

January 4, 1934

[Draft of Budget Message]

FDR Speech File

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STEPHEN EARLY,

Assistant Secretary to the President.

MESSAGE TRANSMITTING THE BUDGET FOR 1935

MESSAGE TRANSMITTING THE BUDGET

To the Congress of the United States:

I transmit herewith the Budget for the year ending June 30, 1935. It contains also estimates of receipts and expenditures for the current year ending June 30, 1934, and includes statements of the financial operations or status of all governmental agencies, including the Reconstruction Finance Corporation. The estimates herein given and included in the Budget have to do with general and special funds—the Government's moneys. They do not relate to trust and contributed funds, which are not Government moneys, except where expressly referred to as such.

GENERAL FINANCIAL POSITION

In my annual message to the Congress I have already summarized the problems presented by the deflationary forces of the depression, the paralyzed condition which affected the banking system, business, agriculture, transportation, and, indeed, the whole orderly continuation of the Nation's social and economic system.

I have outlined the steps taken since last March for the resumption of normal activities and the restoration of the credit of the Government.

Of necessity these many measures have caused spending by the Government far in excess of the income of the Government.

The results of expenditures already made show themselves in concrete form in better prices for farm commodities, in renewed business activity, in increased employment, in reopening of and restored confidence in banks, and in well-organized relief.

THE CURRENT FISCAL YEAR

(Ending June 30, 1934)

Exclusive of debt retirement of \$488,171,500 for this year, Budget estimates of expenditures, including operating expenses of the regular Government establishments and also all expenditures which may be broadly classed as caused by the necessity for recovery from the depression will amount this year (ending June 30, 1934) to \$9,403,006,967. (See Budget Statement No. 3, table A.)

This total falls in broad terms into the following classifications:

Expenditures for fiscal year ending June 30, 1934

General:	
Departmental.....	\$2,809,116,200
Legislative.....	17,718,500
Independent establishments.....	616,857,067
	<hr/>
	3,533,691,767
Less public debt retirements.....	488,171,500
	<hr/>
Total, general.....	3,045,520,267
<hr/>	
Emergency:	
Public Works Administration.....	1,677,190,800
Agricultural Adjustment Administration.....	103,250,000
Farm Credit Administration.....	40,000,000
Emergency Conservation Work.....	341,705,600
Reconstruction Finance Corporation.....	3,960,740,300
Tennessee Valley Authority.....	19,000,000
Federal Land Banks.....	52,350,000
Federal Deposit Insurance Corporation.....	150,000,000
National Industrial Recovery Administration.....	4,250,000
	<hr/>
Total, emergency.....	6,357,486,700
	<hr/>
Total, general and emergency, less public debt retirements.....	9,403,006,967

As against these expenditures, which have either been appropriated for or for which appropriations are asked, the estimated receipts for this fiscal year (ending June 30, 1934) are \$3,259,938,756. (See Budget Statement No. 2, table A.)

On this basis, including, however, certain additional expenditures for 1934 which are not included in the Budget estimates but which I believe to be necessary and amounting to \$1,166,000,000 as shown in a subsequent table herein, the excess of expenditures over receipts will be \$7,309,068,211. Interest charges on the borrowings in excess of Budget estimates will slightly increase this figure.

On the basis of these estimates, the public debt, in the strict sense of the term, at the expiration of this fiscal year will therefore amount to approximately \$29,847,000,000, or an increase as shown above of \$7,309,068,211.

However, as against this increase in the total debt figure, it is right to point out that the various governmental agencies have loans outstanding with a book value of \$3,558,516,189 against which collateral or assets have been pledged.

In order to make clear to the Congress what our borrowing problem is for the next 6 months, permit me to remind you that

we shall have to borrow approximately 6 billion dollars of new money and, in addition, 4 billion dollars to meet maturities of a like amount.

THE FISCAL YEAR 1935
(Ending June 30, 1935)

The Budget estimates of expenditures, exclusive of debt retirement of \$525,763,800 and exclusive also of such sum as may be necessary for new and extraordinary recovery purposes, for the fiscal year ending June 30, 1935 amount to \$3,960,798,700.

Again summarizing the main headings of these expenditures, they fall into the following items:

Expenditures for fiscal year ending June 30, 1935

General:	
Departmental.....	\$3,202,074,000
Legislative.....	18,734,500
Independent establishments.....	642,468,600
	<hr/>
	3,763,276,000
Less public-debt retirements.....	525,763,800
	<hr/>
Total, general.....	3,237,512,200
	<hr/>
Emergency:	
Public Works Administration.....	1,089,888,100
Agricultural Adjustment Administration.....	5,000,000
Emergency conservation work.....	65,190,000
Reconstruction Finance Corporation.....	1,480,493,600
Tennessee Valley Authority.....	31,000,000
Federal land banks.....	12,650,000
	<hr/>
Total, emergency.....	723,286,500
	<hr/>
Total, general and emergency, less public-debt retirements.....	3,960,798,700

It will be noted that many of these items such as public works fall under appropriations made in 1933, the actual expenditures not taking place until after June 30, 1934. (For details of above expenditures see Budget Statement No. 3, table A.)

The above figures do not include additional loans by the Reconstruction Finance Corporation. If its loaning authority is extended beyond June 30, 1934, it is contemplated that any additional loans by it would thereafter be taken from the new and additional recovery fund hereinafter referred to.

¹ Excess of credits—deduct.

The estimates of receipts for the next fiscal year (ending June 30, 1935) exclusive of foreign-debt payments, of increased liquor taxes and of increased revenue flowing from amendments to the existing revenue law, amount to \$3,974,665,479. (See Budget Statement No. 2, table A.)

Therefore, exclusive of debt retirement, these Budget estimates for the next fiscal year show a small surplus of \$13,966,770. But it must be borne in mind that this surplus does not include any additional expenditures for extraordinary recovery purposes.

It is clear that the necessity for relief and recovery will still be with us during the year 1934-35. Additional relief funds will be necessary. Further needs of the country prohibit the abrupt termination of the Recovery Program. No person can on this date definitely predict the total amount that will be needed, nor the itemizing of such an amount. It is my best judgment at this time that a total appropriation of not to exceed 2 billion dollars will, with the expenditures still to be made next year out of existing appropriations, be sufficient.

I shall therefore ask the Congress for appropriations approximating that amount.

This amount is not included in the Budget estimates. If appropriated and expended, therefore, it will change the small estimated surplus of 13 million dollars into a debt increase of nearly 2 billion dollars. It is only fair, of course, to say that such a debt increase would be partially offset by loans made against collateral and assets pledged.

