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 two and a quarter billions went for the prepayment of the soldiers' bonus. About three and a quarter 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.

Now the final net cost of our spending program will be reduced by a number of offsetting items, some of which will directly reduce the budget requirements of future years. What were they?

One of them, amounting to two and one quarter 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. 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.

Further, for many years to come, the country will enjoy the fruits of our large public works expenditures of the

past four years. These expenditures, which can properly be termed investments, were more than twice as great as in the preceding administration, and more than four times those in the one before that.

Finally, the financial costs of our recovery program will eventually be reduced by another 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. 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 unbalanced, 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, in addition to doing certain other things. 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 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 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 meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

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

I claim no prophetic insight into the future. But, after giving serious and prolonged consideration to all these and other facts, 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; and that their solution, though requiring other techniques as well, will best be furthered in the present juncture by a balanced Federal budget.

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

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

Our basic need today is to foster the application of the driving force and initiative of private capital to the present favorable circumstances. One of the most important ways of doing this is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds

was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to make use of capital funds that would otherwise have remained idle.

Today the situation is greatly changed in this respect. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first nine months of the present calendar year, the weekly reporting member banks of the Federal Reserve System reduced their holdings of Government securities by fourteen hundred forty-five millions inorder 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 from now on must be financed in large part by capital funds that would otherwise be available for business purposes.

Some persons mistakenly believe that this Administration is against private business. I want to emphasize 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 private 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, unlike that which took place during the depression, would be at the

expense of the funds available for industrial expansion. The sizeable national problems that remain should be attacked, in my opinion, strictly within the limits of the balanced budget.

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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 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.

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.

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 American people generally 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 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 stabilizing factor 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 want to be completely frank with you in stating that, however much we may all agree on this objective, it will be an exceedingly difficult task and one that cannot be accomplished at all without the complete cooperation of the American public.

Let us frankly look at some of the practical difficulties. The budget for the current fiscal year shows estimated receipts of six billion six hundred million dollars and estimated expenditures (exclusive of debt retirement) of seven billion three hundred million dollars. We not only have to close this gap of seven hundred million dollars, but must add a further six hundred million dollars for annual statutory debt retirement before we can say that the budget is completely in balance.

As a practical matter, which of our expenditures can be reduced? There would seem to be little possibility of reducing our ordinary operating expenditures, which are running very little higher than they did in 1932. When allowance is made for new Federal functions that have been assumed, such as soil conservation programs, social security, and miscellaneous items, we arrive at a regular operating budget

slightly in excess of five billion dollars, without taking into account expenditures for unemployment relief, the C.C.C. camps, or debt retirement.

If this were all, the situation would not be so difficult. But there are other factors involved--factors that should reassure those persons who are worried lest we curtail expenditures too rapidly. Look at the public works picture. At this moment, 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.

Further, the Congress of the United States has already authorized public works programs which, if carried out as planned, would involve expenditures over the next five years or more than two billion dollars. Past experience indicates that before this five-year period ends, Congress will have added several hundred millions of dollars for additional public works.

Furthermore, we do not know yet what the total 1939 expenditures for assistance to agriculture will be. Corn and cotton loans through the Commodity Credit Corporation and benefit payments to farmers in any new program of crop

control may swell still further the expenditure side of our budget. Finally, none of the figures that I have cited include any appropriations which may have been made by Congress, either in the special session or in the regular session for new programs.

It is obvious that balancing the budget for the fiscal year beginning next July 1 is going to be an extremely difficult task. It will require thorough-going cooperation on all sides -- I mean practical cooperation. There are many who publicly clamor for a balanced budget, but who, nevertheless, strongly support requests for Federal expenditures to be made in their own local districts. We cannot succeed in balancing the budget next year without that real cooperation which includes acceptance of the necessity for curtailing Federal expenditures near home as well as those farther away.

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I have cited these real difficulties because I want no one to be under any illusion. I want emphatically to declare, however, that, with the thorough-going cooperation of the public, the prospect for a balanced budget in the year beginning July 1, 1938, is not a hopeless one.

I want to point out that we have already made important reductions in expenditures; and that the present fiscal year, with your cooperation, should prove to be the year of transition between unbalanced and balanced Federal budgets.

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. Business revival has greatly reduced the number of the needy unemployed. This fact is enabling us to make a reduction of approximately three-quarters of a billion dollars in our outlays for unemployment relief this year 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 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 encouragement 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 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. Our present tax structure is strong enough. 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 enterprises.

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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.

#5

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

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.

Finally, this war, like that other war, required a large spending program -- but with this difference: Our money did not go up in smoke, and much of our expenditures will come back to us as material offsets against the gross costs of our recovery program.

During the four years ended June 30, 1937, we spent some fourteen billion dollars in excess of our receipts. During this period, a tight rein was kept on the ordinary operating expenditures of the Federal Government. I should like to emphasize that these ordinary operating expenditures, including the legislative, judicial and civil establishments, provision for national defense, ordinary veterans' pensions and benefits, and interest on the public debt, were actually less than during the previous administration.

Let us confine our attention, therefore, to the other chief items of expenditures:

The largest single item -- nearly nine billions -- arose out of unemployment relief, which included C.C.C. camps and the great volume of useful services performed throughout the country on thousands of local work relief projects.

Another two billions went to the agricultural adjustment program.

About three and a quarter billions went for durable public works, which will render services to the country for many years to come. Our public works expenditures during the past four years were more than twice as great as in the preceding administration, and more than four times those of the administration before that.

More than two and a quarter billions went for the payment, nine years in advance, for the soldiers' bonus, which otherwise would have been a regular charge upon the budget until 1945.

And one and a half billions went for recoverable investments in governmental agencies that made loans to farmers, home owners, railroads, banks, and the like -- the proceeds from which investments will largely be reimbursed to the Treasury.

