January 3, 1937 [Budget Message] 1027

FDR Speech File

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1937, together with this message, which is definitely a part thereof. The estimates have been developed after careful analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed in the tables which follow.

PART I

No mortal is permitted unfailingly to predict the future. This is particularly true of estimates which relate to the money values of property and services in a world of nations torn by dissension, by violent price fluctuations, and by forebodings of the future.

It is, therefore, a cause for congratulation within our own Nation to realize that a consistent, broad national policy, adopted nearly three years ago by the Congress and the President, has thus far moved steadily, effectively, and successfully toward its objective.

In March 1933 in spite of substantial increases in tax rates during the preceding administration, Federal tax receipts had fallen to such a low level that even normal expenses of Government could not be carried on without creating a mounting deficit. In addition to normal expenses the problem of millions of starving unemployed called for a relief program which obviously would greatly increase that deficit.

The national policy which we then adopted sought to stop the downward economic spiral by taking simultaneous action along a dozen fronts. The chief objectives were: To make bank deposits secure, to save farms and homes from foreclosure, to start public works on a large scale, to encourage home building, to increase farm crop values, to give useful work instead of a dole to the needy unemployed, to reduce all interest rates, to increase foreign trade in both exports and imports, to extend Government credit to railroads and other privately owned activities, to reduce unsound and generally disastrous speculation, to eliminate starvation wages, to seek a higher level of values, and then to maintain those values.

On the part of the Federal Government the many legislative acts creating the machinery for recovery were all predicated on two interdependent beliefs. First, the measures would immediately cause a great increase in the annual expenditures of the Government—many of these expenditures, however, in the form of loans which would ultimately return to the Treasury. Second, as a result of the simultaneous attack on the many fronts I have indicated, the receipts of the Government would rise definitely and sharply during the following few years, while greatly increased expenditure for the purposes stated, coupled with rising values and the stopping of losses would, over a period of years, diminish the need for work relief and thereby reduce Federal expenditures. The increase in revenues would ultimately meet and pass the declining cost of relief.

This policy adopted in the spring of 1933 has been confirmed in actual practice by the Treasury figures of 1934, of 1935, and by the estimates for the fiscal years of 1936 and 1937.

There is today no doubt of the fundamental soundness of the policy of 1933. If we proceed along the path we have followed and with the results attained up to the present time we shall continue our successful progress during the coming years.

Stated even more concisely, we can look forward today to a continued reduction of deficits, to increased tax receipts, and to declining expenditures for the needy unemployed. Let it be remembered that the major part of the increase in tax receipts anticipated in 1937 over 1936 from comparable sources is coming from old tax schedules. The only changes made last year in the tax schedule were, first, the elimination of the tax on checks and, secondly, slight increases in taxes on large incomes, on large estates, and on large corporations and in capital stock and excess profits taxes. By the elimination of the tax on checks we lost forty million dollars in revenue and the slight increases on estates and on personal and corporate incomes will add only about 222 million dollars to Government receipts this coming year. I emphasize that the great bulk of increased Government income referred to above results from increased earning power and profits throughout the Nation and not from the new taxes imposed by the Revenue Act of 1935.

Final success will depend, of course, on the strength of the efforts put forth by the employers of the United States greatly to increase the number of persons employed by them. The finances of the Government are in better condition than at any time in the past seven years. I say this because starting with the autumn of 1929 tax receipts began a steady and alarming decline while, at the same time, Government expenditures began a steady rise; today, tax receipts are continuing a steady climb which commenced in the summer of 1933, whereas Budget estimates for the next fiscal year will show a decreased need for appropriations.

The credit of the Government is at its highest. The average of the business men of the Nation stand ready to do their share. It is to be hoped that motives and attacks which spring only from the desire for political or financial power on the part of a few will not retard the steady progress we are making.

Our policy is succeeding. The figures prove it. Secure in the knowledge that steadily decreasing deficits will turn in time into steadily increasing surpluses, and that it is the deficit of today which is making possible the surplus of tomorrow, let us pursue the course that we have mapped.

In my Budget message of January 1935 I said, "I am, however, submitting to the Congress a Budget for the fiscal year 1936 which balances except for expenditures to give work to the unemployed. If this Budget receives approval of the Congress, the country will henceforth have the assurance that with the single exception of this item, every current expenditure of whatever nature will be fully covered by our estimates of current receipts. Such deficit as occurs will be due solely to this cause, and it may be expected to decline as rapidly as private industry is able to reemploy those who now are without work."

In looking at the revised estimates for the fiscal year 1936 I am more than pleased to find that we have not only accomplished what I said we would in my Budget message of a year ago but that the results with respect to both expenditures and receipts have surpassed expectations.

1. My Budget message of January 1935 forecast that the expenditures for the fiscal year 1936 would be $8,520,000,000. Our most recent estimate shows that our expenditures will be $7,645,000,000, or $875,000,000 less than originally forecast.

2. Receipts were estimated in January 1935 at $3,992,000,000. At the present time it appears that they will be $4,411,000,000, or an increase of $419,000,000.

3. The message of January 1935 forecast a gross deficit of $4,528,000,000, and the most recent figures show that the deficit will be $3,234,000,000, or a decrease of $1,294,000,000.

This great improvement of the fiscal outlook during this present year has been brought about through policies which the Congress and the President initiated in 1933 and which we have since maintained.

Now let us look at the Budget for the fiscal year 1937:

To run all the regular activities of the Government I will need a total of $5,069,000,000. These regular activities include interest on the public debt, major public works, operations of the Civilian

Conservation Corps, and agricultural benefit payments, but do not include strictly work relief items. I expect to pay for these regular activities with estimated receipts of $5,654,000,000, leaving an excess of receipts of $585,000,000. Out of this $585,000,000 I will need $580,000,000 for debt retirement, which will still leave $5,000,000 of excess receipts over expenditures after having paid for all of the regular expenditures of the Government plus debt retirement.

The item for relief remains. Without that item the Budget is in balance. To make today a formal Budget estimate of the amount necessary for work relief would be of necessity a difficult task. We have too recently reached our goal of putting three and one-half million people at work; and the beneficial effects from this program and from increasing expenditures on public works cannot be foretold as accurately today as it can two months from now. Furthermore, employment by private industry continues to show substantial gains over the figures of a year ago. It is reasonably certain that the total appropriations for work relief during the fiscal year 1937 will be far less than during the current fiscal year. It is estimated in this Budget that expenditures for recovery and relief out of unexpended balances of previous emergency appropriations will amount to $1,103,000,000. Including these expenditures the gross deficit for 1937, without an estimate for additional work relief, is less than the gross deficit for 1936 by $2,136,000,000. I do not anticipate that the need for additional relief funds will be as great as that sum.

To state the case even more precisely, the gross deficit of the Government in 1934 was $3,989,000,000; in 1935, $3,575,000,000; in 1936 (estimate), $3,234,000,000; and in 1937 (estimated but not including any new appropriations for work relief), $1,098,000,000. Therefore, it is clear: First, that since June 30, 1934, the gross deficit of the Government shows a steady decrease during the fiscal years 1935 and 1936. Second, that if work relief appropriations by this session of the Congress were made up to a total of $2,136,000,000, the total gross deficit for the fiscal year 1937 would not exceed that of 1936, which was the lowest gross deficit of the past three years. Therefore, it follows that by whatever amount the appropriation for work relief at this session is less than $2,136,000,000, the gross deficit for 1937 will be less than the deficit for 1936 by the same amount.

With this limitation and this excellent prospect clearly in mind, I am not including in this Budget estimates for additional relief appropriations. I shall transmit such estimates with far greater knowledge and, therefore, with greater accuracy in sufficient time before the adjournment of this session to give the Congress full opportunity to examine into the subject and to make the necessary appropriations.

The credit of the Government is in sound condition. On October 15, 1933, war-time issues of First and Fourth Liberty bonds were outstanding in the aggregate amount of $8,200,000,000, bearing interest at an average rate of about 4¼ percent. Today this entire amount has been refunded, of which about $5,000,000,000 was exchanged for long-term bonds bearing interest at rates ranging from 2¾ to 3¼ percent per annum; $1,900,000,000 was exchanged for Treasury notes bearing interest from 1½ to 2½ percent per annum, and the balance was paid in cash. The average rate on the securities issued to refund the Liberty bonds is less than 2¾ percent per annum, a saving of approximately 1⅝ percent a year, or an annual reduction in interest payments of more than $100,000,000 on these particular securities.