Therefore, the total debt, if increased by the sum of 2 billion dollars during the fiscal year 1935, would amount to approximately \$31,834,000,000 on June 30, 1935. It is my belief that so far as we can make estimates with our present knowledge, the Government should seek to hold the total debt within this amount. Furthermore, the Government during the balance of this calendar year should plan to bring its 1936 expenditures, including recovery and relief, within the revenues expected in the fiscal year 1936.

Let me put it another way: The excess of expenditures over receipts during this fiscal year amounts to over 7 billion dollars. My estimates for the coming fiscal year show an excess of expenditures over receipts of 2 billion dollars. We should plan to have a definitely balanced Budget for the third year of recovery and from that time on seek a continuing reduction of the national debt.

This excess of expenditures over revenues amounting to over 9 billion dollars during 2 fiscal years has been rendered necessary to bring the country to a sound condition after the unexampled crisis

which we encountered last spring. It is a large amount, but the immeasurable benefits justify the cost.

The following table shows expenditures and receipts for the fiscal years 1934 and 1935 as contained in the Budget, plus the additional expenditures which will be made out of additional authorizations and appropriations here recommended. It shows, also, the estimated increase in the public debt and the book value of assets held as security against loans:

	1934	1935	2-year period 1934-35
Receipts ¹	\$3,259,938,756	\$3,974,665,479	\$7,234,604,235
Expenditures (exclusive of debt retirement):			
General.....	2,536,730,267	2,486,768,200	5,017,488,467
Agricultural Adjustment Administration.....	514,800,000	750,744,000	1,255,544,000
Emergency ²	6,357,486,700	723,296,600	7,080,773,200
	9,403,006,967	3,960,798,700	13,363,805,667
Additional expenditures from additional appropriations.....	1,166,000,000	2,000,000,000	3,166,000,000
Total expenditures.....	10,569,006,967	5,960,798,700	16,529,805,667
Increase in debt ³	7,309,068,211	1,986,133,221	9,295,201,432
Estimated book value of assets held as security for loans.....			5,461,959,273

¹ These estimates of receipts are predicated on Federal Reserve Board average index of industrial production of 81 for fiscal year 1934 and of 98 for the fiscal year 1935:

	Calendar year average	Fiscal year average
1929.....	119	118
1930.....	80	110
1931.....	81	87
1932.....	64	70
1933.....	* 76	67
1934.....	* 85	* 81
1935.....		* 98

* These include net expenditures after deducting Reconstruction Finance Corporation repayments in 1935 of \$489,456,000.

² This figure does not include contingent liabilities such as Reconstruction Finance Corporation debentures issued to banks and other institutions.

* Partially estimated.

* Estimated.

APPROPRIATIONS

The Budget estimates of appropriations for 1935, exclusive of Agricultural Adjustment Administration benefit payments and re-funds of processing taxes, but inclusive of all other appropriations for regular departments and independent establishments including

interest on the debt and debt retirement are \$2,980,293,833.60. When compared with Budget estimates of appropriations transmitted in the Budget for 1934 they show a reduction of \$684,913,167.

A tabular comparative summary of receipts, estimates, appropriations, and expenditures, classified according to general and emergency items and listed by departments and under other general heads, appears in Budget Statement No. 1, table B.

TAXES

The estimates of receipts take no account of the additional revenue which may be obtained from an increase in liquor taxes and from the proposed changes in the income-tax law. Since neither of these tax measures has come before Congress as yet, no accurate estimate can be made of their yield. However, if as proposed by the Committee of Ways and Means, the tax on distilled spirits is increased from \$1.10 a gallon to \$2 a gallon, and the rates of tax on wines are also increased, the estimated revenue would be increased by approximately \$50,000,000, assuming that consumption is not affected by additional gallonage taxes imposed by the States. Considerable additional revenue can also be secured from administrative changes in the income-tax law, which may amount to as much as \$150,000,000 for a full year.

The estimates for the Post Office Department are predicated upon a continuation of the 3-cent postal rate for nonlocal mail. It is highly important that this rate be continued. I recommend its continuance.

ECONOMY LEGISLATION

The estimates of appropriations submitted in the Budget are predicated on the continuation of certain economy legislative provisions which I ask to be enacted and which are appended hereto. The most important is that having to do with reduction of compensation of Federal employees. It is eminently fair that, the cost of living having fallen as compared with 1923, the employees of the Government sustain some reduction in compensation. This is not inconsistent with our policy of advocating an increase in wages in industry. For wages there had fallen far beyond any reduction contemplated for Federal employees and in most grades are even now substantially below compensation paid Federal employees under the maximum reduction of 15 percent.

Among the legislative provisions appended hereto is one prohibiting automatic increases in compensation except in the Army, Navy, and Marine Corps. The personnel of these three services are engaged in a life service to their country. Some, by reason of the pay freezes,

have sustained reduction in compensation of more than 25 percent. They are, therefore, in a different category from those in other governmental agencies. They should, in 1935, be released from the restrictions on automatic increases in compensation.

CONTROL

Up to now there has been no coordinated control over emergency expenditures. Today, by Executive order, I have imposed that necessary control in the Bureau of the Budget.

Heretofore, emergency expenditures have not been subject to audit by the Comptroller General of the General Accounting Office. Today I am, by Executive order, reposing in him the authority to conduct such an audit and to continue to audit each such expenditure. Hereafter, therefore, just as in the departmental expenditures, there will be, in emergency expenditures, a pre-Budget and a post audit.

By reason of the fact that the Bureau of the Budget has had no control in the past over the various expenditures, obligations, and allotments made by the emergency organizations, the task of preparing the present Budget has been the most difficult one since the Budget and Accounting Act went into effect in 1921. These difficulties, in future years, will be substantially minimized by the control which I have established.

It is evident to me, as I am sure it is evident to you, that powerful forces for recovery exist. It is by laying a foundation of confidence in the present and faith in the future that the upturn which we have so far seen will become cumulative. The cornerstone of this foundation is the good credit of the Government.

It is, therefore, not strange nor is it academic that this credit has a profound effect upon the confidence so necessary to permit the new recovery to develop into maturity.

If we maintain the course I have outlined, we can confidently look forward to cumulative beneficial forces represented by increased volume of business, more general profit, greater employment, a diminution of relief expenditures, larger governmental receipts and repayments, and greater human happiness.

FRANKLIN D. ROOSEVELT.

JANUARY 3, 1934.

APPENDIX

TEXT OF LEGISLATION RECOMMENDED IN CONNECTION WITH THE
BUDGET FOR 1935

TITLE —. ECONOMY PROVISIONS

COMPENSATION AND PENSION REDUCTIONS

Sec. —. (a) Title II of the act entitled "An act to maintain the credit of the United States Government", approved March 20, 1933, is amended as follows:

(1) Section 2 is amended by inserting after "1934" the following: "and the fiscal year ending June 30, 1935"; and

(2) Section 3 (b) is amended by inserting before the period at the end thereof the following: "during the fiscal year ending June 30, 1934, and shall not exceed 10 per centum during the fiscal year ending June 30, 1935."