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 excess of expenditures over receipts to approximately fourteen billion dollars. 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 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.

Now, the final net financial costs of our spending program will eventually be reduced, not only by the offsetting items that I have already indicated, but by another two billions 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. 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 unbalanced, 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, in addition to doing certain other things. 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 played an important part in raising our national income from less than forty billion dollars in 1932 to approximately seventy billions in 1937.

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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 meet

a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

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

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

will best be furthered in the present juncture by a balanced Federal budget.

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

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

et cetera. We have not reached the stage of full employment. 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.

Our basic need today is to foster the application of the driving force and initiative of private capital to the present favorable circumstances. Careful study has convinced me that one of the most important ways of doing this is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression

no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to make use of capital funds that would otherwise have remained idle.

The situation of today is quite different. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first nine months of the present calendar year, the weekly reporting member banks of the Federal Reserve System reduced their holdings of Government securities by

fourteen forty-five millions in order to meet the actual and prospective demands for commercial credit. The securities that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by other 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. And, on the other hand, any debt retirements that we can effect under these conditions will tend to increase the capital funds available for private business.

Some persons mistakenly believe that this Administration is against private business. I want to emphasize 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 private capital funds are actively employed in productive enterprise.

For these reasons I believe the time has come to balance our budget and make sizeable reductions in the public debt in order that the volume of capital funds available for private industry may be increased.

Sizeable national problems will remain, as I have already indicated; and the Federal Government will rightly be called upon for help in their solution. The Government can rightly be called upon to aid in solving the problems of business, labor, and agriculture; but all such problems, in my opinion, should be attacked strictly within the limits of a balanced budget.

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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 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.

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.

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 American people generally 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 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 stabilizing factor 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.

Let me turn finally to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I want to be completely frank with you: The difficulties will be almost insurmountable.

Nearly everyone, under present conditions, is likely to express himself in favor of a balanced budget. "Balance

the budget" is a kind of slogan that many people voice without a real understanding of what it involves. Budgets don't get balanced merely by a general desire to balance them. Specific expenditures must be cut, which involves painful curtailment of otherwise desirable activities; or revenues must be increased, which usually means a reduction in private expenditures. There is no painless magic way to balance the budget.

First of all, to eliminate this year's net deficit of seven hundred millions and to provide six hundred millions for debt retirement, we must somehow bring about a net improvement of thirteen hundred million dollars next year over this year's budgetary position. That means, unless receipts should increase, we would have to limit our total net expenditures to six billion dollars as compared with seven point three billions this year.

Now see how difficult, if not impossible, it would be to do this, despite all the good will and determination in the world:

The ordinary operating expenses of the Federal Government, including national defense and interest on the public debt, are running about the same as in 1932; and I do not believe that significant savings can be looked for here. Indeed, because of added responsibilities, these expenditures might be expected to increase.

If we assume, however, that they will run no higher next year than this year, and if we add provision for social security and for actual appropriations already available for next year's public works, we reach a subtotal of about five billion dollars. This would mean that to keep within the limit of six billions of total net expenditures, we would have to cut our aggregate outlays for unemployment relief.

the C.C.C. camps, and the agricultural adjustment program to a total of one billion dollars, or about half the amount allowed for these purposes during the current year -- unless, of course, receipts increase or other expenditures are curtailed.

I have already indicated how difficult it would be to curtail other types of expenditures. Let me now point out that, on the contrary, certain other types of expenditures, at least, are likely to increase.

Let us look first at the effects of the statutory provisions which govern Federal grants to the States for public highways. Last December the Secretary of Agriculture under these statutes apportioned two hundred sixteen million dollars of Federal money to the States for highway projects for the current fiscal year; and he is scheduled to make a further apportionment of a like amount this coming December

for the fiscal year 1939. Against these apportionments, Congress has thus far actually appropriated only twenty-four millions. The States, meanwhile, are making their plans and commitments for highway projects under these apportionments. As the Secretary of Agriculture approves these projects, more than four hundred million dollars of additional appropriations, though not all of it in 1939, will be necessary to meet the program already provided for by existing statutes.

Finally, as you are all aware, discussion is now taking place in Congressional committees with respect to an enlarged program of soil conservation and agricultural adjustment. The figures that I have cited would appear to indicate very definitely that the Federal Government cannot significantly increase its aid to agriculture within the limits of a balanced budget unless tax revenues are increased to meet the new requirements.

I have cited these very real difficulties in the path of budget balancing because I want no one to be under any illusions. The budget will not be balanced without the very vigorous cooperation of all sections of the public.

On the other hand, I do not want to leave you under the impression that the picture is a hopeless one. We have already made considerable progress this year toward this second phase of our fiscal program -- a balanced budget and adequate debt reduction; and with the wholehearted cooperation of the public the present fiscal year should prove to be the year of transition between unbalanced and balanced Federal budgets.

The business recovery of the past year has enabled us to make reductions that will total some three-quarters of a billion dollars in our outlays for unemployment relief this year below those of the previous year. If another substantial

reduction can be made next year, with the prospect of a continuing tapering off 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 for public works of all kinds for the fiscal year 1939, and if suitable alterations in our highway program can be made at an early date, these sources of fiscal deficits will be eliminated.

Further, in his Summation of the 1938 Budget, the President announced that no further new commitments would be made by the Reconstruction Finance Corporation or the Public Works Administration, thereby eliminating other sources of our past deficits.

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These are some reasons for encouragement 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 is stronger today 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. 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 regular session, the primary aim will not be

to increase the total amount of revenue to be collected. It is my hope that, on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, adjustments in existing taxes will be made in the interest of greater equity and of reducing any demonstrated hindrances to legitimate business transactions. Unless appropriations are voted in excess of anticipated receipts, the revenue yielding power of the present tax structure will be great enough both to supply current requirements and to permit adequate provision for debt retirement.