The average rate on the interest-bearing debt was on June 30, 1934, approximately 3.18 percent, whereas on November 30, 1935, it had been reduced to 2.575 percent.

If the Congress enacts legislation at the coming session which will impose additional charges upon the Treasury for which provision is not already made in this Budget, I strongly urge that additional taxes be provided to cover such charges. It is important as we emerge from the depression that no new activities be added to the Government unless provision is made for additional revenue to meet their cost.

PART II

RECOMMENDATIONS

The following recommendations are offered:

Appropriation transfer provisions.—The text accompanying a number of the estimates of appropriations has been drafted to include provision for transfer between appropriations within the same department. This provision will add a measure of administrative flexibility and will tend to promote economical execution of the program as a whole, and approval thereof by the Congress is recommended.

Repeal amendment to Agricultural Adjustment Act.—During the first session of the Seventy-fourth Congress the Agricultural Adjustment Act was amended so as to appropriate a sum equal to 30 percent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities. No estimate of expenditure for account of this legislation is included herein; and repeal of the amendment is recommended for the following reasons:

By appropriating directly instead of authorizing an appropriation the amendment denies to the President the opportunity to consider the need and include appropriate estimates in the Budget; and it denies to the Congress the opportunity to review such estimates in their relation to the whole program of the Government. The amendment violates the principles of the Permanent Appropriation Repeal Act of 1934, and of the Budget and Accounting Act of June 10, 1921. It is in conflict with sound administration in that it provides in advance for large annual expenditures without any attempt to coordinate income and expense. The amendment was passed in the last days of the session as a result of conference agreement and without the debate and consideration by the Congress which the import of the measure clearly justifies.

Apportionments of appropriations.—Within the last few months control of the administrative expense of 20 emergency agencies has been vested in the Bureau of the Budget which after a general survey of all of them has effected substantial reductions in proposed expenditures for administrative purposes. Allowances for administrative expenses are subject to such adjustment as the status of the agency warrants.

The 20 agencies brought under the Budget are the Agricultural Adjustment Administration; Commodity Credit Corporation; Electric Home and Farm Authority; Export-Import Banks (2); Farm Credit Administration; Federal Coordinator of Transportation; Federal Deposit Insurance Corporation; Federal Emergency Administration of Public Works; Federal Emergency Relief Administration; Federal Farm Mortgage Corporation; Federal Home Loan Bank Board; Federal Housing Administration; Federal Savings and Loan System; Federal Savings and Loan Insurance Corporation; Federal Surplus Relief Corporation; Home Owners' Loan Corporation; National Recovery Administration; Reconstruction Finance Corporation and Tennessee Valley Authority.

It is recommended that section 3679 of the Revised Statutes be amended so as to bring all agencies of the Government, including Government-owned and Government-controlled corporations, within the authority of the Director of the Budget with respect to apportionments of appropriations and of other funds available to them.

Part III

REVIEW OF FISCAL YEARS 1935 AND 1936 AND THE FISCAL PROGRAM OF 1937

This review concerns itself with cash actually received and paid out by the Treasury in the fiscal year 1935; and with the estimates of receipts, appropriations, and expenditures for the fiscal years 1936 and 1937. As elsewhere stated herein the program of regular activities for 1937 includes activities under the Agricultural Adjustment Act and the Civilian Conservation Corps (Emergency Conservation Work), heretofore classed as emergency. Therefore the figures used herein for 1934, 1935, and 1936 have been adjusted to a comparable basis.

FISCAL YEAR 1935

Receipts.—Treasury receipts for the year ended June 30, 1935, were in excess of estimates prepared a year ago. Considering all sources except postal revenues, total receipts amounted to \$3,800,467,202, or \$89,000,000 above the estimate. Internal revenue, including processing taxes on farm products, produced \$3,277,690,028, exceeding the estimate by \$80,000,000. Customs receipts amounted to \$343,353,033, an increase over the estimate of \$56,000,000. Miscellaneous receipts, including realization upon assets, estimated at \$227,184,181, fell short of the estimate by \$48,000,000; the amount actually received under this item was \$179,424,140.

Expenditures.—While actual receipts for the year were greater than anticipated, actual expenditures were less than the amount estimated by \$1,205,000,000. The aggregate of all expenditures was \$7,375,825,166, against an estimate of \$8,581,069,026. Approximately a billion dollars of this difference related to recovery and relief, and the regular agencies accounted for the remainder.

The total spent for recovery and relief was \$3,068,803,053, whereas the 1936 Budget estimate was \$4,068,541,852, exclusive of expenditures made under the Agricultural Adjustment Act and made by the Civilian Conservation Corps. This difference is partly due to this fact:

When the Budget for 1936 was prepared it seemed probable that the Reconstruction Finance Corporation, in all accounts except relief, would close the year with an excess of loans over repayments; and the amount of the net expenditures was estimated at \$556,000,000. However, because of improved business conditions, the demands for Corporation assistance were so much less than estimated and the repayments of loans so much greater, that the Corporation actually closed the year with net receipts of \$107,000,000. Therefore, the net difference between the estimated expenditure and the actual result amounted to \$663,000,000. Other agencies spent for recovery and relief \$337,000,000 less than estimated.

For the operation and maintenance of regular departments and establishments of the Government, including the Agricultural Adjustment Act and the Civilian Conservation Corps, actual expenditures were \$2,912,337,509, against the estimate of \$3,104,961,174.

For statutory debt retirements there was expended $573,558,250, and for interest on the public debt $820,926,353, whereas the amounts budgeted for these items were, respectively, $572,565,000 and $835,000,000.

Deficit and public debt.—The year closed with a gross deficit of $3,575,357,964 instead of the estimate of $4,869,418,338. After deducting the amount paid out for statutory debt retirement the net deficit was $3,001,799,714. The increase in the total outstanding gross public debt was $1,647,751,210, which figure is properly obtained by subtracting from the net deficit the decrease in the general fund balance, the excess of receipts from trust funds, increment on gold, et cetera, over expenditures from the same accounts, and the amount of retirement of national-bank notes from the gold increment. As of June 30, 1935, the total outstanding gross public debt was $28,700,892,624, while on June 30, 1934, it was $27,053,141,414.

FISCAL YEAR 1936

Drawing upon the experience of the first six months of the current year it is possible to forecast with a fair degree of accuracy the results of financial operations for the whole 1936 fiscal period.

Receipts.—The same sources of income (excluding postal revenues) which a year ago were expected to produce receipts aggregating $3,991,904,059 are now expected to produce a total of $4,410,793,946.

Of the items comprising the whole, income taxes will develop $1,434,112,000, or $246,000,000 more than the 1936 Budget estimate.

Miscellaneous internal revenue exclusive of processing taxes is now estimated at $1,873,091,000, an increase of $187,000,000. Receipts from customs are expected to reach a total of $353,191,000, exceeding the original estimate by $55,000,000. Other changes, some upward and some downward, result in the new estimate of total receipts at a figure of $419,000,000 higher than shown in the Budget for 1936 which was presented a year ago.

The present estimate for processing taxes in 1936, included in above total, is in round figures $529,000,000, as against the original estimate of $570,000,000. Actual receipts for the five months ended November 30, 1935, totaled $56,000,000, while up to that date approximately $148,000,000 of due payments had been impounded as the result of preliminary court action.

It is pertinent to repeat here a statement appearing in the Summation of the 1936 Budget: "Estimates of receipts contemplate continued collection of processing taxes. If the attack which has been made upon this act is sustained we will have to face the problem of financing existing contracts for benefit payments out of some form of new taxes."

Two new taxes, namely, the bituminous coal tax and the taxes upon carriers and their employees, both representing recent legislation, will contribute $39,000,000 not included in the original estimate of receipts for 1936. New taxes imposed by the Social Security Act and the Revenue Act of 1935 will not produce any income until the fiscal year 1937.