(b) Section 107 (except par. (5) of subsection (a) thereof and subsection (b) thereof) of part II of the Legislative Appropriation Act, fiscal year 1933 (relating to certain special salary reductions); section 12 (relating to compensation reductions of officers and employees of insular possessions), section 13 (relating to the retired pay of certain judges), section 14 (relating to reduction in compensation benefits to certain civilian employees), and section 15 (relating to reductions in certain private pensions) of the Independent Offices Appropriation Act, 1934; and section 18 (relating to pensions for military service prior to the Spanish-American War) of title I of such act of March 20, 1933, are hereby continued in full force and effect for the fiscal year ending June 30, 1935, and for the purpose of continuing such sections with respect to the fiscal year ending June 30, 1935, the figures "1933" shall be read as "1935" and the figures "1934" shall be read as "1935"; except that in the application of such sections 12, 13, and 18 with respect to the fiscal year ending June 30, 1935 (but not with respect to the fiscal year ending June 30, 1934), the percentage of reduction shall be the percentage applicable to officers and employees of the Federal Government generally.

(c) Notwithstanding the provisions of the antideficiency acts, deficiencies in their respective appropriations made during the second session of the Seventy-third Congress and available for obligation during the fiscal year ending June 30, 1935, may be incurred during such fiscal year by any executive department or independent establishment and the municipal government of the District of Columbia, upon written order of the President specifying the amount of the deficiency which may be incurred, and by the legislative branch of the Government and the agencies customarily considered a part of such branch; but such deficiencies may be incurred only to the extent necessary to enable the payment to officers and employees of such activities of sums for which the available appropriation is inadequate by reason of a diminution in the percentage of reduction of compensation in pursuance of action of the President under the provisions of section 3 of title II of such act of March 20, 1933, as continued for the fiscal year 1935.

PROVISIONS RELATING TO PERSONNEL AND MISCELLANEOUS PROVISIONS

SEC. —. Title II of the act entitled "An act to maintain the credit of the United States Government", approved March 20, 1933, is amended by inserting at the end thereof the following:

"SEC. 10. (a) The following sections, as amended, of part II of the Legislative Appropriation Act, fiscal year 1933, are hereby continued in full force and effect during the fiscal year ending June 30, 1935: Sections 201 (suspending automatic increases in compensation), 203 (prohibiting filling of vacancies), 206 (except subsections (a) and (b) thereof) (reducing travel allowances), 214 (authorizing temporary assignments in the Postal Service), 315 (restricting transfer of noncivilian personnel), 317 (authorizing transfers of appropriations), and 323 (reducing jurors' and witnesses' fees).

"(b) The following sections of the Treasury-Post Office Appropriation Act, fiscal year 1934, are hereby continued in full force and effect during the fiscal year ending June 30, 1935: Sections 7 (prohibiting administrative promotions) and 18 (suspending reenlistment allowances).

"(c) Section 9 (a) of the Independent Offices Appropriation Act, 1934 (relating to rotative furlough), is hereby continued in full force and effect during the fiscal year ending June 30, 1935.

"(d) For the purpose of continuing the sections enumerated in subsections (a), (b), and (c) of this section in the application of such sections with respect to the fiscal year ending June 30, 1935: The figures '1933' shall be read as '1935'; the figures '1934' as '1935' (except in the case of the second proviso of such section 317); in the case of the first proviso of such section 317, the figures '1935'

shall be read as '1937', the figures '1934' shall be read as '1936', and the figures '1933' shall be read as '1935'; and in the case of section 203, the figures '1932' shall be read as '1934'.

"(c) In the application of the sections enumerated in subsections (a), (b), and (c) of this section with respect to the fiscal year ending June 30, 1935 (but not with respect to the fiscal year ending June 30, 1934), the following amendment shall apply:

"(1) Section 201 (suspending automatic increases in compensation) of part II of the Legislative Appropriation Act, fiscal year 1933, is amended by inserting at the end thereof the following: 'During the fiscal year ending June 30, 1935, this section shall not apply to the commissioned and other personnel of the Army, Navy, and Marine Corps, and the amount to which the reduction of compensation under section 2 of title II of the act of March 20, 1933, shall be applied shall include increments of compensation which, under the provisions of law (without regard to economy laws), accrue during the fiscal year ending June 30, 1935, and would have accrued during the period during which automatic increases in compensation were suspended. This amendatory provision shall not authorize the payment of back compensation, but the provisions of law suspending administrative promotions and prohibiting reallocation of positions shall not be held to prohibit the increases allowed hereunder.'

"(f) No part of the appropriations made during the second session of the Seventy-third Congress shall be used to pay any increase in the salary of any officer or employee of the United States Government by reason of the reallocation of the position of such officer or employee to a higher grade after June 30, 1932, by the Personnel Classification Board or the Civil Service Commission, and salaries paid accordingly shall be payment in full.

"(g) Each permanent specific annual appropriation available during the fiscal year ending June 30, 1935, is hereby reduced for that fiscal year by such estimated amount as the Director of the Bureau of the Budget may determine will be equivalent to the savings that will be effected in such appropriation by reason of the application of this title."

The Nation is deeply gratified by the ^{immediate} ~~prompt~~ response given yesterday by the Congress to the necessity for drastic action to restore our banking system. ^{a like} ~~Such a drastic~~ necessity exists, ~~I believe~~, ^{with respect to the} finances of the Government itself, ^{which} ~~this~~ requires equally ^{on the road} ~~prompt~~ ^{frank} action.

For three long years the Federal Government has been ~~on the road~~ ^{toward} ~~bankruptcy~~. ~~For the fiscal year 1931 the deficit was \$467,000,000.~~
~~For the fiscal year 1932~~ ^{it} ~~the deficit was~~ \$2,472,000,000
~~For the fiscal year 1933 it will probably exceed~~ \$1,200,000,000

~~For the fiscal year 1934, based on the appropriation bills passed by the~~
~~and the estimated revenues~~
~~last Congress the deficit will probably exceed~~ \$1,000,000,000. unless immediate

~~Thus we shall have piled up an accumulated deficit of \$5,000,000,000.~~ ^{action is taken,}
~~For this we must add an estimated billion and half on account of F.D. borrowings~~
~~on Government's loan in 1934.~~ ^{With the utmost seriousness I point out}

to the Congress the profound effect of this fact upon our national economy.