In closing, let me remind you that it was the strong support of the American public that made it possible for us to bring this country out of the depression. We shall need this same vigorous support to provide for a prompt and full balancing of the Federal budget.

#6

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

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

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

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

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 prolonged consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago;

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

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

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

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

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

The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when private capital funds are actively employed in productive enterprise. One of the most important ways of doing this is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayer's 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.

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

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

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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 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.

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.

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 American people generally 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 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 stabilizing factor 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.

Let me turn finally to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I want to be completely frank with you: The difficulties will be almost insurmountable.

"Balance the budget" is a kind of slogan that many people voice without a real understanding of what it involves. Budgets don't get balanced merely by a general desire to balance them. Specific expenditures must be cut, which involves painful curtailment of otherwise desirable activities; or revenues must be increased, which usually means a reduction in private expenditures. There is no painless magic way to balance the budget.

First of all, to eliminate this year's net deficit of seven hundred millions and to provide six hundred millions for debt retirement, we must somehow bring about a net improvement of thirteen hundred million dollars next year over this year's budgetary position. That means, unless receipts should increase, we would have to limit our total net expenditures to six billion dollars as compared with seven point three billions this year.

Now see how difficult it will be to do this, despite all the good will and determination in the world:

The ordinary operating expenses of the Federal Government, including national defense and interest on the public debt, are running about the same as in 1932; and I do not believe that significant savings can be looked for here. Indeed, because of added responsibilities, these expenditures might even be expected to increase.

If we assume, however, that they will run no higher next year than this year, and if we add provision for social security and for actual appropriations already voted and available for next year's public works, we reach a subtotal of about five billion dollars.

If, now, we assume that relief expenditures and the C.C.C. camps combined can be cut to twelve hundred millions, our expenditures would total six point two billions, exclusive of the agricultural adjustment program. And if this

program were limited to the present year's outlay of four hundred seventy-five millions, our aggregate expenditures would reach just under six point seven billions.

In other words, in the absence of an increase in receipts, and if no other expenditures were made, we would just about balance our budget, exclusive of any provision for debt retirement.

Now, let me point out that I have ignored some expenditures that are almost certain to be made.

Let us look first at the effects of the statutory provisions which govern Federal grants to the States for public highways. Last December the Secretary of Agriculture under these statutes apportioned two hundred sixteen million dollars of Federal money to the states for highway projects for the current fiscal year; and he is scheduled to make a further apportionment of a like amount this coming December

for the fiscal year 1939. Against these apportionments, Congress has thus far actually appropriated only twenty-four millions. The States, meanwhile, are making their plans and commitments for highway projects under these apportionments. As the Secretary of Agriculture approves these projects, more than four hundred million dollars of additional appropriations, though not all of it in 1939, will be necessary to meet the program already provided for by existing statutes.

Finally, as you are all aware, discussion is now taking place in Congressional committees with respect to an enlarged program of soil conservation and agricultural adjustment. The figures that I have cited would appear to indicate very definitely that the Federal Government cannot significantly increase its aid to agriculture within the limits of a balanced budget unless tax revenues are increased to meet any new requirements.

I have cited these very real difficulties in the path of budget balancing because I want no one to be under any illusions. The budget will not be balanced without very real sacrifices and the very vigorous cooperation of all sections of the public.

On the other hand, I do not want to leave you under the impression that the picture is a hopeless one. We have already made considerable progress this year toward this second phase of our fiscal program -- a balanced budget and adequate debt reduction; and with the wholehearted cooperation of the public the present fiscal year should prove to be the year of transition between unbalanced and balanced Federal budgets.

The business recovery of the past year has enabled us to make reductions that will total some three-quarters of a billion dollars in our outlays for unemployment relief this year below those of the previous year. If another substantial

reduction can be made next year, with the prospect of a continuing tapering off 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 for public works of all kinds for the fiscal year 1939, and if suitable alterations in our highway program can be made at an early date, these sources of fiscal deficits will be eliminated.

Further, in his Summation of the 1938 Budget, the President announced that no further new commitments would be made by the Reconstruction Finance Corporation or the Public Works Administration, thereby eliminating other sources of our past deficits.

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These are some reasons for encouragement 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 is stronger today 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. 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 regular session, the primary aim will not be

to increase the total amount of revenue to be collected. It is my hope that, on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, adjustments in existing taxes will be made in the interest of greater equity and of reducing any demonstrated hindrances to legitimate business transactions. Unless appropriations are voted in excess of anticipated receipts, the revenue yielding power of the present tax structure will be great enough both to supply current requirements and to permit adequate provision for debt retirement.

In closing, let me remind you that it was the strong support of the American public that made it possible for us to bring this country out of the depression. We shall need this same vigorous support to provide for a prompt and full balancing of 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 the subject of Federal spending and its relation to the balancing of the Federal budget.

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

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

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 prolonged consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago;

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

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

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

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

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

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

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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 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.

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.

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

I turn finally to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I want to be completely frank with you: The problem is a complicated one and the difficulties will be extremely great.

"Balance the budget" is a kind of slogan that many people voice without a real understanding of what it involves. Budgets don't get balanced merely by a general desire to balance them. Specific expenditures must be cut, which involves painful curtailment of otherwise desirable activities; or revenues must be increased, which might involve a heavier tax burden upon business and the public. There is no painless magic way to balance the budget.

Further, there are two senses in which the expression, a balanced budget, is commonly used with reference to the Federal finances: First, in the businessman's sense, in which it means that all current expenditures, including

accruing obligations, are met by current revenues, so that there is no increase in the net public debt -- with the exception that the Government, unlike a businessman, treats its outlays for fixed plant and recoverable investments as current expenditures, and its collections therefrom as available for such expenditures. Second, there is the more technical sense, based upon existing statutes, which would require, in addition, a reduction of about six hundred millions next year in the net public debt. In which of these two senses shall we strive for a balanced budget next year?

