933.

I need not detail these conditions at length. Most of us retain a keen and bitter memory of them. The national income, which had totaled eighty-one billion dollars in 1929, had fallen to less than forty billions in 1932. Our banking system had collapsed. Our foreign trade had shrunk to small proportions. The drastic decline in prices had created unbearable hardships for all who owed debts. Our farmers were losing their farms, and home owners their homes. The man who had a job considered himself lucky to hold it, regardless of wages. The primary necessities of millions of unemployed Americans and their families had exhausted the immediately effective resources of State and local governments.

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In this situation, the Federal Government was the only agency in the entire country with the power and the resources to start our economic machine functioning again.

Some people at that time said: "If only a few big corporations would get together and agree to build extensions to their plants, that would start the ball rolling. Or if only we could induce all the families that need new houses to build them now, that would start the ball rolling."

The fact of the matter was, however, as you are all aware, that no single corporation or small group of corporations could afford to or would take the risk of large-scale plant expansion at a time when the volume of available business was not half enough to employ fully their existing plants.

Likewise, with the families that desired houses. How could any of them be asked to risk their life's savings as

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a down payment on a new house when there was great danger that the head of the family would lose his job, and that his savings would shortly be needed for food?

No; so greatly fallen was the morale of business generally that no private source could be relied upon to start the ball rolling. Speculative excesses and profound industrial maladjustments had unbalanced our national economy and laid it low. A paralyzing fear was keeping it unbalanced and was keeping it low. It could be revived only by a real increase in the volume of effective purchasing power, and in the security of jobs, property values, and business profits. The Federal Government alone had the power and the resources to bring about such a revival.

Under the courageous leadership of President Roosevelt, the attack was made on many fronts.

Confidence in the country's banking system was restored by the use of Federal funds both to strengthen the capital

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structure of our banks and to supply the initial capital resources for a Federal system of insurance of bank deposits. Federal funds were also provided for loans to farmers, homeowners, railroads, and others.

The international value of the dollar was brought into line with the values of other currencies, thereby restoring world markets to our agricultural and industrial producers.

A great program of public works was inaugurated, which served the double purpose of giving employment to otherwise idle labor and of providing the country with valuable and durable assets in the form of dams, public buildings, public roads, electric power developments, river and harbor improvements, and many others.

To restore the purchasing power of our agricultural population which had been unbelievably reduced during the depression, programs of agricultural adjustment and soil conservation were inaugurated.

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Finally, to mention only one more, but in many respects the most important, element of the whole program, Nation-wide provision was made to prevent any American from starving. Further, to maintain the self-respect of the needy unemployed, the bulk of relief was disbursed in the form of wages rather than doles, in return for labor services on thousands of local work relief projects scattered throughout the country.

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The program that we formulated and executed, plus the special requirements arising out of the great drought and the prepayment of the soldiers' bonus, cost a great deal of money. During the four years ended June 30, 1937, our total expenditures, exclusive of debt retirements, were fourteen billion dollars in excess of our receipts.

What were the major items accounting for this deficit?

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The arithmetic is simple. The largest single item, nine billions, arose out of unemployment relief, which included the Civilian Conservation camps and the great volume of useful services performed in connection with thousands of local projects. Another two billions went to the agricultural adjustment program. Another 2.2 billions went for the prepayment of the soldiers' bonus. Three and two-tenths billions went for public works. And one and one-half billions went for recoverable investments in governmental agencies making loans to farmers, home owners, railroads, banks, and the like. The total of these items is eighteen billion dollars. But increased tax collections and savings in the ordinary operating expenses of the Government reduced the net formal deficit to fourteen billions.

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Now the final net cost of our spending program will be very much less than this figure. We have made a number of substantial expenditures, aggregating about six and a half billions, of the kind that will directly reduce the budget requirements of future years. What were they?

One of them, amounting to more than 2.2 billions, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a regular charge upon the budget until 1945.

Another, amounting to more than one and a half billions, was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads, banks, and so on. The proprietary interest of the United States in these agencies now amounts to nearly four billion dollars. The peak in expenditures of this type was passed two years ago, and the proceeds from these loans and

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investments will become largely available for reductions in the public debt.

Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the outlays for these purposes in the preceding administration, and more than four times those in the one before that. These increased outlays in part anticipated future requirements.

If you were to subtract the total of these special expenditures from the formal deficit of fourteen billions, you would get a net cost of the recovery program of approximately seven and a half billions. Even this figure will eventually be reduced by two billion dollars or more as a result of the gold profit now lodged in the Stabilization Fund, every dollar of which is still in our possession, to be made available in due course for reducing the public debt.

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But let us waive these real offsets to the cumulated formal deficit. Let us look at the gross figure itself -- this fourteen billion dollars. Did we get our money's worth? I leave that question to your own judgment. I shall cite no long list of figures to measure the enormous improvement in the country's economic condition during those four years. As I said once before, this enormous improvement is confirmed by the firsthand experience of every man and woman in the range of my voice.

Nineteen years ago tomorrow we signed the Armistice ending the World War. In the two years ended June 30, 1919, the Federal Government spent thirty-one billion dollars and created a deficit of twenty-two billion dollars.

During the past four years, we have been engaged in another war. This time we fought to save farmers from losing their farms, to save home owners from losing their homes,

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to give not only bread but jobs to the unemployed, to bring order out of chaos in our economic system. This war cost us a good deal less than the war in 1917 and 1918. Is there anyone within my hearing who doubts that this war has been at least as worth while, in terms of results achieved, as that other war?

As in that other war, anyone can point to a dollar here or a dollar there that was not well spent. In any war we expect a general to be judicious in his use of munitions, but we hold no grudge if he unavoidably wastes a few bullets. So in this war, it may well be that the detailed uses of some of our relief funds might have been somewhat better planned; but such small wastes as may have crept in were as nothing when compared with both the human and material values that were at stake.

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We knew at the outset that to spend in a great way, as we have spent, meant a temporary series of unbalanced budgets. But we also knew that it meant the prospect of a revived and balanced national economy. We believed it better and wiser to balance the budget of the American people, when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people.

Let us for the moment ignore the very great human values that were involved. Let us take a very narrow view of the issue. We accumulated a formal deficit of fourteen billion dollars. Suppose a businessman had a chance to raise his income from forty thousand dollars to seventy thousand dollars a year by borrowing fourteen thousand dollars. He would certainly jump at the chance of borrowing that money. That, in one sense, is what we did. This fourteen billion dollar formal deficit has played an important part in raising our

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national income from less than forty billion dollars in 1932 to approximately seventy billions in 1937. Your fourteen billion dollar investment in America is currently yielding us a return of more than two hundred percent a year.

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I turn now to the second part of my discussion -- the reasons why a prompt balancing of the Federal budget is now desirable.

As I have indicated at some length, we have deliberately used an unbalanced Federal budget during the past four years to restore balance in the budgets of the American people. That policy has succeeded. We have licked the great depression. We have not, it is true, entirely solved the problem of unemployment, which was accentuated by that depression; nor have we completely solved various other problems. But the domestic problems that we face today are far less

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numerous and far less serious than the problems that we faced four years ago. And, even more important, the solution of these remaining problems requires different detailed techniques from those which were employed to attack the gross problems of the depression.

Some of 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 were 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 make use of capital funds that would otherwise have

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remained idle because of the absence of attractive investment opportunities in private industry.

Today the situation is greatly changed in these respects. 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. Any deficit spending that takes place from now on must be financed in large part by capital funds that would otherwise be available for business purposes.

I need hardly say that it is the aim of this Administration to foster and strengthen the conditions favorable for private business. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise.

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For these reasons we wish to minimize any further borrowing by the Federal Government; for such borrowing, unlike that which took place during the depression, would be at the expense of the funds available for industrial expansion.

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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.

We wish to preserve the power of the Federal Government to act as a balance wheel 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.

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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. The rates of interest on our borrowings, moreover, have been lower, for comparable securities, than at any other time in the history of the country.

This unimpeachable credit position of the Federal Government, however, has been maintained because of the conviction of investors that the Federal budget was only temporarily out of balance; that with business recovery substantially achieved, the President, the Congress and the great American public could be trusted to join in a whole-hearted and successful determination to balance the budget and to reduce the public debt.

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That time has now arrived.