Expenditures.—Indications are that expenditures including debt retirement during the present fiscal year will not reach the amount budgeted by approximately $875,000,000; the total now foreseen is $7,645,301,338, against the original estimate of $8,520,413,609. Exclusive of debt retirement the total of expenditures is now estimated at $7,093,276,338, while the original comparable figure was $7,883,979,609. For recovery and relief the revised estimate of expenditures for the fiscal year 1936 is less than the original Budget estimate by $738,000,000, and expenditures for all regular purposes, including Agricultural Adjustment Act and Civilian Conservation Corps, will be less by $137,000,000. Debt retirement will require $84,000,000 less than was budgeted and interest payments will be $133,000,000 less. All regular expenditures, excluding service on the public debt, will be greater than the original Budget estimate by about $80,000,000.

The reduction in interest payments from the amount budgeted, as referred to above, was due largely to the refunding of First and Fourth Liberty Loan bonds aggregating $8,200,000,000, at substantially lower rates of interest.

Deficit and public debt.—The revised estimates as set out herein show a gross deficit for the current fiscal year of approximately $3,234,000,000, instead of the original Budget forecast of $4,529,000,000. After deducting the amount of statutory debt retirement the net deficit will be, in round figures, $2,682,000,000. The gross public debt as at June 30, 1936, should not be greater than $31,000,000,000. This estimate assumes that the working balance in the Treasury on June 30, 1936, will be approximately the same as it was on June 30, 1935, namely, $1,001,142,251. Obviously, if the working balance is less, the gross debt will be less; and if it is greater, the gross debt will be greater.

The foregoing figures are set out in the following table for ready comparison between Budget estimates of a year ago and what are now considered probable.

Comparison of original and revised estimates, fiscal year 1936, adjusted to classification of expenditures in 1937 Budget

	Budget estimate, January 1935	Revised estimate
1. Receipts (including postal):		
Income tax	[illegible]	[illegible]
Miscellaneous internal revenue	[illegible]	[illegible]
Processing taxes on farm products	[illegible]	[illegible]
Customs	[illegible]	[illegible]
All other	[illegible]	[illegible]
Total receipts	[illegible]	[illegible]
2. Expenditures:		
Regular, including A. A. A. and C. C. C.	[illegible]	[illegible]
Interest on the public debt	[illegible]	[illegible]
Recovery and relief	[illegible]	[illegible]
Total expenditures	[illegible]	[illegible]
3. Net deficit	[illegible]	[illegible]
Statutory debt retirements	[illegible]	[illegible]
Gross deficit	[illegible]	[illegible]
4. Gross public debt	[illegible]	[illegible]

Postal revenues for the fiscal year 1936 are now estimated at $670,000,000, which is $25,000,000 over the original estimate.

THE FISCAL PROGRAM OF 1937

There is presented here a brief factual résumé of the principal features of the Budget for the fiscal year 1937, the details of which appear in subsequent text and tables. A few high points stand out and justify emphasis.

Without impairing the ability of the Government to carry on its normal functions and to prosecute those activities essential to continued recovery, the Budget reflects a substantial decrease in the spread between income and outgo. This is consistent with the prediction made in the Budget message a year ago and is possible because of progressive improvement in the economic status of the people. The state of national recovery is such that receipts from prevailing tax sources on the basis of present rates appear adequate for financing the ordinary operations of the Government in 1937, including service on the public debt; and no new or additional taxes are proposed.

Legislation enacted by the first session of the Seventy-fourth Congress makes it necessary to provide in the 1937 estimates new appropriation items aggregating $667,000,000. This total will become

approximately $767,000,000 should the Congress reject the recommendation, hereinbefore offered, for repeal of that part of the Agricultural Adjustment Act which appropriates a sum equal to 30 percent of customs receipts to the Secretary of Agriculture.

Legislation enacted by the first session also permits including in these estimates a total of $769,000,000 of additional receipts, of which about 70 percent will accrue under the Bituminous Coal Conservation Act, the act levying taxes upon carriers and their employees, and the Social Security Act. It is worthy of note that but slightly less than 30 percent of this increase will be derived under the Revenue Act of 1935. This act, it will be recalled, slightly increased taxes on individuals whose net incomes exceed $50,000 per year; slightly increased estate taxes on larger fortunes with a corresponding increase in gift taxes; and in respect of corporations, decreased taxes on net earnings of small corporations while increasing in relative ratio the taxes on net income of larger corporations. The act also provided for an increase in taxes on capital stock and on excess profits of corporations. The effect of the excess-profits tax was to increase taxes on corporations which earned in excess of certain percentages of their adjusted declared value of capital stock.

The total revenue expected to be produced by these taxes in the fiscal year 1937 will be only $222,000,000, or 11 percent, over the income, estate, gift, capital-stock, and excess-profits taxes under the old law. Since collections in the fiscal year 1937 from income taxes and the estate tax only partially reflect the Revenue Act of 1935, the above amount will be somewhat larger on a full year basis.

A Federal public-works program of $405,000,000 is recommended to meet in part the development and improvement requirements of the Government, and as a proper Federal contribution to work opportunity. While this program represents an increase of about $187,000,000 over the amount for similar purposes for which the Congress made specific appropriations for the current fiscal year, it is $333,000,000 less than the total amount made available for Federal public works in 1936, considering allotments made from emergency funds.

The success attending the operations of the Civilian Conservation Corps and the Agricultural Adjustment Administration under emergency status justifies taking them into the Budget and program for 1937 as regular activities, and the estimates of appropriations and expenditures have been prepared accordingly. The appropriation recommended for Civilian Conservation Corps is for the period March 31, 1936, to March 31, 1937, and amounts to $246,000,000, while the appropriation for the Agricultural Adjustment Administration is for the full year and amounts to $499,054,985.

The following table gives a clear picture of the main figures proposed in this Budget and shows how they compare with similar figures for previous years.

[In millions of dollars]

	Actual		Estimated	
	1934	1935	1936	1937
I. RECEIPTS:				
Income taxes	818	1,099	1,434	1,942
Miscellaneous internal revenue	1,470	1,657	1,873	2,100
Processing taxes	353	521	529	547
Customs	313	343	353	354
Miscellaneous	162	180	182	160
Taxes under the Social Security Act, the act levying taxes upon carriers and their employees, and the Bituminous Coal Conservation Act			38	547
Total receipts	3,116	3,800	4,410	5,654
II. Expenditures.				
1. Regular:				
Operation and maintenance of regular departments and establishments	1,058	1,068	1,588	2,095
Veterans' pensions and benefits	556	608	718	790
Interest on national debt	757	821	742	805
Tax refunds (exclusive of processing taxes)	66	44	47	49
Agricultural Adjustment Act	289	743	621	679
Civilian Conservation Corps	332	436	486	380
Statutory debt retirements	360	573	554	580
Total regular	3,444	4,206	4,776	5,650
Excess of receipts over regular expenditures				4
Excess of regular expenditures over receipts	328	406	366	
2. Recovery and relief	3,661	3,069	3,868	[1] 1,103
Gross deficit	3,989	3,475	3,234	1,098
Gross public debt	27,053	28,701	30,963	31,351

[1] Represents estimated expenditures from unexpended balances of previous emergency appropriations.

Directing attention to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the table, the following comment is pertinent:

Receipts.—Receipts in 1937 (exclusive of postal revenues and processing taxes and also, for purposes of comparison, exclusive of taxes imposed under the Social Security Act, the Bituminous Coal Conservation Act, and the act levying taxes upon carriers and their employees) are expected to reach a total of $4,559,817,650, an increase of $716,665,704 over similar receipts for 1936 now estimated at $3,843,151,946, and $1,280,720,310 over 1935. It should be pointed out here that this increase is due largely to increased collections

anticipated under the old schedules. As has been stated, only about $222,000,000 will be collected in 1937 as a result of new schedules in the Revenue Act of 1935.

From processing taxes the sum anticipated is $547,300,000, against the estimate of $529,042,000 for the current year, an increase of $18,258,000. Other taxes recently authorized by the Congress under the Social Security Act, the Bituminous Coal Conservation Act, and the act levying taxes upon carriers and their employees will produce $547,100,000 in 1937 and $38,600,000 this year, an increase of $508,500,000.