Now, as I have already indicated, the budgetary policies of the Federal Government exert such important general economic effects that there are times when deficit spending on the part of the Federal Government is the wisest kind of economic policy. I have also expressed my strong conviction, however, that the economic welfare of the country would best

be served at this juncture by a complete cessation of deficit spending.

But shall we go further? Shall we deliberately increase taxes and reduce expenditures to such a point that, regardless of business conditions, we shall raise an additional six hundred million dollars for debt reduction next year? My considered opinion, and I say it to you with a full sense of my responsibilities as the Secretary of the Treasury, is that we should not. Let me tell you why.

In the first place, we are definitely in a transition period between unbalanced and balanced Federal budgets. We are making remarkable progress toward a balanced budget this year. Relatively few persons realize that the net improvement which is being accomplished this year, as compared with last 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.

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

In the second place, I should like to point out that more than two-thirds of this year's budgetary improvement is coming about as a result of increased revenues, which reflect both improving business conditions and higher taxes. I believe that it would be extremely unwise in its effects upon business to raise taxes further at this time in order to accumulate a surplus of six hundred million dollars for debt retirement.

I believe that the revenue yielding power of the present tax structure is ample under all ordinary conditions. In the tax revisions which the Congress is scheduled to make during its next regular session, the primary aim, I hope, will not be to increase the total amount of revenue to be collected. I trust that on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, it will be possible to make adjustments in existing taxes in the direction of achieving greater equity and of reducing any demonstrated hindrances to legitimate business transactions. I am in favor of reducing, rather than adding to, the existing tax burdens upon business enterprise.

My third reason for believing that it would be unwise as well as impractical to set as an inflexible goal for next year the accumulation of a surplus of six hundred millions for debt retirement, in addition to the ordinary balancing

of the budget, relates to the expenditure side of the budget picture. The American people, through their elected representatives in the Congress, have delegated new and important responsibilities to the Federal Government. I am in favor of cutting ruthlessly every dollar of unnecessary expenditure. But the Government must adequately discharge the responsibilities that have been delegated to it.

The ordinary operating expenses of the Federal Government, including national defense and interest on the public debt, are running today at about the same as in 1932; and I do not believe that any significant savings can be looked for here. As respects unemployment relief, the business recovery of the past year is enabling us to make reductions in expenditures that will total some three-quarters of a billion dollars below those of last year. I believe it will be possible to effect another substantial reduction next year, thereby reducing to manageable proportions the largest single

source of our past deficits. But I do not believe, both in the interests of humanity and of the very real public services financed by these expenditures, that they can be eliminated next year.

As respects public works, we must face the fact that even if Congress does not appropriate an additional dollar, some seven hundred millions of unspent appropriations will be available for public works of all kinds in the fiscal year 1939. I should deplore any substantial additions to these already-available appropriations, but, on the other hand, it would likewise be unwise because disruptive to business, suddenly to cease all such expenditures, even if that were practicable.

In sum, I strongly believe that we should reduce our expenditures below those of this year by a very substantial amount -- seven hundred millions or more; but I do not believe that it would be compatible with the enlarged

responsibilities of the Government, or that it would be economically sound, or that it would be even practicable, to reduce them by any significantly greater amount.

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My final reason for believing that we should not increase taxes or eliminate essential expenditures in order to create a surplus of six hundred millions for the Sinking Fund next year, relates to the problem of debt retirement and the capital markets.

The Social Security Act has entirely transformed the problem of the management of the public debt. Next year, as a result of this Act and of the related State laws, it is estimated that the Federal Treasury will receive more than one billion dollars net for investment in Government obligations for the Old-Age Reserve Account and the Unemployment Trust Fund.

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

What will we do with this cash, if all of our current expenditures, including full provision for accruing liabilities, are balanced by current receipts, except for statutory provision for debt retirement? The answer is that we will use this billion dollars to retire public debt now in the hands of private investors.

What will these private investors do with the funds that they receive in payment of their Treasury securities? If they are to avoid loss of income, they will invest these funds in the securities issued by business corporations and by our State and local governments.

In other words, even without accumulating a six hundred million dollar surplus from tax receipts for statutory debt retirement, the Treasury next year would be adding one billion dollars of capital funds to the capital markets, to be available for new productive uses.

It is true that this very substantial retirement of public debt now held by private investors will not reduce the total public debt. But it will mean a transfer of the public debt from the hands of private investors to the Old-Age Reserve Account and the Unemployment Trust Fund; This will enable us to pay interest on the funds paid into the Old-Age Reserve Account and the Unemployment Trust Fund; and, at the same time, to make this money go to work in private industry.

I should like to point out that even during the decade of the Twenties, when we were still 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 one hundred eighty-five millions.

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Now, I have been speaking as if it will be easily possible, without increases in taxation or drastic cuts in expenditures, to arrive at an ordinary balancing of the budget, without statutory debt retirement, in the next fiscal year. I want now to outline briefly just what this would involve:

Our total receipts for the current fiscal year are estimated at six billions six hundred fifty millions. We can look forward with reasonable assurance to achieving a balanced budget in the sense that I have described only if our expenditures during the next fiscal year do not exceed an amount equal to this year's receipts.

I do not mean to deny the possibility that our revenues next year may be greater than those of this year. Indeed, with active business, they might conceivably rise by several hundred millions. But this year's receipts are at a relatively high level, and I do not believe it prudent, in view

of the fact that the end of the next fiscal year is nineteen months hence, to base our budget policy on any higher level of receipts than those estimated for the current year.