^{contributed to} ~~It has~~ ~~been~~ ~~the~~ ~~recent~~ ~~collapse~~ ~~of~~ ~~our~~ ~~banking~~ ~~structure.~~ ~~It~~
~~has~~ ~~been~~ ~~factor~~ ~~in~~ ~~the~~ ~~stagnation~~ ~~of~~ ~~the~~ ~~economic~~ ~~life~~ ~~of~~ ~~our~~ ~~people.~~

^{It has added to the} ~~It has~~ ~~added~~ ~~to~~ ~~the~~ ~~number~~ ~~of~~ ~~the~~ ~~unemployed.~~ ^{Our government's house is not in}
~~order and for many reasons~~ ^{no idle state}
~~no effective action has been taken to restore it to order.~~

^{rest} ~~Upon the unimpaired credit of the United States Government the safety~~
~~of deposits, the security of insurance policies, the activity of industrial~~
~~enterprises, the value of our agricultural products and the availability~~
~~of employment, ~~are~~ ~~center~~ ~~around~~ ~~the~~ ~~credit~~ ~~of~~ ~~the~~ ~~United~~ ~~States~~ ~~Government~~ ~~definitely~~ ~~affects~~ ~~these~~ ~~fundamental~~ ~~human~~ ~~values.~~ ~~It~~ ~~becomes~~~~
~~our first concern to~~ ^{make} ~~secure~~ ^{the} ~~foundation.~~ ^{Therefore,} ~~our~~ ~~National~~ ~~recovery~~ ~~de-~~

~~pends upon it.~~ ^{Too often in recent history} ~~liberal governments have been wrecked on~~
~~rocks of loose fiscal policy.~~ ^{We} ~~must~~ ~~avoid~~ ~~this~~ ~~danger.~~

^{Insert} ~~It is too late for~~ ^{This} ~~a leisurely approach to the problem, as long as possible.~~ ^{Most avoid}
~~we must not wait to act several months hence.~~ ¹ ~~It is too late for~~ ^{at this time}

^{and I} ~~The members of the Congress~~ ~~are~~ ~~pledged~~ ~~to~~ ~~maintain~~ ~~the~~ ~~country.~~ ^{and I am pledged to it.}

~~I am, therefore, assuming that you and I are in complete agreement as~~
~~to the necessity, and my constitutional duty is to advise you as to the~~
~~methods for obtaining the money required for drastic retrenchment.~~ ^{at this time}

^{Speaking to} ~~I am not~~ ~~telling~~ ~~you~~ ~~in~~ ~~general~~ ~~terms~~ ~~to~~ ~~effect~~ ~~economic~~ ~~reforms.~~ ~~I am~~
~~pointing out a definite road.~~

The details of ^{Insert #2} expenditure
particularly in view of the great
present emergency can be more
wisely and efficiently administered
through the executive.

9 The last Congress ~~has already~~ enacted legislation relating to The reorganization and elimination of executive agencies, but the economies ^{thus to be} effected ~~thereby~~ are small ^{when viewed in the light of} ~~compared with the total~~ the great ~~estimated~~ deficit for the next fiscal year. They will not meet the pressing needs of our credit situation. Provision for additional savings ^{is} essential, and therefore I am asking the Congress today for ^{new} legislation, laying down broad principles for the granting of pensions and other veteran benefits ~~enumerating the classes to which they shall be given~~, and giving to the Executive the authority to prescribe the administrative details. ^{No one desires} ~~to be unkind in upholding~~ the duty of the Government to care for those who suffer in its defense and for their widows and orphans. The application, however, of this great principle to large numbers of people involves ~~such~~ complications--so great that it is almost impossible to draw legislation with sufficient flexibility to provide substantial justice in varying situations. ^{The proposed legislation states} ~~limited by them~~, the principles and ^{then that same} permits the Executive to draw the lines of differentiation necessary to justice.

Insert #2 In accord with the same purpose of substantial justice I request also the enactment of legislation ^{relating} to the salaries of civil and military employees of the Government. This would repeal the existing furlough plan, substituting therefor a general principle and authorizing the Executive to make application of this principle. ~~I do not seek in any way to assume~~ ^{is to} the proper legislative function of ~~fixing~~ the amount of expenditure, the means by which it is to be raised and the general principles under which the expenditures are to be made. ~~But in view of the great present emergency and in view of the great difficulty in changing all details by legislative enactment I am firm in my conviction that the flexibility of the which I am proposing is not only practical but proceeds along the right road of constitutional government.~~

Such economies which can be made will, it is true, affect some of our citizens; but the failure to ^{make} ~~execute~~ them will affect ~~not only~~ all of our citizens. The very ~~stability~~ ^{benefits} of our Government itself is concerned and when that is concerned the ~~needs~~ of some must be subordinated to the needs of all.

A I ask that ~~this~~ ^{This} legislation ~~be passed~~ ^{go into effect} at once without even waiting for the beginning of the next fiscal year. I give you assurance that if this is done there is reasonable prospect that within a year the income of the Government will be sufficient to cover the expenditures of the Government.

A When a great danger threatens our basic security it is my duty to advise the Congress of the way to preserve our ~~basic security~~ ^{basic}. In so doing I must be fair not only to the few but to the many. It is in this spirit that I appeal to you. If the Congress chooses to vest me with this responsibility it will be exercised in a spirit of justice to all, of sympathy to those who are in need and of maintaining inviolate the basic welfare of the United States.

Budget Message

1/4/34

P.P.F.
14

deposits were literally locked up in closed banks, the credit of the Government had been seriously impaired. For three and one-half years we had witnessed a constantly declining price level and millions of our citizens were walking the streets seeking what they could not find - employment. This was the social and economic situation which we faced. Obviously it required drastic action on the part of the Government. The first steps taken were: the reopening of such banks as then seemed to be sound and, almost coincidentally, the repairment of the credit of the Government through the Economy Act, otherwise known as the "Act to Maintain the Credit of the United States Government." Under its provisions the estimated expenditures, ~~exclusive of Agricultural Adjustment Administration benefit payments,~~ of the permanent departments and independent establishments of the government for the fiscal year 1934 were drastically reduced. Control of expenditures was demonstrated. The credit of the Government was thus reestablished.

With the credit so reestablished, we proceeded to meet the social and economic situation. First, we undertook the relief of those unemployed and destitute, both by using the half-billion dollars authorized by the Congress and by the use of allotments to the Civil Works Administration out of the \$3,300,000,000 Public Works funds appropriated by the Congress. We proceeded to enroll 300,000 young men in the Civilian Conservation Corps, where they are benefiting from a vigorous outdoor life and training, and at the same time are improving the permanent value of some of the Nation's natural resources. Then, too, out of their monthly pay they are sending to their homes and families five-sixths of their compensation. The expenditures for these purposes were more than justified. ^{then} We proceeded, as rapidly as possible, to initiate a large Public Works and reemployment program and, by the use of the

credit which had been established as a result of the Economy Act, we undertook to relieve the situation of farmers and of urban home owners who were about to be dispossessed of their property.