Thus 1937 receipts from all sources, except postal revenues, are estimated at $5,654,217,650, against the revised estimate of $4,410,793,946 for the current fiscal year. The increase in total receipts from stated sources is, therefore, $1,243,423,704.

Postal receipts for the coming year are estimated at $705,000,000, an increase of $35,000,000 over $670,000,000 anticipated in 1936. This is further evidence of the upward trend in economic conditions.

An examination of the detailed estimates of receipts for 1937 indicates a gain over 1936 in income tax of $508,488,000, the figures for the two years being respectively $1,942,600,000 and $1,434,112,000. Similarly, estimated receipts from miscellaneous internal revenue, exclusive of processing taxes, are up from $1,873,091,000 to $2,103,114,000, a gain of $230,023,000. Customs receipts are forecast at $354,000,000, substantially the same as anticipated for 1936. The reduction of $22,654,296 in probable miscellaneous receipts, from $182,757,946 to $160,103,650, brings the net increase in the estimates of these four classes of receipts to $716,665,704, as stated.

The provisions of the Social Security Act, the Bituminous Coal Conservation Act, and the act levying taxes upon carriers and their employees are such that receipts during the fiscal year 1936 will be comparatively small while revenues from these sources in the next fiscal year will show substantial increases. The amounts estimated for 1937 from such new taxes in the order named are $433,200,000, $12,300,000, and $101,600,000.

Expenditures.—The expenditures for 1937 contemplated under this Budget will total $6,752,606,370, or approximately $893,000,000 less than is now estimated for 1936.

Of the two major categories of expenditure, namely, regular and recovery and relief, allowances for regular activities, including the Agricultural Adjustment Act and Civilian Conservation Corps, amount to $5,649,781,738 as compared with $4,776,233,151 for 1936, an increase of $873,548,587. For recovery and relief, expenditures listed herein are those which will be made from unexpended balances, practically all of which will have been obligated prior to June 30, 1936, and practically all of which have been allotted. The total of such expenditures in 1937 is estimated at $1,102,824,632, which is a decrease of $1,766,243,555 from the figure of $2,869,068,187 for 1936.

In regular expenditures there is included $805,000,000 for interest on the public debt, an increase of $63,000,000 over the same item for the current year; and $580,125,000 for statutory debt retirements, an increase of $28,100,000. The cost of service on the public debt in 1937, therefore, will exceed that for 1936 by $91,100,000.

Excepting debt retirement and interest, the net increase in expenditures for regular activities is $782,448,687 as compared with 1936. The major part of this increase is accounted for as follows: (*a*) For financing activities under the Social Security Act, the act levying taxes upon carriers and their employees, and the Bituminous Coal Conservation Act, $485,000,000; (*b*) for other new legislation, $125,000,000; (*c*) for increased public works, transferred from emergency appropriations, $228,000,000; (*d*) for the veterans' adjusted-service certificate fund in order to bring the annual contribution of the Government nearer its actual liability under existing law, $60,000,000; and (*e*) for national defense, to meet the policy of the Congress and the Executive in making up for the delay by the United States in bringing the Navy up to the strength contemplated by the naval treaties of 1922 and 1930, and to provide replacement and improved equipment and additional personnel for the Army, $193,000,000.

In the War Department Appropriation Act for the fiscal year 1935 the Congress adopted a policy of increasing the average enlisted strength of the Army from 118,750 to 165,000 men and toward accomplishing such purpose appropriated an additional $20,000,000 for expenditure during that year. These funds are sufficient to maintain an *average* enlisted strength during 1936 of approximately 147,000 men. The estimates of expenditure included in this Budget are sufficient in amount to maintain this average during the fiscal year 1937, with the purpose in view of providing in the 1938 Budget the funds necessary to recruit the Army to such strength by the close of that year as will produce an average enlisted strength of 165,000 throughout the fiscal year 1939, the maximum indicated by the Congress. It is felt that this is as fast as the Government should proceed in this matter in the light of the present forecast of fiscal affairs.

The contemplated expenditures for the Civilian Conservation Corps show a decrease of $308,383,000 as against estimated comparable expenditures for 1936.

Deficit and public debt.—The gross deficit for the fiscal year 1937 is estimated at $1,098,388,720, including $580,125,000 for statutory debt retirement, or a net deficit of $518,263,720. It is estimated that the gross public debt on June 30, 1937, will amount to $31,351,638,737, as compared with an estimated debt on June 30, 1936, of $30,933,-375,017. The figure for 1937 does not include such amounts for work relief during the coming year as may be determined upon by the Congress.

Appropriations.—Appropriations recommended in this Budget aggregate $6,400,000,000, including probable supplemental items estimated at $600,000,000, while the appropriations already made and prospective supplemental items for the fiscal year 1936, exclusive of the appropriation of $4,000,000,000 for recovery and relief, amount to $5,146,000,000, an increase of $1,254,000,000 required for the fiscal year 1937 over the fiscal year 1936.

This increase is due to (1) additional appropriations amounting to approximately $610,000,000, including supplementals to be submitted later, required to finance new legislation enacted at the last session of Congress; (2) an appropriation of $246,000,000 to continue the operations of the Civilian Conservation Corps from March 31, 1936, to March 31, 1937; (3) an increase in specific appropriations of $187,-000,000 on account of general public works; and (4) increases in the general departmental requirements aggregating approximately $211,-000,000, due largely to the increases in the Army, Navy, and the Department of Agriculture.

Existing authorizations for the Federal-Aid Highway System provide for appropriations of $125,000,000 for each of the fiscal years 1936 and 1937. Under these authorizations $40,000,000 has previously been appropriated for the fiscal year 1936. Toward the balance of $85,000,000 authorized for that year there is provided under the item "General Public Works Program" an estimate of $60,000,-000, which it is believed will be sufficient to meet commitments maturing during 1937. As to the authorization of $125,000,000 for the fiscal year 1937, language is included in this Budget having for its purpose the cancelation of this authorization for 1937 and making it applicable to the fiscal year 1938. This course appears fully justified in view of the fact that during the fiscal years 1933 to 1936, inclusive, there has been made available from emergency funds a total of approximately $1,192,000,000 for the construction of highways and the elimination of grade crossings, and that from these funds there will be available for expenditure during the fiscal year 1937 a total of more than $250,000,000 in addition to the $60,000,000 provided for in the General Public Works Program, previously referred to. Moreover, roads of secondary classification and farm to market roads are being constructed under allotments of emergency funds in amounts approximating $115,000,000.

The following table shows the approximate estimate of appropriations required to administer new legislation enacted during the last session of Congress, and also shows the amount of receipts anticipated in 1937 from new general tax provisions.

	Estimated appropriations, 1937
Social Security Act	$479,689,840
Railroad Retirement Act	47,645,000
Bituminous Coal Conservation Act	1,155,000
Amendments, pension laws	45,581,132
Postal 40-hour week	27,326,420
Elimination diseased cattle	17,500,000
Soil conservation	27,500,000
Agricultural research and extension	11,000,000
Reduction interest rate, Federal land banks	10,065,075
Total	667,462,467
Estimated receipts from taxes under the Social Security Act, the act levying taxes upon carriers and their employees, and the Bituminous Coal Conservation Act	547,100,000

Because there has not been sufficient time to plan the organization and methods required, no detailed estimates are included in the Budget for expense to be incurred by the Social Security Board, and by the Bureau of Internal Revenue for collecting taxes authorized by the three new acts heretofore referred to. However, the probable expense has been approximated and is included in the total lump sum of $600,000,000 estimated to cover 1937 supplementals. The necessary estimates covering the remainder of the current year will be transmitted during the early days of the session, together with complete details for 1937. Likewise no estimate for administering the Potato Act has been prepared since it is believed this act should be amended along lines to be recommended by the Secretary of Agriculture, and a supplemental estimate can then be transmitted.

FRANKLIN D ROOSEVELT.

JANUARY 3, 1936.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1937, together with this message, which is definitely a part thereof. The estimates have been developed after careful analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed in the tables which follow.

PART I

No mortal is permitted unfailingly to predict the future. This is particularly true of estimates which relate to the money values of property and services in a world of nations torn by dissension, by violent price fluctuations, and by forebodings of the future.