If our revenues of next year should happen to exceed those of this year, every dollar of those additional revenues should be used to retire debt. In addition, every dollar that we realize from the repayment of loans and capital advances to Government credit agencies and revolving funds should be set aside for debt retirement. In no event, in my opinion, should we contemplate total expenditures, exclusive of debt retirement, in excess of the level of this year's estimated receipts -- six billions six hundred fifty millions.

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Now, I have indicated that the budget can be balanced in a businessman's sense and, under favorable conditions, large reductions made in the public debt, without increases

in taxation, if expenditures next year can be reduced by some seven hundred million dollars below this year's. Can we make such a reduction? I believe that we can; but only with the very vigorous cooperation of the whole American public.

Most of the regular expenditures of the Government are relatively inflexible, and I have indicated that little saving can be looked for there. We shall have to look principally to three major fields: Unemployment relief, public works, and agriculture.

I have already indicated that we may expect a material, but not a drastic, reduction in relief expenditures. I strongly hope that we shall be able to effect a significant reduction in public works expenditures. I anticipate that our greatest difficulty will lie in the field of agriculture.

Now, I am no enemy of agriculture. I am proud of my record as Governor of the Farm Credit Administration. I have

an abiding interest in the problems of the farmer. But I cannot ignore the fact that existing Congressional authorizations will permit total expenditures in the next fiscal year for agriculture and related purposes of more than one and one-quarter billion dollars, exclusive of public highways and other activities of only indirect benefit to agriculture; and that, in addition, discussion is now taking place in congressional committees with respect to a greatly enlarged program for agricultural expenditures.

Balancing the budget is in the interest of our agricultural, as well as other parts of our population; and it requires the cooperation of the farmer, as well as of all other sections of the public. It is essential that the representatives of agriculture, in making their demands upon Congress during the next session, keep in mind not only their special interests, but the financial integrity of the country as a whole.

In the field of public works, but under the Department of Agriculture, though distinct from its purely agricultural activities, is the administration of Federal grants to the States for public highways. Last December the Secretary of Agriculture under these statutes apportioned two hundred sixteen million dollars of Federal money to the States for highway projects for the current fiscal year; and he is scheduled to make a further apportionment of a like amount this coming December for the fiscal year 1939. Against these apportionments, Congress has thus far actually appropriated only twenty-four millions. As the Secretary of Agriculture approves the State projects, more than four hundred million dollars of additional appropriations, perhaps two hundred and fifty millions of it in 1939, will be necessary to meet the program already provided for by existing statutes. Can we afford to continue this program if we are to balance the budget without increased taxation?

Finally, I should like to mention that public works programs contemplated by the departments, most of them already approved by Congress, call for the expenditure during the next five years of about three and one-half billion dollars.

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

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

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

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

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 prolonged consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago;

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

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

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

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

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

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

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

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

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

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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 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.

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.

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

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 deficit of roughly seven hundred millions.

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

I am strongly opposed to increasing the aggregate tax burden at this time -- unless Congress insists upon voting appropriations in excess of the level of this year's receipts. I believe that an increase in taxes now would be most unfortunate in its effects upon business recovery and upon the public.

In the tax revisions which Congress is scheduled to make during its next regular session, the primary aim, I hope, will not be to increase the total tax burden. I trust that on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, it will be possible to make adjustments in existing taxes in the direction of achieving greater equity and of reducing any demonstrated hindrances to legitimate business transactions. I am in favor of reducing, rather than adding to, the existing tax burdens upon business enterprise.

I do not mean to deny that our revenues next year may not be greater than those of this year. Indeed, with active business, they might conceivably rise by several hundred millions. But this year's receipts are at a relatively high level, and I do not believe it prudent, in view of the fact that the next fiscal year will not begin until eight months hence, and will not end until twenty months hence, to base our budget policy on any higher level of receipts than those estimated for the current year.

If our revenues of next year should exceed those of this year, every dollar of those additional revenues should be used to retire debt. In addition, every dollar that the Treasury realizes from the repayment 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, -- namely six billions six hundred millions.

A reduction of seven hundred millions in the level of this year's expenditures will mean an over-all reduction of about ten percent. But most of the regular expenditures of the Government are relatively inflexible. I do not believe that we can effect material savings in the costs of the regular Government departments, interest on the public debt, national defense, and social security.

This means that we shall have to realize most of the seven hundred million dollars of savings in three fields -- unemployment relief, public works, and agriculture.

As respects unemployment relief, the business recovery of the past year is enabling us to make reductions in expenditures that will total some three-quarters of a billion

dollars below those of last year. I believe it will be possible to effect another substantial reduction next year, thereby reducing to manageable proportions the largest single source of our past deficits. But I do not believe, both in the interests of humanity and of the very real public services financed by these expenditures, that they can be drastically reduced next year.

As respects public works, we must face the fact that even if Congress does not appropriate an additional dollar, some seven hundred millions of unspent appropriations will be available for public works of all kinds in the fiscal year 1939. Further, Congress has already authorized Federal grants to the States for public highways, of four hundred thirty-three million dollars for the fiscal years 1938 and '39. Actual appropriations have thus far totaled only twenty-four millions, leaving more than four hundred

millions of additional appropriations, perhaps three hundred millions in 1939, still to be made.

Aggregate expenditures of about three and a half billion dollars during the next five years are involved in public works programs, most of them already approved by Congress, which have been formulated by the various Government departments.

Our public works programs, including Federal grants to the States for highway expenditures, must definitely be curtailed if we are to achieve a balanced budget.

I have indicated that we may expect a material, but not a drastic, reduction in relief expenditures. I strongly hope that we shall be able to effect significant reductions in public works outlays. But I anticipate that our greatest difficulty will lie in the field of agriculture.