The ~~then~~ banks required to stand the test of eligibility to the Deposit Insurance Corporation were, through the use of Government credit, put into position to meet those requirements. We undertook, and are continuing the liquidation of portions of deposits frozen in closed banks. And, finally, we are using government credit for the purpose of supporting agricultural prices to stimulate and encourage our great agricultural areas during the period of recovery.

THE FISCAL YEAR 1934

Budget estimates of expenditures, exclusive of debt retirement, for the purposes here enumerated, as well as for the operating expenses of the regular government establishments, for the fiscal

year 1934, amount to \$9,403,006,967. In detail, the expenditures and the governmental agencies through which the expenditures are to be effected are shown in Budget Statement No. 3, Table A.

~~Budget estimates of~~ receipts for the same fiscal year amount ~~of~~ \$3,259,938,756. In detail, they are shown in Budget Statement No. 2, Table A.

~~Predicted upon Budget estimates,~~ the public debt at the expiration of this fiscal year will, therefore, amount to approximately \$28,680,000,000, or it will have increased by \$6,143,068,211.

~~The Budget estimates do not include the additional expenditures which will be undertaken this fiscal year out of existing appropriations, additional authorizations and appropriations which will be required and which I shall recommend to Congress. These expenditures will amount to \$1,166,000,000. The public debt for this fiscal year will, therefore, be increased not~~

THE WHITE HOUSE
WASHINGTON

Invest 7-

P.A.
file

To:

In order to make
clear what our
financial borrowing
problem is for the next
six months, this fiscal
year permit me to
remind you that we
should have to borrow
\$6,143,068.24. ~~7 new~~
~~money~~ approximately
6,000,000,000 of new
money and 4,000,000,000
to meet maturities, a
total of 10,000,000,000.

by the amount of the Budget estimates, i.e., \$6,143,068,211, but by that amount plus the additional expenditures here referred to, or by \$7,309,068,211. This figure will be increased somewhat by reason of interest charges on the additional borrowings and may be increased by reason of other unforeseen requirements.

As against this increase in the public debt it is roughly estimated that the various Governmental agencies hold assets as security for loans made on which there will be realized approximately

\$1,700,000,000.

(Book Value # 3,558,516,189.)

note this is book value only

THE FISCAL YEAR 1935

Budget estimates of expenditures, exclusive of debt retirement but inclusive of all other expenditures, for the fiscal year

(excluding debt retirement) 625,000,000
1935, amount to \$3,960,798,700. I assume here that the Reconstruction

Finance Corporation will have concluded its loaning activities by June 30, 1934, and I recommend. In detail, the expenditures and

the Governmental agencies through which the expenditures are to be effected are shown in Budget Statement No. 3, Table A.

3
Budget estimates of receipts for the same fiscal year,
if from debt payments,
exclusive of increased liquor taxes and increased revenue flowing
from amendments to the existing revenue law, amount to \$3,974,665,479.

In detail, they are shown in Budget Statement No. 2, Table A. I
shall refer to Taxes hereafter.

True in fact.
Exclusive of debt retirement, the Budget estimates of
expenditures and receipts for this fiscal year show a small surplus
of \$13,866,779.

But I anticipate that the necessity for relief will be with
us during the winter of 1934-1935. I shall, therefore, ask the Con-
gress to authorize an appropriation of not to exceed \$2,000,000,000,

to be subject to my control for such social and economic emergencies
including the activities of the Recession Loan Corp.
as may arise. This amount is not included in the Budget estimates.

The surplus, therefore, which the Budget estimates show will be con-
verted into a deficit of \$1,986,135,221, exclusive of additional

This will which will increase the debt by that amount
interest charges incident to the additional borrowing.

Beyond this point I will not go. For this is the maximum required to liquidate the depression. I recognize, of course, that to hold the increase of the debt to this figure, we will be using capital assets represented by net Reconstruction Finance Corporation repayments amounting to \$480,436,600. But during the fiscal year 1935 it is justifiable to use the assets for these purposes even though it means that the liquidating value of assets to be used in future years for debt reduction will be correspondingly reduced.

THE LIQUIDATION OF THE DEPRESSION

Though it may be that estimates of expenditures will not actually be made as here indicated, nevertheless

Consequently the debt for the two year period, 1934-1935, approximately On June 30, 1935, will increase to \$31,835,000,000. / it is roughly estimated that the realizable value of assets in the form of security held against loans will amount to approximately \$2,500,000,000. It is fair, therefore, to set out as offsets against the total increase in the debt of \$9,295,201,432 the expected returns from loans and from the value of assets here estimated, because, after the expiration of the War, the increase in the debt incurred for the purpose of winning the War

APPROPRIATIONS

By reason of the fact that receipts are limited in terms of time by the fiscal year, while appropriations are not always expended within the same fiscal year, there is no proper basis for a comparison between appropriations and receipts. Nevertheless, there is a public interest in such a comparison. The following table shows this comparison:

	<u>Appropriations</u>	<u>Receipts</u>
General	\$3,171,344,512.67	\$2,980,295,833.60
Agricultural Adjustment Admin.	- - -	831,022,428.00
Emergency ⁽¹⁾	3,705,000,000.00	- - -
	6,884,344,512.67	3,811,316,261.60
Receipts	3,259,938,753.00	3,974,665,479.00
Excess of appropriations over receipts	\$3,624,405,756.67	
Excess of receipts over appropriations		\$163,349,217.40

(1) Exclusive of contingent liabilities such as R. T. C. debentures.

SUBSIDIES AND GRANTS

The Budget estimates of expenditures for 1953, 1954
and 1955 include estimates for the following subsidies and grants:

W. A. H.

SUBSIDIES AND GRANTS

Organization Unit and purpose	1935	1934	1933
<u>Veterans' Administration</u>			
Adjusted Service Certificate Fund	\$50,000,000	\$50,000,000	\$1,000,000,000
<u>Department of Agriculture</u>			
<u>Office of Experiment Stations</u>			
State Agricultural Experiment Stations			
Hatch Act, March 2, 1887	540,000	720,000	720,000
Adams Act, March 16, 1906	540,000	720,000	720,000
Purnell Act, February 24, 1925	2,160,000	2,880,000	2,880,000
Hawaiian Islands Act, May 18, 1928	21,000	26,000	24,000
Alaska Act, February 23, 1929	11,250	15,000	15,000
Puerto Rico Act, March 4, 1931	18,750	-	-
Co-operative Agricultural Extension Work (Permanent			
annual) Smith-Lever Act, May 8, 1914	3,507,072	4,606,096	4,606,096
do (annual) Supplements Smith-Lever Act	1,185,000	1,580,000	1,580,000
do (annual) Capper-Ketchum Act, May 22, 1928	1,110,000	1,480,000	1,480,000
do Alaska	9,000	12,000	12,000
do Additional to Supplement funds allotted to			
States by various acts	750,000	1,000,000	1,000,000
<u>Forest Service</u>			
Forest Fire Co-operation	1,082,228	1,082,228	1,449,867
Co-operative Distribution of Forest Planting Stock	54,047	54,047	75,309
<u>Bureau of Public Roads</u>			
Co-operative Construction Rural Post Roads (Federal			
Aid Highway System)	10,000,000	23,750,000	97,456,020
Flood Relief, Georgia and South Carolina	9,580	9,152	32,543
Co-operative Construction Rural Post Roads (Advances			
to States)	- - -	- - -	120,000,000
Total	\$20,997,927	\$47,934,523	\$232,048,835