It is, therefore, a cause for congratulation within our own Nation to realize that a consistent, broad national policy, adopted nearly three years ago by the Congress and the President, has thus far moved steadily, effectively, and successfully toward its objective.

In March 1933 in spite of substantial increases in tax rates during the preceding administration Federal tax receipts had fallen to such a low level that even normal expenses of Government could not be carried on without creating a mounting deficit. In addition to normal expenses the problem of millions of starving unemployed called for a relief program which obviously would greatly increase that deficit.

The national policy which we then adopted sought to stop the downward economic spiral by taking simultaneous action along a dozen fronts. The chief objectives were: To make bank deposits secure, ~~to save farms and homes from foreclosure,~~ to start public works on a large scale, to encourage home building, to increase farm crop values, to give useful work instead of a dole to the needy unemployed, to reduce all interest rates, to increase foreign trade in both exports and imports, to extend Government credit to railroads and other privately owned activities, to reduce unsound and generally disastrous speculation, to eliminate starvation wages, to seek a higher ~~level of values~~, and then to ~~maintain these values~~.

On the part of the Federal Government the many legislative acts creating the machinery for recovery were all predicated on two interdependent beliefs. First, the measures would immediately cause a great increase in the annual expenditures of the Government—many of these expenditures, however, in the form of loans which would ultimately return to the Treasury. Second, as a result of the simultaneous attack on the many fronts I have indicated, the receipts of the Government would rise definitely and sharply during the following few years, while greatly increased expenditure for the purposes stated, coupled with rising values and the stopping of losses would, over a period of years, diminish the need for work relief and thereby reduce Federal expenditures. The increase in revenues would ultimately meet and pass the declining cost of relief.

This policy adopted in the spring of 1933 has been confirmed in actual practice by the Treasury figures of 1934, of 1935, and by the estimates for the fiscal years of 1936 and 1937.

There is today no doubt of the fundamental soundness of the policy of 1933. If we proceed along the path we have followed and with the results attained up to the present time we shall continue our successful progress during the coming years.

Stated even more concisely, we can look forward today to a continued reduction of deficits, to increased tax receipts, and to declining expenditures for the needy unemployed. Let it be remembered that the major part of the increase in tax receipts anticipated in 1937 over 1936 from comparable sources is coming from old tax schedules. The only changes made last year in the tax schedule were, first, the elimination of the tax on checks and, secondly, slight increases in taxes on large incomes, on large estates, and on large corporations and in capital stock and excess profits taxes. By the elimination of the tax on checks we lost forty million dollars in revenue and the slight increases on estates and on personal and corporate incomes will add only about 222 million dollars to Government receipts this coming year. I emphasize that the great bulk of increased Government income referred to above results from increased earning power and profits throughout the Nation and not from the new taxes imposed by the Revenue Act of 1935.

Final success will depend, of course, on the strength of the efforts put forth by the employers of the United States greatly to increase the number of persons employed by them. The finances of the Government are in better condition than at any time in the past seven years. I say this because starting with the autumn of 1929 tax receipts began a steady and alarming decline while, at the same time, Government expenditures began a steady rise; today, tax receipts are continuing a steady climb which commenced in the summer of 1933, whereas Budget estimates for the next fiscal year will show a decreased need for appropriations.

The credit of the Government is at its highest. The average of the business men of the Nation stand ready to do their share. It is to be hoped that motives and attacks which spring only from the desire for political or financial power on the part of a few will not retard the steady progress we are making.

Our policy is succeeding. The figures prove it. Secure in the knowledge that steadily decreasing deficits will turn in time into steadily increasing surpluses, and that it is the deficit of today which is making possible the surplus of tomorrow, let us pursue the course that we have mapped.

In my Budget message of January 1935 I said, "I am, however, submitting to the Congress a Budget for the fiscal year 1936 which balances except for expenditures to give work to the unemployed. If this Budget receives approval of the Congress, the country will henceforth have the assurance that with the single exception of this item, every current expenditure of whatever nature will be fully covered by our estimates of current receipts. Such deficit as occurs will be due solely to this cause, and it may be expected to decline as rapidly as private industry is able to reemploy those who now are without work."

In looking at the revised estimates for the fiscal year 1936 I am more than pleased to find that we have not only accomplished what I said we would in my Budget message of a year ago but that the results with respect to both expenditures and receipts have surpassed expectations.

1. My Budget message of January 1935 forecast that the expenditures for the fiscal year 1936 would be $8,520,000,000. Our most recent estimate shows that our expenditures will be $7,645,000,000, or $875,000,000 less than originally forecast.

2. Receipts were estimated in January 1935 at $3,992,000,000. At the present time it appears that they will be $4,411,000,000, or an increase of $419,000,000.

3. The message of January 1935 forecast a gross deficit of $4,528,000,000, and the most recent figures show that the deficit will be $3,234,000,000, or a decrease of $1,294,000,000.

This great improvement of the fiscal outlook during this present year has been brought about through policies which the Congress and the President initiated in 1933 and which we have since maintained.

Now let us look at the Budget for the fiscal year 1937:

To run all the regular activities of the Government I will need a total of $5,069,000,000. These regular activities include interest on the public debt, major public works, operations of the Civilian 'ok'

Conservation Corps, and agricultural benefit payments, but do not include strictly work relief items. I expect to pay for these regular activities, with estimated receipts of $5,654,000,000, leaving an excess of receipts of $585,000,000. Out of this $585,000,000 I will need $580,000,000 for debt retirement, which will still leave $5,000,000 of excess receipts over expenditures after having paid for all of the regular expenditures of the Government plus debt retirement.

The item for relief remains. Without that item the Budget is in balance. To make today a formal Budget estimate of the amount necessary for work relief would be of necessity a difficult task. We have too recently reached our goal of putting three and one-half million people at work; and the beneficial effects from this program and from increasing expenditures on public works cannot be foretold as accurately today as it can two months from now. Furthermore, employment by private industry continues to show substantial gains over the figures of a year ago. It is reasonably certain that the total appropriations for work relief during the fiscal year 1937 will be far less than during the current fiscal year. It is estimated in this Budget that expenditures for recovery and relief out of unexpended balances of previous emergency appropriations will amount to $1,103,000,000. Including these expenditures the gross deficit for 1937, without an estimate for additional work relief, is less than the gross deficit for 1936 by $2,136,000,000. I do not anticipate that the need for additional relief funds will be as great as that sum.

To state the case even more precisely, the gross deficit of the Government in 1934 was $3,989,000,000; in 1935, $3,575,000,000; in 1936 (estimate), $3,234,000,000; and in 1937 (estimated but not including any new appropriations for work relief), $1,098,000,000. Therefore, it is clear: First, that since June 30, 1934, the gross deficit of the Government shows a steady decrease during the fiscal years 1935 and 1936. Second, ~~that~~ if work relief appropriations by this session of the Congress were made up to a total of $2,136,000,000, the total gross deficit for the fiscal year 1937 would not exceed that of 1936, which was the lowest gross deficit of the past three years. Therefore, it follows that by whatever amount the appropriation for work relief at this session is less than $2,136,000,000, the gross deficit for 1937 will be less than the deficit for 1936 by the same amount.

write the word 'that' which is crossed out

With this limitation and this excellent prospect clearly in mind, I am not including in this Budget estimates for additional relief appropriations. I shall transmit such estimates with far greater knowledge and, therefore, with greater accuracy in sufficient time before the adjournment of this session to give the Congress full opportunity to examine into the subject and to make the necessary appropriations.

ok'

The credit of the Government is in sound condition. On October 15, 1933, war-time issues of First and Fourth Liberty bonds were outstanding in the aggregate amount of $8,200,000,000, bearing interest at an average rate of about 4⅛ percent. Today this entire amount has been refunded, of which about $5,000,000,000 was exchanged for long-term bonds bearing interest at rates ranging from 2⅞ to 3¼ percent per annum; $1,900,000,000 was exchanged for Treasury notes bearing interest from 1½ to 2½ percent per annum, and the balance was paid in cash. The average rate on the securities issued to refund the Liberty bonds is less than 2¾ percent per annum, a saving of approximately 1⅜ percent a year, or an annual reduction in interest payments of more than $100,000,000 on these particular securities.