Now, as you all know, I have long been interested in agriculture. I am proud of my record as Governor of the Farm Credit Administration. I have an abiding interest in the problems and welfare of the farmer. But I cannot ignore the fact that existing Congressional authorizations will permit total expenditures in the next fiscal year for agriculture and related purposes of more than one and one-quarter billion dollars, exclusive of public highways and other activities of only indirect benefit to agriculture; and that, in addition, discussion is now taking place in Congressional committees with respect to a greatly enlarged program for agricultural expenditures. A balanced budget will be virtually impossible if our expenditures for agriculture are not kept in check.

Balancing the budget is in the interest of our agricultural, as well as other parts of our population; and it requires the cooperation of the farmer, as well as of all other sections of the public. It is essential that the

representatives of agriculture, in making their demands upon Congress during the next session, keep in mind not only their special interests, but the financial integrity of the country as a whole.

I believe that largely from these three fields -- unemployment relief, public works, and agriculture -- it will be possible to effect aggregate net savings of seven hundred million dollars.

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Some persons are likely to object to the suggestions that I have made with respect to the balancing of the budget on the ground that I have not recommended a further slash in expenditures or an increase in taxes to provide an additional six hundred million dollars for the statutory Sinking Fund. I want now to reply to that objection:

My official responsibilities have naturally caused me to give very serious thought to the question of the

desirability of insisting that next year's budget, in addition to being balanced in a businessman's sense, should also provide for the accumulation of a surplus of six hundred million dollars for reduction of the public debt.

Put in another form, the question was: Should we deliberately increase taxes and reduce expenditures to such a point that, regardless of business conditions, we could be reasonably sure to raise an additional six hundred million dollars for debt reduction next year?

In response to the latter question, my considered opinion, and I say it to you with a full sense of my responsibilities as the Secretary of the Treasury, is that we should not. I should, of course, welcome the achievement of this broader goal, and I by no means consider it beyond the realm of possibility. But my thinking has run in terms of the minimum goal for which we must bend every effort to achieve. Because of a number of important considerations, it is

my belief that our minimum goal next year should be limited to the avoidance of any increase in the public debt. Let me tell you why:

In the first place, we are definitely in a transition period between unbalanced and balanced Federal budgets. We are making remarkable progress toward a balanced budget this year. Relatively few persons realize that the net improvement which is being accomplished this year, as compared with last 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.

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

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

In the second place, I should like to point out that more than two-thirds of this year's budgetary improvement is coming about as a result of increased revenues, rather than from reductions in expenditures. I should welcome a further large increase in tax receipts next year, if they reflected expansion in business activity rather than increases in taxes. But, as I have already indicated, I believe it would be unwise to raise taxes further at this time solely to accumulate a surplus of six hundred million dollars for debt retirement.

My third reason for believing that it would be unwise to set as an inflexible goal for next year the accumulation of a surplus of six hundred millions for debt retirement, in addition to the ordinary balancing of the budget,

relates to the expenditure side of the budget picture. 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 the extreme amounts that would be required to produce a six hundred million dollar surplus for the Sinking Fund.

My final reason for this view relates to the problem of debt retirement and the capital markets.

The Social Security Act has entirely transformed the problem of the management of the public debt. Next year, as a result of this Act and of the related State laws, it is estimated that the Federal Treasury will receive more than one billion dollars net for investment in Government

obligations for the Old-Age Reserve Account and the Unemployment Trust Fund.

In exchange for its obligations issued for these purposes, the Treasury will receive more than one billion dollars in cash. What will we do with this cash, if all of our current expenditures, including full provision for accruing liabilities, are balanced by current receipts, except for statutory provision for debt retirement? The answer is that we will use this billion dollars to retire public debt now in the hands of private investors.

What will these private investors do with the funds that they receive in payment of their Treasury securities? If they are to avoid loss of income, they will invest these funds in the securities issued by business corporations and by our State and local governments.

In other words, even without accumulating a six hundred million dollar surplus from tax receipts for

statutory debt retirement, the Treasury next year would be adding one billion dollars of capital funds to the capital markets, to be available for new productive uses.

It is true that this very substantial retirement of public debt now held by private investors will not reduce the total public debt. But it will mean a transfer of the public debt from the hands of private investors to the Old-Age Reserve Account and the Unemployment Trust Fund. This will enable us to pay interest on the funds paid into the Old-Age Reserve Account and the Unemployment Trust Fund; and, at the same time, to make this money go to work in private industry.

I should like to point out that even during the decade of the Twenties, when we were still 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.

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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 underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it could be achieved only by eliminating essential Federal services or by increasing the existing tax burden.

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

#9

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

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

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

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

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 prolonged consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago.

any measures are required in their solution. one of these measures in the present juncture is a balanced budget.

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

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

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

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

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

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

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

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

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

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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.

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

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

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

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

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

~~I am strongly opposed to increasing~~ We ought not to increase the total tax burden at this time. ~~I believe that an increase in taxes would be most unfortunate in its effects upon business recovery and upon the public.~~

and then if the tax receipts exceed expectations the excess would go, of course, to reduction of the national debt.

(Tax discussion to be supplied)

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

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

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

come to the following conclusions: First, little or no money can be saved in the regular operating expenses of the federal government, including the national defense and interest on the public debt. The increased volume of services now demanded of the government make it almost impossible to achieve significant reductions here. On the other hand, by focusing attention on the four or five classes of expenses that have been mainly responsible for our past deficits, I am convinced that the necessary savings can be made.

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

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

Second, I have before me the item of highway expenditures, estimated at 253 millions this year; an amount that may well be cut to 100 million next year to produce a saving of 153 million. In this connection, also, I believe it would be wise to alter the existing programs for the future, which would call for new appropriations totaling more than 400 million dollars during the next two years, thus returning to the average annual Federal highway expenditure as it existed prior to the depression.