To keep faith with the investors in Government bonds; to maintain the integrity of the credit and currency of the United States; to avoid draining capital funds from private industry; and to keep open unimpaired the future possibility of the use of deficit spending by the Federal Government as a balance wheel in industrial breakdowns, it is essential that we now fix our course to bring about a full balancing of the Federal budget for the fiscal year beginning next July 1.

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Let me turn, finally, to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I say to you with perfect confidence that, given the firm support of the public, and despite the pessimism of some, we shall definitely accomplish this objective.

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Let me give you some reasons for my confidence:

First, the accumulated deficit of the last four years does not represent any deterioration in the efficiency with which the ordinary operating departments of the Government are administered. We have actually spent less during the last four years for the operation of the legislative, judicial, and civil establishments of the Federal Government, despite their greatly increased responsibilities, than was spent during either of the two previous administrations.

We have spent more for purposes of national defense, but mainly to make up for previous neglect.

Despite the increase in the public debt, our annual interest charges are less today than they were in 1923.

The aggregate of the regular operating expenditures of the Federal Government, including all the items that I have mentioned, plus veterans' pensions and benefit payments,

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is running today at around 3.2 billion dollars annually, or less than in 1932.

It is clear, therefore, that a tight rein has been and is being kept on the ordinary operating expenditures of the Federal Government.

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In the second place, I should like to repeat that approximately six and a half billions of the expenditures of the past four years were expenditures of the kind that will directly reduce the budget requirements for future years.

In the third place, the fact that outlays for unemployment relief bulked so large in the deficits of the past four years is a fact of great promise now. The number of the needy unemployed has been drastically reduced.

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As a matter of fact, we have already made important reductions in expenditures; and the present fiscal year may be considered as the year of transition between unbalanced and balanced Federal budgets.

During the current fiscal year, we have been reducing our outlays for unemployment relief by approximately three-quarters of a billion dollars below those of the previous year. If, next year, we reduce these outlays by another four hundred millions or so, down to the level of twelve hundred millions, inclusive of the Civilian Conservation Corps camps, with the prospect of a further tapering off of these expenditures in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions

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for public works of all kinds for the fiscal year 1939, and such expenditures in subsequent years are brought down to the half-billion dollar level, this source of fiscal deficits will be eliminated.

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These are some reasons for optimism on the spending side of our budget picture. On the receipts side I can report to you a far greater degree of improvement than many people have believed possible.

The plain fact of the matter is that the Federal revenue structure today is stronger as well as more equitable than ever before in the history of our country.

When this Administration came into office, the total receipts of the Treasury had fallen to just over two billion dollars a year. In each year since that time they have

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shown marked increases -- the result both of improvements in our tax structure and of the revival in business.

In the fiscal year ended last June, our total receipts rose to five billion three hundred millions. Even this figure does not adequately reflect the strength of our present tax structure nor the great improvement in the national income that has occurred, because of the usual lag in tax collections. This means that there will be another very substantial increase in our tax revenues during the present fiscal year.

In the tax revisions that Congress is scheduled to make during the next session, the aim will not be to raise existing tax rates or to seek out new sources of tax revenue. The aim, rather, will be to make adjustments in existing taxes in the direction of achieving greater equity and of reducing hindrances to legitimate business enterprise.

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Some people are worried lest we curtail expenditures too rapidly. What I can tell you in this respect may reassure such people.

The plain fact of the matter is that the unspent appropriations already made for public works and similar projects are so great that large expenditures for these purposes will continue into the fiscal year 1939 even if Congress does not appropriate another dollar for them.

When we entered the fiscal year 1938 last July 1, the total appropriations available for public buildings, public highways, river and harbor improvements, flood control, P.W.A. grants, soil erosion, emergency housing, and similar purposes, stood at more than one and a half billions. Some eight hundred sixty-nine millions of this will be spent during the present fiscal year. This will leave approximately

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seven hundred millions to be spent in the fiscal year 1939 without a single dollar of additional appropriations.

It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending.

It is by no means necessary, even if it were possible, to make immediate wholesale eliminations of Federal expenditures. It is necessary, however, that we see precisely where we are going; and that we see the picture whole.