The average rate on the interest-bearing debt was on June 30, 1934, approximately 3.18 percent, whereas on November 30, 1935, it had been reduced to 2.575 percent.

If the Congress enacts legislation at the coming session which will impose additional charges upon the Treasury for which provision is not already made in this Budget, I strongly urge that additional taxes be provided to cover such charges. It is important as we emerge from the depression that no new activities be added to the Government unless provision is made for additional revenue to meet their cost.

PART II

RECOMMENDATIONS

The following recommendations are offered:

Appropriation transfer provisions.—The text accompanying a number of the estimates of appropriations has been drafted to include provision for transfer between appropriations within the same department. This provision will add a measure of administrative flexibility and will tend to promote economical execution of the program as a whole, and approval thereof by the Congress is recommended.

Repeal amendment to Agricultural Adjustment Act.—During the first session of the Seventy-fourth Congress the Agricultural Adjustment Act was amended so as to appropriate a sum equal to 30 percent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities. No estimate of expenditure for account of this legislation is included herein; and repeal of the amendment is recommended for the following reasons:

By appropriating directly instead of authorizing an appropriation the amendment denies to the President the opportunity to consider the need and include appropriate estimates in the Budget; and it denies to the Congress the opportunity to review such estimates in their relation to the whole program of the Government. The amendment violates the principles of the Permanent Appropriation Repeal Act of 1934, and of the Budget and Accounting Act of June 10, 1921. It is in conflict with sound administration in that it provides in advance for large annual expenditures without any attempt to coordinate income and expense. The amendment was passed in the last days of the session as a result of conference agreement and without the debate and consideration by the Congress which the import of the measure clearly justifies.

Apportionments of appropriations.—Within the last few months control of the administrative expense of 20 emergency agencies has been vested in the Bureau of the Budget which after a general survey of all of them has effected substantial reductions in proposed expenditures for administrative purposes. Allowances for administrative expenses are subject to such adjustment as the status of the agency warrants.

The 20 agencies brought under the Budget are the Agricultural Adjustment Administration; Commodity Credit Corporation; Electric Home and Farm Authority; Export-Import Banks (2); Farm Credit Administration; Federal Coordinator of Transportation; Federal Deposit Insurance Corporation; Federal Emergency Administration of Public Works; Federal Emergency Relief Administration; Federal Farm Mortgage Corporation; Federal Home Loan Bank Board; Federal Housing Administration; Federal Savings and Loan System; Federal Savings and Loan Insurance Corporation; Federal Surplus Relief Corporation; Home Owners' Loan Corporation; National Recovery Administration; Reconstruction Finance Corpora~~tion and Tennessee Valley Authority.~~

It is recommended that section 3679 of the Revised Statutes be amended so as to bring all agencies of the Government, including Government-owned and Government-controlled corporations, within the authority of the Director of the Budget with respect to apportionments of appropriations and of other funds available to them.

~~Part III~~

~~REVIEW OF FISCAL YEARS 1935 AND 1936 AND THE FISCAL PROGRAM OF 1937~~

This review concerns itself with cash actually received and paid out by the Treasury in the fiscal year 1935; and with the estimates of receipts, appropriations, and expenditures for the fiscal years 1936

and 1937. As elsewhere stated herein the program of regular activities for 1937 includes activities under the Agricultural Adjustment Act and the Civilian Conservation Corps (Emergency Conservation Work), heretofore classed as emergency. Therefore the figures used herein for 1934, 1935, and 1936 have been adjusted to a comparable basis.

FISCAL YEAR 1935

Receipts.—Treasury receipts ~~for the year ended June 30, 1935,~~ were in excess of estimates prepared a year ago. Considering all sources except postal revenues, total receipts amounted to $3,800,467,202, or $89,000,000 above the estimate. Internal revenue, including processing taxes on farm products, produced $3,277,690,028, exceeding the estimate by $80,000,000. Customs receipts amounted to $343,353,033, an increase over the estimate of $56,000,000. Miscellaneous receipts, including realization upon assets, estimated at $227,184,181, fell short of the estimate by $48,000,000; the amount actually received under this item was $179,424,140.

Expenditures.—While actual receipts for the year were greater than anticipated, actual expenditures were less than the amount estimated by $1,205,000,000. The aggregate of all expenditures was $7,375,825,166, against an estimate of $8,581,069,026. Approximately a billion dollars of this difference related to recovery and relief, and the regular agencies accounted for the remainder.

The total spent for recovery and relief was $3,068,803,053, whereas the 1936 Budget estimate was $4,068,~~941,552, exclusive~~ of expenditures made under the Agricultural Adjustment Act and made by the Civilian Conservation Corps. This difference is partly due to this fact:

When the Budget for 1936 was prepared it seemed probable that the Reconstruction Finance Corporation, in all accounts except relief, would close the year with an excess of loans over repayments; and the amount of the net expenditures was estimated at $556,000,000. However, because of improved business conditions, the demands for Corporation assistance were so much less than estimated and the repayments of loans so much greater, that the Corporation actually closed the year with net receipts of $107,000,000. Therefore, the net difference between the estimated expenditure and the actual result amounted to $663,000,000. Other agencies spent for recovery and relief $337,000,000 less than estimated.

For the operation and maintenance of regular departments and establishments of the Government, including the Agricultural Adjustment Act and the Civilian Conservation Corps, actual expenditures were $2,912,537,500, against the estimate of $3,104,961,174.

For statutory debt retirements there was expended $573,558,250, and for interest on the public debt $820,926,353, whereas the amounts budgeted for these items were, respectively, $572,566,000 and $835,000,000.

Deficit and public debt.—The year closed with a gross deficit of $3,575,357,964 instead of the estimate of $4,869,418,338/ After deducting the amount paid out for statutory debt retirement the net deficit was $3,001,~~799,714~~. The increase in the total outstanding gross public debt was $1,647,~~751,210~~, which figure is properly obtained by subtracting from the net deficit the decrease in the general fund balance, the excess of receipts from trust funds, increment on gold, et cetera, over expenditures from the same accounts, and the amount of retirement of national-bank notes from the gold increment. As of June 30, 1935, the total outstanding gross public debt was $28,700,892,624, while on June 30, 1934, it was $27,053,141,414.

FISCAL YEAR 1936

Drawing upon the experience of the first six months of the current year it is possible to forecast with a fair degree of accuracy the results of financial operations for the whole 1936 fiscal period.

Receipts.—The same sources of income (excluding postal revenues) which a year ago were expected to produce receipts aggregating $3,991,~~904,839~~ are now expected to produce a total of $4,410,~~793,846~~.

Of the items comprising the whole, income taxes will develop $1,434,~~112,000~~, or $246,000,000 more than the 1936 Budget estimate.

Miscellaneous internal revenue exclusive of processing taxes is now estimated at $1,873,~~991,000~~, an increase of $187,000,000. Receipts from customs are expected to reach a total of $353,~~101,000~~, exceeding the original estimate by $35,000,000. Other changes, some upward and some downward, result in the new estimate of total receipts at a figure of $419,000,000 higher than shown in the Budget for 1936 which was presented a year ago.

The present estimate for processing taxes in 1936, included in above total, is in round figures $529,000,000, as against the original estimate of $570,000,000. Actual receipts for the five months ended November 30, 1935, totaled $56,000,000, while up to that date approximately $148,000,000 of due payments had been impounded as the result of preliminary court action./

It is pertinent to repeat here a statement appearing in the Summation of the 1936 Budget: "Estimates of receipts contemplate continued collection of processing taxes. If the attack which has been made upon this act is sustained we will have to face the problem of financing existing contracts for benefit payments out of some form of new taxes."

Two new taxes, namely, the bituminous coal tax and the taxes upon carriers and their employees, both representing recent legislation, will contribute $32,000,000 not included in the original estimate of receipts for 1936. New taxes imposed by the Social Security Act and the Revenue Act of 1935 will not produce any income until the fiscal year 1937.