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

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

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

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

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

The plight of agriculture in the depression called for

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

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

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

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

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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 this fiscal year. There are serious objections to such a course.

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

hundred millions last year. That improvement of more than 2 billion dollars in a year in budget balancing ought to be put in the headlines.

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

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

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

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.

Taxes here

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

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

In exchange for its obligations issued for these purposes, the Treasury will receive more than one billion dollars in cash. This billion dollars will be used to retire public debt now in the hands of private investors. In other words, the Treasury next

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

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

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

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

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The Old Age Reserve Account and the unemployment trust account operate just like payments made by an individual to a private insurance company. Such a company invests your premiums in real estate, loans on city mortgages, in railroad or industrial or public utility bonds, or Government bonds or in other forms of private investment approved by 48 different State laws. All that the life insurance company has are bundles of pieces of paper representing all kinds of promises to pay you money to the insurance company.

The Government in the Old Age and unemployment funds also invests your money, but the pieces of paper are Government bonds and not private promises to pay. It is not overstating the case to say that your money is safer in Government bonds than in a multiplicity of private obligations, though of course I am in no way reflecting on the solvency of private insurance companies.

It is very clear that the credit of the Government is the soundest in the nation, and if anything should happen to your Government nothing else would have any value at all.

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

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

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

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

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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.

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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 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 prolonged consideration to all these and other facts, 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 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 in the eleventh month of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

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

The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining

unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

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

A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes.

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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 deficit of roughly seven hundred millions.

To seek an ordinary balancing of the budget next year, we must therefore accomplish a net improvement of seven hundred million dollars in our budgetary position. In estimating revenues, it is far worse to overestimate than to underestimate. We must not count on an increase in revenues next year from the existing tax structure, nor should we impose additional taxation. We should plan to reduce our expenditures by seven hundred million dollars; and then, if the tax receipts rise above those of last year, the excess should be used to reduce the national debt.

We ought not to increase the total tax purden at this time.

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 prolonged 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. The increased volume of services now demanded of the Government makes it almost impossible to achieve significant reductions here. But on the other hand, by focusing attention on the four or five classes of expenses that have been mainly responsible for our past deficits, I am convinced that the necessary savings can be made.

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

ESTIMATED POSSIBLE SAVINGS FOR FISCAL YEAR 1938-39

		Savings
1. Public Works expenditures this year, including emergency funds, but exclusive of highway expenditures, are estimated at	573	
Next year they should be cut to	500	
This would save		73
2. Highway expenditures this year, including emergency funds, are estimated at	253	
Next year they should be cut to	100	
This would save		153
3. Unemployment Relief and the CCC camps this year are estimated to cost	1,680	
Next year they should be cut to	1,200	
This would save		480
4. Miscellaneous and Supplemental Items this year are costing	180	
Next year they should be cut to	50	
This would save		130
5. Agricultural Adjustment Program this year is costing	475	
Next the cost should be no more, or	475	
The saving being		0
6. Total savings on above items		836
7. Less increase in Social Security expenditures		117
8. Net savings		719

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

Second, I have before me the item of highway expenditures, estimated at two hundred fifty-three millions this year; an

amount that may well be cut to one hundred million next year to produce a saving of one hundred fifty-three million. In this connection, also, I believe it would be wise to alter the existing programs for the future, which would call for new appropriations totaling more than four hundred million dollars during the next two years, and return to the average annual level of Federal highway expenditures prior to the depression -- under one hundred millions.

Third, I should like to see our outlays for unemployment relief and the CCC camps, which are running at 1,680 million dollars this year, exclusive of other recovery and relief expenditures, reduced to twelve hundred millions, which would produce a saving of four hundred eighty millions.

Next, I believe that our outlays for miscellaneous and supplemental items, which amount to one hundred eighty

million dollars this year, should be reduced to fifty millions next year, which would save one hundred thirty millions.

The total savings that I have listed amount to eight hundred thirty-six millions. We must deduct from this figure a probable increase of one hundred seventeen millions in Social Security expenses, leaving a net possible saving, exclusive of any saving in agriculture, of seven hundred nineteen millions, or more than enough to achieve an ordinary balancing of the budget.

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

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.

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 expending for agricultural purposes, you are all aware that discussion is now taking place in Congressional committees of further measures in aid of agriculture that may involve large additional expenditures.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. That program cannot endure and cannot render lasting aid to the farmer unless it be soundly based. 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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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 such a course.

We are definitely in a transition period between unbalanced and balanced Federal budgets. We are making great progress toward a balanced budget.

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

This net improvement of more than two billion dollars that is taking place in a single year

provides the best answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget.

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

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

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

increases in taxation are unnecessary, for a continued expansion in business activity would produce adequate additional revenues on the basis of the present total tax structure.

There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

In addition to these considerations, there is a new and important aspect of our budget that must now be considered in analyzing the economic effects of Federal expenditures and receipts. The Social Security Act has introduced new

items into our budget. A major one of these, the annual appropriation for the Old Age Reserve Account, calls for the investment of this appropriation in Government obligations. The same Act also provides for the investment in Government obligations of moneys paid by the States into the Unemployment Trust Fund.

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

The Federal Government, in connection with the Old Age Reserve Account and the Unemployment Trust Fund, also invests your money in pieces of paper. But these pieces of paper are Government bonds and not private promises to pay. It is not overstating the case to say that your money is safer in Government bonds than in a multiplicity of private obligations, though, of course, I am in no way reflecting on the soundness of private insurance companies.

It is very clear that the credit of the Government is the soundest in the Nation. And if anything should happen to your Government, nothing else would have any value at all.

Now, when the Treasury invests your old-age taxes and your unemployment 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 these 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 to these accounts, 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.