But when I say that I am confident that we shall balance the budget during the coming year without violent disruption of existing programs, I do not mean to say that the job will be an easy one, or that it can be accomplished without stepping on anybody's toes.

The United States Chamber of Commerce is on record as strongly in favor of an immediate balancing of the budget. But what happens in every local Chamber of Commerce

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when a proposal is made to eliminate a nearby Civilian Conservation Corps camp or to reduce an allocation for a local public works project? Letters and telegrams pour in upon the Congressmen and Senators, complaining of the great harm to local interests if these Federal expenditures are reduced.

Balancing the budget is your problem -- the problem of every citizen of the country, no less than the problem of the legislative and executive branches of the Government.

It was the strong support of the American public that made it possible for us to bring this country out of the depression and to carry through many important reforms. With this same support, we shall accomplish the simpler task of balancing the Federal budget.

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 and before the radio audience the subject of Federal spending and its relation to the balancing of the Federal budget.

I shall not keep you in suspense with respect to the main conclusion of my discussion, namely, I believe that we should and that we will balance the Federal budget during the very next fiscal year, which begins July 1, 1938.

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

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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 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.

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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, required outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts. This was a good deal less than our two-year deficit of 1917 to 1919. But is there anyone within my hearing who doubts that the results of this deficit have been at least as much worth while as those of that other deficit?

As in that other war, anyone can point to a dollar here or a dollar there that was not well spent. In any war we expect a general to be judicious in his use of munitions, but we hold no grudge if he unavoidably wastes a few bullets. So in this war, it may well be that the detailed uses of

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some of our relief funds might have been somewhat better planned; but such small wastes as may have crept in were as nothing when compared with both the human and material values that were at stake.

Let us look for a moment at the major items that account for our four-year deficit.

The arithmetic is simple. The largest single item, nearly nine billions, arose out of unemployment relief, which included the Civilian Conservation Corps camps and the great volume of useful services performed in connection with thousands of local work-relief projects. Another two billions went to the agricultural adjustment program. Another $2\frac{1}{2}$ billions went for the prepayment of the soldiers' bonus. About $3\frac{1}{2}$ billions went for public works. And one and one-half billions went for recoverable investments in governmental agencies making loans to farmers, home owners,

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railroads, banks, and the like. The total of these items is eighteen billion dollars. But increased tax collections and savings in the ordinary operating expenses of the Government reduced the net formal deficit to fourteen billions.

Now the final net cost of our spending program will be very much less than this figure. We have made a number of substantial expenditures, aggregating about six and a half billions, of the kind that will directly reduce the budget requirements of future years. What were they?

One of them, amounting to $2\frac{1}{2}$ billions, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a regular charge upon the budget until 1945.

Another, amounting to more than one and a half billions, was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads,

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banks, and so on. These outlays, added to those of previous administrations, have increased the proprietary interest of the United States in these agencies to nearly four billion dollars. The peak in expenditures of this type was passed two years ago, and the proceeds from these loans and investments will become largely available for reductions in the public debt.

Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the outlays for these purposes in the preceding administration, and more than four times those in the one before that. These increased outlays in part anticipated future requirements.

If you were to subtract the total of these special expenditures from the formal deficit of fourteen billions, you would get a net cost of the recovery program of approximately seven and a half billions. Even this figure will

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eventually be reduced by two billion dollars or more as a result of the gold profit now lodged in the Stabilization Fund, every dollar of which is still in our possession, to be made available in due course for reducing the public debt.

But let us waive these real offsets to the cumulated formal deficit. Let us look at the gross figure itself -- this fourteen billion dollars. Did we get our money's worth? I leave that question to your own judgment. I shall cite no long list of figures to measure the enormous improvement in the country's economic condition during those four years. As I said once before, this enormous improvement is confirmed by the firsthand experience of every man and woman in the range of my voice.

We knew at the outset that to spend in a great way, as we have spent, meant a temporary series of unbalanced budgets.

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But we also knew that it meant the prospect of a revived and balanced national economy. We believed it better and wiser to balance the budget of the American people, when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people.