Expenditures.—Indications are that expenditures including debt retirement during the present fiscal year will not reach the amount budgeted by approximately $875,000,000; the total now foreseen is $7,645,~~304,000~~, against the original estimate of $8,520,413,609. Exclusive of debt retirement the total of expenditures is now estimated at $7,069,~~926,000~~, while the original comparable figure was $7,883,~~979,000~~. For recovery and relief the revised estimate of expenditures for the fiscal year 1936 is less than the original Budget estimate by $738,000,000, and expenditures for all regular purposes, including Agricultural Adjustment Act and Civilian Conservation Corps, will be less by $137,000,000. Debt retirement will require $84,000,000 less than was budgeted and interest payments will be $133,000,000 less. All regular expenditures, excluding service on the public debt, will be greater than the original Budget estimate by about $80,000,000.

The reduction in interest payments from the amount budgeted, as referred to above, was due largely to the refunding of First and Fourth Liberty Loan bonds aggregating $8,200,000,000, at substantially lower rates of interest.

Deficit and public debt.—The revised estimates as set out herein show a gross deficit for the current fiscal year of approximately $3,234,000,000, instead of the original Budget forecast of $4,529,000,000. After deducting the amount of statutory debt retirement the net deficit will be, in round figures, $2,682,000,000. The gross public debt as at June 30, 1936, should not be greater than $31,000,000,000. This estimate assumes that the working balance in the Treasury on June 30, 1936, will be approximately the same as it was on June 30, 1935, namely, $1,001,~~142,951~~. Obviously, if the working balance is less, the gross debt will be less; and if ~~it is~~ greater, the gross debt will be greater.

The foregoing figures are set out in the following table for ready comparison between Budget estimates of a year ago and what are now considered probable.

Comparison of original and revised estimates, fiscal year 1936, adjusted to classification of expenditures in 1937 Budget

	Budget estimate, January 1935	Revised estimate
1. Receipts (excluding postal):		
Income tax	[illegible]	[illegible]
Miscellaneous internal revenue	[illegible]	[illegible]
Processing taxes on farm products	[illegible]	[illegible]
Customs	[illegible]	[illegible]
All other	[illegible]	[illegible]
Total receipts	[illegible]	[illegible]
2. Expenditures:		
Regular, including A. A. A. and C. C. C.	[illegible]	[illegible]
Interest on the public debt	[illegible]	[illegible]
Recovery and relief	[illegible]	[illegible]
Total expenditures	[illegible]	[illegible]
3. Net deficit	[illegible]	[illegible]
Statutory debt retirements	[illegible]	[illegible]
Gross deficit	[illegible]	[illegible]
4. Gross public debt	[illegible]	[illegible]

Postal revenues for the fiscal year 1936 are now estimated at $670,000,000, which is $25,000,000 over the original estimate.

THE FISCAL PROGRAM OF 1937

There is presented here a brief factual résumé of the principal features of the Budget for the fiscal year 1937, the details of which appear in subsequent text and tables. A few high points stand out and justify emphasis.

Without impairing the ability of the Government to carry on its normal functions and to prosecute those activities essential to continued recovery, the Budget reflects a substantial decrease in the spread between income and outgo. This is consistent with the prediction made in the Budget message a year ago and is possible because of progressive improvement in the economic status of the people. The state of national recovery is such that receipts from prevailing tax sources on the basis of present rates appear adequate for financing the ordinary operations of the Government in 1937, including service on the public debt; and no new or additional taxes are proposed.

Legislation enacted by the first session of the Seventy-fourth Congress makes it necessary to provide in the 1937 estimates new appropriation items aggregating $607,000,000. This total will become

approximately $767,000,000 should the Congress reject the recommendation, hereinbefore offered, for repeal of that part of the Agricultural Adjustment Act which appropriates a sum equal to 30 percent of customs receipts to the Secretary of Agriculture.

Legislation enacted by the first session also permits including in these estimates a total of $769,000,000 of additional receipts, of which about 70 percent will accrue under the Bituminous Coal Conservation Act, the act levying taxes upon carriers and their employees, and the Social Security Act. It is worthy of note that but slightly less than 30 percent of this increase will be derived under the Revenue Act of 1935. This act, it will be recalled, slightly increased taxes on individuals whose net incomes exceed $50,000 per year; slightly increased estate taxes on larger fortunes with a corresponding increase in gift taxes; and in respect of corporations, decreased taxes on net earnings of small corporations while increasing in relative ratio the taxes on net income of larger corporations. The act also provided for an increase in taxes on capital stock and on excess profits of corporations. The effect of the excess-profits tax was to increase taxes on corporations which earned in excess of certain percentages of their adjusted declared value of capital stock.

The total revenue expected to be produced by these taxes in the fiscal year 1937 will be only $222,000,000, or 11 percent, over the income, estate, gift, capital-stock, and excess-profits taxes under the old law. Since collections in the fiscal year 1937 from income taxes and the estate tax only partially reflect the Revenue Act of 1935, the above amount will be somewhat larger on a full year basis.

A Federal public-works program of $405,000,000 is recommended to meet in part the development and improvement requirements of the Government, and as a proper Federal contribution to work opportunity. While this program represents an increase of about $187,000,000 over the amount for similar purposes for which the Congress made specific appropriations for the current fiscal year, it is $333,000,000 less than the total amount made available for Federal public works in 1936, considering allotments made from emergency funds.

The success attending the operations of the Civilian Conservation Corps and the Agricultural Adjustment Administration under emergency status justifies taking them into the Budget and program for 1937 as regular activities, and the estimates of appropriations and expenditures have been prepared accordingly. The appropriation recommended for Civilian Conservation Corps is for the period March 31, 1936, to March 31, 1937, and amounts to $246,000,000, while the appropriation for the Agricultural Adjustment Administration is for the full year and amounts to $499,054,985.

The following table gives a clear picture of the main figures proposed in this Budget and shows how they compare with similar figures for previous years.

[In millions of dollars]

	Actual		Estimated	
	1934	1935	1936	1937
I. Receipts:				
Income taxes	818	1,099	1,435	1,943
Miscellaneous internal revenue	1,470	1,657	1,872	2,100
Processing taxes	353	521	529	[illegible]
Customs	313	343	318	354
Miscellaneous	163	180	202	162
Taxes under the Social Security Act, the act levying taxes upon carriers and their employees, and the Bituminous Coal Conservation Act			38	547
Total receipts	3,116	3,800	4,411	5,654
II. Expenditures:				
1. Regular:				
Operation and maintenance of regular departments and establishments	1,066	1,008	1,709	2,186
Veterans' pensions and benefits	556	605	776	790
Interest on national debt	757	821	742	855
Tax refunds (exclusive of processing taxes)	62	82	47	48
Agricultural Adjustment Act	289	743	621	519
Civilian Conservation Corps	332	436	308	339
Statutory debt retirements	360	573	582	389
Total regular	3,444	4,394	4,776	5,649
Excess of receipts over regular expenditures				5
Excess of regular expenditures over receipts	328	593	365	
2. Recovery and relief	2,461	3,008	2,049	[1] 1,103
Gross deficit	3,990	3,575	3,234	1,098
Gross public debt	27,053	28,701	30,000	31,351

[1] Represents estimated expenditures from unexpended balances of previous emergency appropriations.

Directing attention to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the table, the following comment is pertinent:

Receipts.—Receipts in 1937 (exclusive of postal revenues and processing taxes and also, for purposes of comparison, exclusive of taxes imposed under the Social Security Act, the Bituminous Coal Conservation Act, and the act levying taxes upon carriers and their employees) are expected to reach a total of $4,559,~~817,650~~, an increase of $716,~~605,704~~ over similar receipts for 1936 now estimated at $3,843,~~151,946~~, and $1,280,~~730,310~~ over 1935. It should be pointed out here that this increase is due largely to increased collections

anticipated under the old schedules. As has been stated, only about $222,000,000 will be collected in 1937 as a result of new schedules in the Revenue Act of 1935.

From processing taxes the sum anticipated is $547,300,000, against the estimate of $529,042,000 for the current year, an increase of $18,258,000. Other taxes recently authorized by the Congress under the Social Security Act, the Bituminous Coal Conservation Act, and the act levying taxes upon carriers and their employees will produce $547,100,000 in 1937 and $38,600,000 this year, an increase of $508,500,000.