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Subsidies and Grants (continued) #2

Organization Unit and Purpose	1935	1934	1933
<u>Department of the Interior</u>			
<u>Bureau of Education</u>			
Colleges for Agriculture and Mechanic Arts	\$ 1,912,500	\$ 1,912,500	\$ 2,550,000
Vocational Education and Rehabilitation	6,502,610	8,271,452	9,041,923
Total	\$ 8,415,110	\$ 10,183,952	\$ 11,591,923
<u>Navy Department</u>			
State Marine Schools, Act March 4, 1911	\$ 189,407	\$ 100,000	\$ 189,756
<u>Post Office Department</u>			
For Transportation of Foreign Mail by Steamship	\$ 28,000,000	\$ 28,000,000	\$ 25,228,463
For Transportation of Foreign Mail by Aircraft	8,750,000	6,000,000	6,223,470
For Transportation of Domestic Mail by Aircraft	8,500,000	7,750,000	13,813,012
Total	\$ 42,250,000	\$ 41,750,000	\$ 45,264,945
<u>Treasury Department</u>			
Payments to Federal Land Banks,			
Reduction in interest rate on mortgages	\$ 7,050,000	\$ 7,950,000	- - - - -
<u>Public Works Administration</u>			
Grants in allotments made to and including			
December 14, 1933	- - - - -	\$132,522,069	- - - - -
Grand Total	\$128,902,444	\$290,440,544	\$389,095,459

① Expenditures aggregating \$215,000,000 in the fiscal year 1935 and \$185,000,000 in the fiscal year 1934 from National Industrial Recovery Act funds for Federal aid to the States for the construction of highways take the place of the regular annual appropriations for cooperative construction of rural post roads.

② Exclusion of \$462,000,000 in the fiscal year 1934 and \$38,000,000 in the fiscal year 1933 for grants to States for relief purposes by the Reconstruction Finance Corporation, under the Federal Emergency Relief Act of 1933, upon certificates from the Federal Emergency Relief Administration.

In the final analysis, private enterprise, and private enterprise alone, is the great employing force in our society. The Government, as an employer, cannot replace business. Our great aim is to increase employment. We must, therefore, lay the foundation upon which private enterprise, with faith in the future, may go forward.

Page 9-A in Draft

INSERT B

Therefore, the total debt, if increased by the sum of two billion dollars during the fiscal year 1934-35, would amount to a total of approximately \$31,835,000,000 on June 30, 1935. It is my belief that so far as we can make estimates with our present knowledge, the government should plan to hold the total debt within this amount. Furthermore, the Government should plan during the balance of this calendar year to bring all expenditures of the Government, including recovery and relief within the revenue during the fiscal year 1935-36.

Let me put it another way: The excess of expenditures over receipts during this fiscal year amounts to over seven billion dollars. My estimates for the coming fiscal year show an excess of expenditures over receipts of two billion dollars. We should plan to have a definitely balanced budget for the third year of recovery and from that time on plan for a continuing reduction of the national debt.

This excess of expenditures over revenues amounting to over nine billion dollars can properly be called the cost of recovery. It has been necessary to spend this amount to bring the country to a sound condition after the unexampled crisis which we encountered last Spring.

It is a large amount, but the recovery and restoration of the American people ---

Considering the immeasurable benefits which will come from the return of sound economic conditions, this cost is not excessive.

P.P.F.
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BUREAU OF THE BUDGET
WASHINGTON

Y. L. L.

December 28, 1933

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MEMORANDUM FOR THE PRESIDENT

Enclosed herewith is a rough draft of the Budget Message. There are a few blanks left, the exact figures for which will be submitted later this afternoon, but this draft will, I think, provide a basis for your final draft.

Respectfully,

Robert L. Taylor

I transmit herewith the Budget for the fiscal year 1935.

It contains also estimates of expenditures and receipts for the fiscal year 1934, a statement of the financial operations of all governmental agencies including the Reconstruction Finance Corporation.

GENERAL FINANCIAL POSITION

In March of 1933 the deflationary forces of the depression reached their height, and broke through the artificial barriers which long had arrested their outward expression. The National banking moratorium ensued. We were then confronted not only with a grave economic situation but also with a deplorable social condition. Our banking system had collapsed, business was paralyzed, millions of deposits were literally locked up in closed banks, the credit of the Government had been seriously impaired. For three and one-half years we had witnessed a constantly declining price level and

millions of our citizens were walking the streets seeking what they could not find - employment. This was the social and economic situation which we faced. Obviously it required drastic action on the part of the Government. The first steps taken were: the reopening of such banks as then seemed to be sound and, almost coincidentally, the repairment of the credit of the Government through the Economy Act, otherwise known as the "Act to Maintain the Credit of the United States Government." Under its provisions the estimated expenditures, exclusive of Agricultural Adjustment Administration benefit payments, of the permanent departments and independent establishments of the government for the fiscal year 1934 ~~were~~ reduced by approximately

; control of expenditures was demonstrated. The

credit of the Government was thus reestablished.

With the credit so reestablished, we proceeded to meet the social and economic situation. First, we undertook the relief of those unemployed and destitute, both by using the half-billion dollars authorized by the Congress and by the use of allotments to the Civil Works Administration out of the \$3,300,000,000 Public Works funds appropriated by the Congress. We ~~then~~ proceeded to enroll 300,000 young men in the Civilian Conservation Corps, where they are benefiting from a vigorous outdoor life and training, and at the same time are improving the permanent value of some of the Nation's natural resources. Then, too, out of their monthly pay they are sending to their homes and families five-sixths of their compensation. The expenditures for these purposes were more than justified. We then proceeded, as rapidly as possible, to initiate a large Public Works and reemployment program and, by the use of the

credit which had been established as a result of the Economy Act, we undertook to relieve the situation of farmers and of urban home owners who were about to be dispossessed of their property.