Let us for the moment ignore the very great human values that were involved. Let us take a very narrow view of the issue. We accumulated a formal deficit of fourteen billion dollars. Suppose a businessman had a chance to raise his income from forty thousand dollars a year to seventy thousand by borrowing fourteen thousand dollars. He would certainly jump at the chance of borrowing that money. That, in one sense, is what we did. This fourteen billion dollar formal net deficit has played an important part in raising our national income from less than forty billion dollars in 1932 to approximately seventy billions in 1937. Your fourteen

Secretary's Speech - 9

billion dollar investment in America is currently yielding us a return of more than two hundred percent a year.

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I turn now to the second part of my discussion -- the reasons why I believe that the Federal budget should now be balanced.

As I said a moment ago, we have deliberately used an unbalanced Federal budget during the past four years to restore balance in the budgets of the American people. That policy has succeeded. We have licked the great depression. We have not, it is true, entirely solved the problem of unemployment, which was accentuated by that depression; nor have we completely solved various other problems. But the domestic problems that we face today are far less numerous and far less serious than the problems that we faced four years ago. And, even more important, the solution of these

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remaining problems requires different detailed techniques from those which were employed to attack the gross problems of the depression.

Some of 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 make use of capital funds that would otherwise have remained idle because of the absence of attractive investment opportunities in private industry.

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Today the situation is greatly changed in these respects. 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. Any deficit spending that takes place from now on must be financed in large part by capital funds that would otherwise be available for business purposes.

I need hardly say that it is the aim of this Administration to foster and strengthen the conditions favorable for private business. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise.

For these reasons we wish to minimize any further borrowing by the Federal Government; for such borrowing,

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unlike that which took place during the depression, would be at the expense of the funds available for industrial expansion.

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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.

We wish to preserve the power of the Federal Government to act as a balance wheel 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.

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

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even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. The rates of interest on our borrowings, moreover, have been lower, for comparable securities, than at any other time in the history of the country.

However, this unimpeachable credit position of the Federal Government has been maintained because of the conviction of investors that the Federal budget was only temporarily out of balance; that with business recovery substantially achieved, the President, the Congress, and the great American public could be trusted to join in a whole-hearted and successful determination to balance the budget and to reduce the public debt.

That time has now arrived.

To keep faith with the investors in Government bonds; to maintain the integrity of the credit and currency of

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the United States; to avoid draining capital funds from private industry; and to keep open unimpaired the future possibility of the use of deficit spending by the Federal Government as a balance wheel in industrial breakdowns, it is essential that we now fix our course to bring about a full balancing of the Federal budget for the fiscal year beginning next July 1.

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Let me turn, finally, to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I say to you with perfect confidence that, given the firm support of the public, and despite the pessimism of some, we shall definitely accomplish this objective.

Let me give you some reasons for my confidence:

First, the accumulated deficit of the last four years does not represent any deterioration in the efficiency with

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which the ordinary operating departments of the Government are administered. While several new functions may require somewhat larger outlays in the future, we have actually spent less during the last four years for the operation of the legislative, judicial, and civil establishments of the Federal Government, despite their greatly increased responsibilities, than was spent during either of the two previous administrations.

We have spent more for purposes of national defense, but mainly to make up for previous neglect.

Despite the increase in the public debt, our annual interest charges are less today than they were in 1923.

The aggregate of the regular operating expenditures of the Federal Government, including all the items that I have mentioned, plus veterans' pensions and benefit payments,

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is running today at around 3.2 billion dollars annually, or less than in 1932.

It is clear, therefore, that a tight rein has been kept on the ordinary operating expenditures of the Federal Government.

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In the second place, I should like to repeat that approximately six and a half billions of the expenditures of the past four years were expenditures of the kind that will directly reduce the budget requirements for future years.

In the third place, the fact that outlays for unemployment relief bulked so large in the deficits of the past four years is a fact of great promise now. The number of the needy unemployed has been drastically reduced.

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As a matter of fact, we have already made important reductions in expenditures; and the present fiscal year may be considered as the year of transition between unbalanced and balanced Federal budgets.

During the current fiscal year, we have been reducing our outlays for unemployment relief by approximately three-quarters of a billion dollars below those of the previous year. If, next year, we reduce these outlays by another four hundred millions or so, down to the level of twelve hundred millions, inclusive of the C.C.C. camps, with the prospect of a further tapering off of these expenditures in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions

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for public works of all kinds for the fiscal year 1939, and such expenditures in subsequent years are brought down to the half-billion dollar level, this source of fiscal deficits will be eliminated.