Thus 1937 receipts from all sources, except postal revenues, are estimated at $5,654,~~217,650~~, against the revised estimate of $4,410,~~793,946~~ for the current fiscal year. The increase in total receipts from stated sources is, therefore, $1,243,~~423,704~~.

Postal receipts for the coming year are estimated at $705,000,000, an increase of $35,000,000 over $670,000,000 anticipated in 1936. This is further evidence of the upward trend in economic conditions.

An examination of the detailed estimates of receipts for 1937 indicates a gain over 1936 in income tax of $508,488,000, the figures for the two years being respectively $1,9~~42,600,000~~ and $1,4~~34,112,000~~. Similarly, estimated receipts from miscellaneous internal revenue, exclusive of processing taxes, are up from $1,873,~~081,000~~ to $2,103,~~114,000~~, a gain of $230,028,000. Customs receipts are forecast at $354,000,000, substantially the same as anticipated for 1936. The reduction of $22,654,296 in probable miscellaneous receipts, from $182,~~757,946~~ to $160,103,650, brings the net increase in the estimates of these four classes of receipts to $716,~~605,704, as stated~~.

The provisions of the Social Security Act, the Bituminous Coal Conservation Act, ~~and the act levying taxes upon carriers and their employees~~ are such that receipts during the fiscal year 1936 will be comparatively small while revenues from these sources in the next fiscal year will show substantial increases. The amounts estimated for 1937 from such new taxes in the order named are $433,200,000, $12,~~300,000~~, and $101,600,000.

Expenditures.—The expenditures for 1937 contemplated under this Budget will total $6,752,~~606,970~~, or approximately $893,000,000 less than is now estimated for 1936.

Of the two major categories of expenditure, namely, regular and recovery and relief, allowances for regular activities, including the Agricultural Adjustment Act and Civilian Conservation Corps, amount to $5,649,~~731,738~~ as compared with $4,776,~~293,151~~ for 1936, an increase of $873,~~548,587~~. For recovery and relief, expenditures listed herein are those which will be made from unexpended balances, practically all of which will have been obligated prior to June 30, 1936, and practically all of which have been allotted. ~~The total of such expenditures in 1937 is estimated at $1,102,824,632, which is a decrease of $1,766,243,555 from the figure of $2,869,068,187 for 1936.~~

In regular expenditures there is included $805,000,000 for interest on the public debt, an increase of $63,000,000 over the same item for the current year; and $580,~~125,000~~ for statutory debt retirements, an increase of $28,~~100,000~~. The cost of service on the public debt in 1937, therefore, will exceed that for 1936 by $91,100,000.

Excepting debt retirement and interest, the net increase in expenditures for regular activities is $782,~~446,567~~ as compared with 1936. The major part of this increase is accounted for as follows: (*a*) For financing ~~activities under~~ the Social Security Act, ~~the act levying taxes upon carriers and their employees,~~ and the Bituminous Coal Conservation Act, $485,000,000; (*b*) for other new legislation, $125,000,000; (*c*) for increased public works, transferred from emergency appropriations, $228,000,000; (*d*) for the veterans' adjusted-service certificate fund in order to bring the annual contribution of the Government nearer its actual liability under existing law, $60,000,000; and (*e*) for national defense, to meet the policy of the Congress and the Executive in making up for the delay by the United States in bringing the Navy up to the strength contemplated by the naval treaties of 1922 and 1930, and to provide replacement and improved equipment and additional personnel for the Army, $193,000,000.

In the War Department Appropriation Act for the fiscal year 1935 the Congress adopted a policy of increasing the average enlisted strength of the Army from 118,750 to 165,000 men and toward accomplishing such purpose appropriated an additional $20,000,000 for expenditure during that year. These funds are sufficient to maintain an *average* enlisted strength during 1936 of approximately 147,000 men. The estimates of expenditure included in this Budget are sufficient in amount to maintain this average during the fiscal year 1937, with the purpose in view of providing in the 1938 Budget the funds necessary to recruit the Army to such strength by the close of that year as will produce an average enlisted strength of 165,000 throughout the fiscal year 1939, the maximum indicated by the Congress. It is felt that this is as fast as the Government should proceed in this matter in the light of the present forecast of fiscal affairs.

The contemplated expenditures for the Civilian Conservation Corps show a decrease of $308,383,000 as against estimated comparable expenditures for 1936.

Deficit and public debt.—The gross deficit for the fiscal year 1937 is estimated at $1,098,388,720, including $580,~~125,000~~ ~~for~~ statutory debt retirement, or a net deficit of $518,~~263,720~~. It is estimated that the gross public debt on June 30, 1937, will amount to $31,~~351,600,787~~, as compared with an estimated debt on June 30, 1936, of $30,933,375,017. The figure for 1937 does not include such amounts for work relief during the coming year as may be determined upon by the Congress.

Appropriations.—Appropriations recommended in this Budget aggregate $6,400,000,000, including probable supplemental items estimated at $600,000,000, while the appropriations already made and prospective supplemental items for the fiscal year 1936, exclusive of the appropriation of $4,000,000,000 for recovery and relief, amount to $5,146,000,000, an increase of $1,254,000,000 required for the fiscal year 1937 over the fiscal year 1936.

This increase is due to (1) additional appropriations amounting to approximately $610,000,000, including supplementals to be submitted later, required to finance new legislation enacted at the last session of Congress; (2) an appropriation of $246,000,000 to continue the operations of the Civilian Conservation Corps from March 31, 1936, to March 31, 1937; (3) an increase in specific appropriations of $187,000,000 on account of general public works; and (4) increases in the general departmental requirements aggregating approximately $211,000,000, due largely to the increases in the Army, Navy, and the Department of Agriculture.

Existing authorizations for the Federal-Aid Highway System provide for appropriations of $125,000,000 for each of the fiscal years 1936 and 1937. Under these authorizations $40,000,000 has previously been appropriated for the fiscal year 1936. Toward the balance of $85,000,000 authorized for that year there is provided under the item "General Public Works Program" an estimate of $60,000,000, which it is believed will be sufficient to meet commitments maturing during 1937. As to the authorization of $125,000,000 for the fiscal year 1937, language is included in this Budget having for its purpose the cancelation of this authorization for 1937 and making it applicable to the fiscal year 1938. This course appears fully justified in view of the fact that during the fiscal years 1933 to 1936, inclusive, there has been made available from emergency funds a total of approximately $1,192,000,000 for the construction of highways and the elimination of grade crossings, and that from these funds there will be available for expenditure during the fiscal year 1937 a total of more than $250,000,000 in addition to the $60,000,000 provided for in the General Public Works Program, previously referred to. Moreover, roads of secondary classification and farm to market roads are being constructed under allotments of emergency funds in amounts approximating $115,000,000. 4

The following table shows the approximate estimate of appropriations required to administer new legislation enacted during the last session of Congress, and also shows the amount of receipts anticipated in 1937 from new general tax provisions. 5

	Estimated appropriations, 1937
Social Security Act	$479,689,840
Railroad Retirement Act	47,645,000
Bituminous Coal Conservation Act	1,155,000
Amendments, pension laws	45,581,132
Postal 40-hour week	27,326,420
Elimination diseased cattle	17,500,000
Soil conservation	27,500,000
Agricultural research and extension	11,000,000
Reduction interest rate, Federal land banks	10,065,075
Total	667,462,467
Estimated receipts from taxes under the Social Security Act, the act levying taxes upon carriers and their employees, and the Bituminous Coal Conservation Act	547,100,000

Because there has not been sufficient time to plan the organization and methods required, no detailed estimates are included in the Budget for expense to be incurred by the Social Security Board, and by the Bureau of Internal Revenue for collecting taxes authorized by the three new acts heretofore referred to. However, the probable expense has been approximated and is included in the total lump sum of $600,000,000 estimated to cover 1937 supplementals. The necessary estimates covering the remainder of the current year will be transmitted during the early days of the session, together with complete details for 1937. Likewise no estimate for administering the Potato Act has been prepared since it is believed this act should be amended along lines to be recommended by the Secretary of Agriculture, and a supplemental estimate can then be transmitted.

FRANKLIN D ROOSEVELT.

JANUARY 3, 1936.