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

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

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a

reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal services or by increasing the existing tax burden.

The principal 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.

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

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

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

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

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

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 in the eleventh month of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

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

The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are

increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds 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.

A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes.

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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

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 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 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 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.

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

Federal Government, including the national defense and interest on the public debt. These are now running about the same as in 1932; and, in view of the increased volume of services now demanded of the Government, I do not believe that significant savings can be looked for here. Further, our expenditures under the Social Security Act will probably increase by a hundred million dollars or more in the next fiscal year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, other public works, unemployment relief, and agriculture --, I am convinced that the necessary savings can be made.

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

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.

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.

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.

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.

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 constructed. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

A sound program must take into consideration the farmer's opportunities in the foreign markets, as well as in those at home; and the character and cost of that program must be determined with full recognition of its

effects upon our whole national economy and of the limitations imposed by the Federal finances.

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

With the solid support of the public, I believe that economies totaling seven hundred millions or more can be achieved in the four fields that I have cited. Since the estimated increased costs of our social security program are more than offset by estimated reductions in miscellaneous and supplemental items, it should be possible to achieve an ordinary balancing of the budget next year in addition to at least some measure of debt retirement, and without increased taxes.

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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 such a course.

We are definitely in a transition period between unbalanced and balanced Federal budgets. We are making great progress toward a balanced budget.

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

This net improvement of more than two billion dollars that is taking place in a single year provides the best

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

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

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

I have already indicated my belief that it would be unwise to raise taxes at this time solely to accumulate a surplus of six hundred million dollars for debt retirement. More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. This clearly indicates that further increases in taxation are unnecessary, for a continued

expansion in business activity would produce adequate additional revenues on the basis of the present total tax structure.

There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

In addition to these considerations, there is a new and important aspect of our budget that must now be considered in analyzing the economic effects of Federal expenditures and receipts. The Social Security Act has introduced new 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.

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Now, when the Treasury invests your old-age taxes and your unemployment 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 these 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 to these accounts, 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. In other words, the Treasury next year will be adding one billion dollars to the supply of funds in the capital market.

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

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be

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

The principal 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.

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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

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

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

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

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

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 in the eleventh month of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

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

The basic need today is to foster the application of the driving force of private capital to the present favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are

increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds 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.

A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes.

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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 do I believe it advisable to impose

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.

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 Federal Government, including the national defense and interest on the public debt. These are now running about the same as in 1932; and, in view of the increased volume of services now demanded of the Government, I do not believe that significant savings can be looked for here. Further, our expenditures under the Social Security Act will probably increase by a hundred million dollars or more in the next fiscal year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, other public works,

unemployment relief, and agriculture --, I am convinced that the necessary savings can be made.

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

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.

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.

Third, it should be possible to make a further substantial reduction, though not a drastic one, 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 total of this year's expenditures 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.

With the solid support of the public, I believe that economies totaling seven hundred millions or more can be achieved in the four fields that I have cited. Since the estimated increased costs of our social security program are more than offset by estimated reductions in miscellaneous and supplemental items, it should be possible to achieve

an ordinary balancing of the budget next year in addition to at least some measure of debt retirement, and without increased taxes.

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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 such a course.

I have already indicated that I believe it undesirable at this time to increase taxation. 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 clearly be disastrous to many of the needy unemployed, and disruptive

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

We are definitely in a transition period between unbalanced and balanced Federal budgets. I am enthusiastic about the direction in which we are going; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

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 in a single year provides the best answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget.

More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. Next year's balancing of the budget can properly be sought in a reduction of expenditures.

Let us stop at this point to consider the revenue side of the picture, always keeping in mind that any tax revisions that may be made should produce as much total revenue as the present tax structure.

The Federal tax system affects everyone in the country. We in the Treasury are constantly studying tax problems with two objects 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 taxpayers 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. Our study has not been directed toward raising new revenue, but to determine whether there are

injustices in the distribution of the tax burden, and whether there are some taxes whose cost of collection and whose burdensome effects outweigh the revenue gain, and whether we may simplify collection and make the taxpayer's record-keeping less difficult by changes in the administrative provisions of the law.

In making this study we have invited the assistance and the advice of all groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get, and we have sought both facts and opinion. Our tax revenues come largely from individual earnings and business profits. We do not wish to retain levies which have the effect of drying up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal

Government. Of course, tax policy 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 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 pay ordinary Federal income taxes. We would be applying the principles of capacity to pay more justly if we were to reduce the number of consumers' taxes, and at the same time to increase the number of income taxpayers. Taxpayers who are directly confronted with their own tax burdens are bound to take a more active interest in the way the money is being spent by the Government on their behalf.

To sum up the attitude of the Treasury toward taxation: Our fiscal policy for next year is based on receiving as much revenue as is being provided by the present tax structure. 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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I should now like to call your attention to a new and important aspect of our budgetary position that results from the Social Security Act and the related State laws. Under this Act Congress makes annual appropriations for the Old-Age Reserve Account, these appropriations to be invested in interest-bearing Government securities. The Act

also provides for the investment in Government securities of moneys paid by the States into the Unemployment Trust Fund.

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

The Federal Government, in connection with the Old Age Reserve Account and the Unemployment Trust Fund, also

invests your money in pieces of paper. But these pieces of paper are Government bonds and not private promises to pay. It is not overstating the case to say that your money is safer in Government bonds than in a multiplicity of private obligations, though, of course, I am in no way reflecting on the soundness of private insurance companies.

It is very clear that the credit of the Government is the soundest in the nation. And if anything should happen to your Government, nothing else would have any value at all.

Now, when the Treasury invests your old-age taxes and your unemployment 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 these 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 to these accounts, 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. In other words, the Treasury next year will be adding one billion dollars to the supply of funds in the capital market.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the

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.

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