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These are some reasons for optimism on the spending side of our budget picture. On the receipts side I can report to you a far greater degree of improvement than many people have believed possible.

The plain fact of the matter is that the Federal revenue structure today is stronger as well as more equitable than ever before in the history of our country.

When this Administration came into office, the total receipts of the Treasury had fallen to just over two billion dollars a year. In each year since that time they have shown marked increases -- the result both of improvements

Secretary's Speech - 19

in our tax structure and of the revival in business. For the present fiscal year, the revised estimates of receipts total six billion six hundred and fifty millions.

In the tax revisions that Congress is scheduled to make during the next session, the aim will not be to raise existing tax rates or to seek out new sources of tax revenue. The aim, rather, will be to make adjustments in existing taxes in the direction of achieving greater equity and of reducing hindrances to legitimate business enterprise.

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Some people are worried lest we curtail expenditures too rapidly. What I can tell you in this respect may reassure such people.

The plain fact of the matter is that the unspent appropriations already made for public works and similar projects are so great that large expenditures for these

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purposes will continue into the fiscal year 1939 even if Congress does not appropriate another dollar for them.

When we entered the fiscal year 1938 last July 1, the total appropriations available for public buildings, public highways, river and harbor improvements, flood control, P.W.A. grants, soil erosion, emergency housing, and similar purposes, stood at more than one and a half billions. Some eight hundred sixty-nine millions of this will be spent during the present fiscal year. This will leave approximately seven hundred millions to be spent in the fiscal year 1939 without a single dollar of additional appropriations.

It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending.

It is by no means necessary to make immediate wholesale eliminations of Federal expenditures. It is necessary, however, that we see precisely where we are going; and that we see the picture whole.

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But when I say that I am confident that we shall balance the budget during the coming year without violent disruption of existing programs, I do not mean to say that the job will be an easy one, or that it can be accomplished without stepping on anybody's toes.

The United States Chamber of Commerce is on record as strongly in favor of an immediate balancing of the budget. But what happens in every local Chamber of Commerce when a proposal is made to eliminate a nearby C.C.C. camp or to reduce an allocation for a local public works project? Letters and telegrams pour in upon the Congressmen and Senators, complaining of the great harm to local interests if these Federal expenditures are reduced.

Balancing the budget is your problem -- the problem of every citizen of the country, no less than the problem of the legislative and executive branches of the Government.

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It was the strong support of the American public that made it possible for us to bring this country out of the depression and to carry through many important reforms. With this same support, we shall accomplish the simpler task of balancing the Federal budget.

#4
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.

I shall not keep you in suspense with respect to the
main conclusion of my discussion, namely, I believe that
we should and that we will balance the Federal budget
during the very next fiscal year, which begins July 1, 1938.

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

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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 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.

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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 thirteen and a half billions in excess of those of the previous administration and of some fourteen billion dollars in excess of our receipts. This was a good deal less than our war expenditures and deficits of 1917 to 1919. But is there anyone within my hearing who doubts that the results of this war have been at least as much worth while as those of that other war?

As in that other war, anyone can point to a dollar here or a dollar there that was not well spent. In any war we expect a general to be judicious in his use of munitions, but we hold no grudge if he unavoidably wastes a few bullets. So in this war, it may well be that the detailed uses of

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some of our relief funds might have been somewhat better planned; but such small wastes as may have crept in were as nothing when compared with both the human and material values that were at stake.

Let us look for a moment at the major items of our spending program.

First of all, let me emphasize that, despite increased responsibilities, the ordinary operating expenditures of the Federal Government -- including the legislative, judicial, and civil establishments, national defence, ordinary veterans' pensions and benefits, and interest on the public debt -- were actually less during the past four years than during the previous administration. A tight rein has been kept on our ordinary expenditures. Our deficit has been due entirely to the special emergency outlays. What were they?

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The arithmetic is simple. The largest single item, nearly nine billions, arose out of unemployment relief, which included the Civilian Conservation Corps camps and