The open banks required to stand the test of eligibility to the Deposit Insurance Corporation were, through the use of Government credit, put into position to meet those requirements. We undertook, and are continuing the liquidation of portions of deposits frozen in closed banks. And, finally, we are using Government credit for the purpose of supporting agricultural prices to stimulate and encourage our great agricultural areas during the period of recovery.

THE FISCAL YEAR 1934

Budget estimates of expenditures, exclusive of debt retirement, for the purposes here enumerated, as well as for the operating expenses of the regular Government establishments, for the fiscal

year 1934, amount to \$9,403,006,967. In detail, the expenditures and the Governmental agencies through which the expenditures are to be effected are shown in Budget Statement No. 3, Table A.

Budget estimates of receipts for the same fiscal year amount to \$3,259,938,756. In detail, they are shown in Budget Statement No. 2, Table A.

Predicated upon Budget estimates, the public debt at the expiration of this fiscal year will, therefore, amount to approximately \$28,680,000,000, or it will have increased by \$6,141,297,168.

The Budget estimates do not include the additional expenditures which will be undertaken this fiscal year out of additional authorizations and appropriations which will be required and which I shall recommend to Congress. They amount to \$_____.

The public debt for this fiscal year will, therefore, be increased not

by the amount of the Budget estimates, i.e., \$6,141,297,168, but by that amount plus the additional expenditures here referred to, or

× by \$.

As against this increase in the public debt it is roughly estimated that the various Governmental agencies hold assets as security for loans made on which there will be realized approximately \$1,700,000,000.

THE FISCAL YEAR 1935

Budget estimates of expenditures, exclusive of debt retirement but inclusive of all other expenditures, for the fiscal year 1935, amount to \$3,960,798,700. I assume here that the Reconstruction Finance Corporation will have concluded its loaning activities by June 30, 1934, and I so recommend. In detail, the expenditures and the Governmental agencies through which the expenditures are to be effected are shown in Budget Statement No. 3 Table A.

Budget estimates of receipts for the same fiscal year, exclusive of increased liquor taxes and increased revenue flowing from amendments to the existing revenue law, amount to \$3,974,665,479. In detail, they are shown in Budget Statement No. 2, Table A. I shall refer to taxes hereafter.

Exclusive of debt retirement, the Budget estimates of expenditures and receipts for this fiscal year show a small surplus of \$13,866,779.

But I anticipate that the necessity for relief will be with us during the winter of 1934-1935. I shall, therefore, ask the Congress to authorize an appropriation of not to exceed \$2,000,000,000, to be subject to my control for such social and economic emergencies as may arise. This amount is not included in the Budget estimates. The surplus, therefore, which the Budget estimates show will be converted into a deficit of \$1,986,133,221.

Beyond this point I will not go. For this is the maximum required to liquidate the depression. I recognize, of course, that to hold the increase of the debt to this figure, we will be using capital assets represented by net Reconstruction Finance Corporation repayments amounting to \$480,436,600. But during the fiscal year 1935 it is justifiable to use the assets for these purposes even though it means that the liquidating value of assets to be used in future years for debt reduction will be correspondingly reduced.

THE LIQUIDATION OF THE DEPRESSION

Consequently, the debt for the two year period, 1934-1935 will increase \$, but it is roughly estimated that the realizable value of assets in the form of security held against loans will amount to approximately \$2,500,000,000. It is fair, therefore, to set out as offsets against the total increase in the debt of \$ the expected returns from loans and from the value of assets here estimated, just as, after the expiration of the War, the increase in the debt incurred for the purpose of winning the War was reduced by many

billions, not through taxation, but through the liquidation of assets acquired by wartime expenditures. Consequently it is proper to say that the total increase in the debt incurred for the purpose of liquidating the depression, which must be reduced by taxes, will amount to \$5,000,000,000.

The following table shows expenditures and receipts for the fiscal years 1934 and 1935 as contained in the Budget, plus the additional expenditures which will be made out of additional authorizations and appropriations here recommended. It shows, also, the estimated increase in the public debt and the estimated value of assets held as security against loans.

	1934	1935	Two-year period 1934 - 1935
^③ <u>Receipts</u>	\$3,259,938,756	\$3,974,665,479	\$7,234,604,235

Expenditures (exclusive of
debt retirement)

General	2,530,720,267	2,486,768,200	5,017,488,467
Agricultural Adjustment Administration	514,800,000	750,744,000	1,265,544,000
^② Emergency	<u>6,357,486,700</u> \$9,403,006,967	<u>723,286,500</u> \$3,960,798,700	<u>7,080,773,200</u> 13,363,805,667
Additional expenditures from additional appro- priations	?	?	
^③ Increase in debt	?	?	
realizable			
^④ Estimated value of assets held as security for loans			2,500,000,000

^② These estimates of receipts are predicated on Federal Reserve Board average index of industrial production of 81 for fiscal year 1934 and of 98 for the fiscal year 1935.

	Calendar year average	Fiscal year average
1929	119	118
1930	96	110
1931	81	87
1932	64	70
1933	76 (parti- ally esti- mated)	67
	<u>Estimated</u>	
1934	85	81
1935	--	98

⁽²⁾ These include net expenditures after deducting Reconstruction Finance Corporation repayments of \$528,000,000.

⁽³⁾ This figure does not include contingent liabilities such as Reconstruction Finance Corporation debentures issued to banks and other institutions.

⁽⁴⁾ This is roughly estimated value. A careful appraisal of all assets will be undertaken and a subsequent report submitted to Congress.

APPROPRIATIONS

By reason of the fact that receipts are limited in terms of time by the fiscal year, while appropriations are not always expended within the same fiscal year, there is no rational basis for a comparison between appropriations and receipts. Nevertheless, there is a public interest in such a comparison. The following table shows this comparison:

	<u>Appropriations</u>	
	<u>1934</u>	<u>1935</u>
General		
Agricultural Adjustment Admin..		
① Emergency	_____	_____
Receipts		
Excess of appropriations over receipts.		

① Exclusive of contingent liabilities such as R.F.C. debentures.

GENERAL APPROPRIATIONS

The Budget estimates of appropriations for 1935, exclusive of Agricultural Adjustment Administration benefit payments, but inclusive of all other appropriations for regular departments and independent establishments including interest on the debt and debt retirement are \$. When compared with Budget estimates of appropriations for 1934 they show a reduction of \$.

General Appropriations

Budget estimate
1934

Budget estimate
1935

SUBSIDIES AND GRANTS

The budget estimates of expenditures for 1933, 1934
and 1935 include estimates for the following subsidies:

SUBSIDIES AND GRANTS

Organization Unit and purpose	1935	1934	1933
<u>Veterans' Administration</u>			
Adjusted Service Certificate Fund	\$50,000,000.	\$50,000,000.	\$100,000,000.
<u>Department of Agriculture</u>			
<u>Office of Experiment Stations</u>			
State Agricultural Experiment Stations			
Hatch Act, March 2, 1887	540,000.	720,000.	720,000.
Adams Act, March 16, 1906	540,000.	720,000.	720,000.
Purnell Act, February 24, 1925	2,160,000.	2,880,000.	2,880,000.
Hawaiian Islands Act, May 16, 1928	21,000.	26,000.	24,000.
Alaska Act, February 23, 1929	11,250.	16,000.	16,000.
Puerto Rico Act, March 4, 1931	18,750.	-----	-----
Co-operative Agricultural Extension Work (Permanent annual) Smith-Lever Act, May 8, 1914	3,507,072.	4,606,096.	4,606,096.
do (annual) Supplements Smith Lever Act	1,185,000.	1,580,000.	1,580,000.
do (annual) Capper-Ketcham Act, May 22, 1928	1,110,000.	1,480,000.	1,480,000.
do Alaska	9,000.	12,000.	12,000.
do Additional to Supplement funds allotted to States by various acts	750,000.	1,000,000.	1,000,000.
<u>Forest Service</u>			
Forest Fire Co-operation	1,082,228.	1,082,228.	1,449,867.
Co-operative Distribution of Forest Planting Stock	54,047.	54,047.	78,309.
<u>Bureau of Public Roads</u>			
Co-operative Construction Rural Post Roads (Federal Aid Highway System)	10,000,000.	33,750,000.	97,456,020.
Flood Relief, Georgia and South Carolina	9,580.	9,152.	32,543.
Co-operative Construction Rural Post Roads (Advances to States)	-----	-----	120,000,000.
Total	\$20,997,927.	\$47,934,523.	\$232,048,835.

Subsidies and Grants (continued) #2.

Organization Unit and purpose	1935	1934	1933
<u>Department of the Interior</u>			
<u>Bureau of Education</u>			
Colleges for Agriculture and Mechanic Arts	\$1,912,500.	\$1,912,500.	\$2,550,000.
Vocational Education and Rehabilitation	6,502,610.	8,271,452.	9,041,923.
Total	\$8,415,110.	10,183,952.	11,591,923.
<u>Post Office Department</u>			
For Transportation of Foreign Mail by Steamship	\$28,000,000.	\$28,000,000.	\$25,228,463.
For Transportation of Foreign Mail by Aircraft	5,750,000.	6,000,000.	6,223,470.
For Transportation of Domestic Mail by Aircraft	8,500,000.	7,750,000.	13,813,012.
Total	\$42,250,000.	\$41,750,000.	\$45,264,945.
<u>Treasury Department</u>			
Payments to Federal Land Banks, Reduction in interest rate on mortgages	\$ 7,050,000.	\$ 7,950,000.	-----
<u>Public Works Administration</u>			
Grants in allotments made to and including December 14, 1935	-----	132,522,069.	-----
Grand Total	\$128,713,037.	\$290,340,544.	\$388,905,703.

TAXES

ECONOMY LEGISLATION

estimates of submitted in the Budget
The appropriations are predicated on the continuation of
provisions to
certain economy legislative which I ask be enacted and which are
appended hereto. The most important is that having to do with re-
duction of compensation of Federal employees. It is eminently
fair that the cost of living, having fallen as compared with 1928,
the employees of the Government sustain some reduction in compensa-
tion. This is not inconsistent with our policy of advocating an
increase in wages in industry. For wages there had fallen far beyond
any reduction contemplated for Federal employees and are even now sub-
stantially below compensation paid Federal employees under the maxi-
mum reduction of fifteen per cent.

There is a great difference between raising wages which had
fallen too far and reducing wages which are too high.

I recognize that it is not easy to curtail compensation,
but I recognize, too, that the paramount duty of the Government is to

maintain its credit. And I call upon its employees to lend their whole hearted cooperation. This I am confident they will continue to do in the future as they have during this year.

Among the legislative provisions appended hereto is one prohibiting automatic promotions except in the Army, Navy and Marine Corps. The personnel of these three services are engaged in a life service to their country. Some, by reason of the pay freezes, have sustained reduction in compensation of more than twenty-five per cent. They are, therefore, in a different category from those in other governmental agencies. They should, in 1935, be permitted to receive promotions.

CONTROL

Up to now there has been no coordinated control over emergency expenditures. Today by Executive order I have imposed that necessary control in the Bureau of the Budget.

Heretofore, emergency expenditures have not been subject to audit by the Comptroller General of the General Accounting Office. Today I am by Executive order ~~reposing~~ ^{obligations,} in him the authority to conduct such an audit and to continue to audit each such expenditure. Hereafter, therefore, just as in the departmental expenditures, there will be, in emergency expenditures, a pre budget and a post audit.

By reason of the fact that the Bureau of the Budget has had no control in the past over the various expenditures, ^{obligations,} and allotments _^ made by several of the emergency organizations, the task of preparing the present Budget has been the most difficult one since the Budget and Accounting Act. These difficulties, in future years will be substantially minimized by the control which I propose to establish.

FINAL

It is evident to me, as I am sure it is evident to you, that powerful forces for recovery exist. The World at large is experiencing, after a long period of depression, a general business upturn. We, too, are experiencing it. It is only by laying a foundation of confidence in the present and faith in the future that the upturn which we have so far seen will become cumulative. The cornerstone of this foundation is the Budget -- the matter of expenditures as compared with receipts, for it is this matter which, in the final analysis, maintains the credit of the Government and thus the security of deposits, the safety of insurance policies, the integrity of our money, and the very basis on which business and employment rest.

It is, therefore, not strange nor is it academic that the Budget has a profound effect upon the confidence so necessary to permit a newly born infant recovery to develop into maturity.

If we fail to follow the financial program outlined in this Budget, the estimates of receipts for the fiscal year 1935 will diminish. The expenditures for relief will mount and repayments from the Reconstruction Finance Corporation will diminish. This is a cold and inhuman way of stating the case. It can be stated in terms of human values. Unemployment will increase, destitution will multiply, and the cumulative destructive forces on human life and human activities again will be set in motion.

On the other hand, if we unflinchingly pursue the course outlined herein, irrespective of pressure from small groups and minorities, we can confidently look forward to cumulative beneficial forces represented by increased volume of business, increased profits, increased employment, a diminution of relief expenditures, increased governmental receipts and repayments, and greater human happiness.

In the final analysis, private enterprise, and private enterprise almost alone, is the great employing force in our society. The Government, as an employer, cannot replace ~~business~~ business. Our great aim is to increase employment. We must, therefore, lay the foundation upon which private enterprise, with faith in the future, may go forward.