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Budget Message

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1941. Estimated expenditures at \$8,424,000,000 are down \$675,000,000 from the fiscal year 1940. Estimated normal receipts at \$5,548,000,000 are up \$382,000,000 from the fiscal year 1940. Recovery of excess capital funds from Government corporations is estimated at \$700,000,000. The net deficit is estimated at \$2,176,000,000 as compared with an estimated \$3,933,000,000 in the fiscal year 1940. If the tax recommendations totaling \$460,000,000 herein made are adopted, the deficit will be further decreased to \$1,716,000,000. Appropriations, excluding those for debt retirement, as distinguished from actual expenditures, are estimated at \$8,101,000,000, as contrasted with \$8,889,000,000 in the fiscal year 1940.

REVIEW OF FISCAL POLICY

The Budget of the United States Government is a statement that reflects in money terms what the Government does for the people and what the people contribute to the Government.

In these figures over a course of years are mirrored the changing attitudes of the people toward the growing needs which they expect their Government to meet. The relatively low and constant level of expenditures throughout the nineteen-twenties accurately reflected the relatively minor role played by the Government in those years. The substantial increase in the past decade is a reflection of the degree to which the country, in response to changing economic and international conditions and changing attitudes, has turned to the Government to meet social needs recognized by our citizenship. Nowhere are our democratic processes so faithfully depicted.

In the early thirties—prior to 1933—fiscal policy was exceedingly simple in theory and extraordinarily disastrous in practice. It consisted in trying to keep expenditures as low as possible in the face of shrinking national income. Persistence in this attempt came near to bankrupting both our people and our Government.

Following 1933 the fiscal policy of the Government was more realistically adapted to the needs of the people. All about were idle men, idle factories, and idle funds, and yet the people were in desperate need of more goods than they had the purchasing power to acquire. The Government deliberately set itself to correct these conditions by borrowing idle funds to put idle men and idle factories to work.

The deliberate use of Government funds and of Government credit to energize private enterprise—to put purchasing power in the hands of those who urgently needed it and to create a demand for the products of factory and farm—had a profound effect both on Government and on private incomes. The national income in four years rose 68 percent, from 42 billion dollars in 1933 to 72 billion dollars in 1937, the largest absolute rise for any four-year period in our history, not even excepting the rise during the World War. Tax revenues rose from 2 billion dollars in the fiscal year 1933 to over 8 billion dollars in the fiscal year 1937, primarily because the people had more income out of which to pay taxes. The people paid 3 billion dollars more in taxes but they had nearly 10 times more than that, or 30 billion dollars, to spend on other things. This statement deserves a headline.

Rapid progress was made toward a balanced budget. By the calendar year 1937 excess of Government outlays over Government net income had dropped to 331 million dollars.

Unfortunately, just at the time when it seemed that the Federal Government would be able safely to balance its budget on the basis of a national income of approximately 75 billion dollars, maladjustments in the economic system began to appear and caused a recession in economic activity. The recession was due to a variety of causes stemming in the main from over-optimism which led the Government to curtail its net expenditures too abruptly, and business to expand production and raise prices too sharply for consumers' purchasing power to keep pace. A large volume of unsold goods piled up.

If the recession were not to level on itself and become another depression, the buying power of the people, which constitutes the market for the products of industry and agriculture, had to be maintained. To this end, in the spring of 1938, I recommended a further use of Government credit and the Congress acted on my recommendation.

The soundness of this realistic approach to a fiscal policy related to economic need was again strikingly demonstrated. In place of the 45-billion-dollar decline in national income that occurred from 1929 to 1932, the decline from 1937 to 1938 scarcely exceeded 8 billion dollars. In place of a four-year period of liquidation and deflation,

productive activity turned up within nine months. By 1939, in terms of dollars, the national income closely approached, and, in terms of real production and consumption, making allowance for the lower level of prices, was equal to that of 1937.

The experience of 1938-1939 should remove any doubt as to the effectiveness of a fiscal policy related to economic need. The wise exercise of such a fiscal policy imposes grave responsibility on the Government. Government must have the wisdom to use its credit to sustain economic activity in periods of economic recession and the courage to withhold it and retire debt in periods of economic prosperity. And let us not forget that the withholding of Government credits in time of need for political advantage is no less reprehensible than its prodigal use at any time.

In approaching the Budget for the fiscal year 1941 I have sought, as in the past, to relate fiscal policy to probable economic necessities. As the Budget is being prepared we are achieving the highest levels of production and consumption in our history. The extent to which recovery has progressed, and the degree to which speculation and price increases have, on the whole, been kept in check, have made it possible for us to consider a substantial lessening of Government expenditures on activities not immediately essential for national defense.

On the other hand employment still lags considerably below the levels of 1929. Many of our younger women have not found employment, and many others have been displaced by the machine. We must not only guard the gains we have made but we must press on to attain full employment for those who have been displaced by machines as well as for the 5,000,000 not addition to the labor force since 1929. We must, therefore, avoid the danger of too drastic or too sudden a curtailment of Government support.

Against this background of aims substantially but not fully attained, I propose in the field of fiscal policy that we adopt the following course: We should count upon a natural increase in receipts from current taxes and a decrease in emergency expenditures, and we should try to offset the unavoidable increase in expenditures for national defense by special tax receipts, and thus hope to secure, for the over-all picture, a gradual tapering off, rather than an abrupt cessation, of the deficit.

In the proposed Budget I have tried to interpret the wishes of our people. They want to strengthen our national defenses and are prepared to pay additional taxes for this purpose. They wish to attain, if possible, an over-all decrease in expenditures. They would like to

and a reduction in the deficit but not of a magnitude that would impede the progress of recovery.

DETERMINANTS

To make the consideration of the Budget from financial to social needs, I submit a summary for the fiscal year 1941 of important objectives required to meet these needs:

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| National defense..... | \$1,800,000,000 |
| Army and navy programs..... | 1,200,000,000 |
| Air force programs..... | 1,100,000,000 |
| Public works and improvements..... | 1,300,000,000 |
| Pensions, retirements, and annuities..... | 1,000,000,000 |
| Interest on the public debt..... | 1,100,000,000 |
| Regular operating..... | 1,000,000,000 |
| Total..... | 8,600,000,000 |

The table presented is a simple form which any layman can understand. The amount of money to be paid Government employees during 1941, I constantly remind at the top of my column, is not a new figure, nor has the will to do so anybody on either Government employees but the will to do so sufficient indemnity to "balance the Budget." It costs nothing to make such statements and they can be checked so fit into the affairs of every business.

But it is the old, old story of the man who tries to solve generalities and change the subject abruptly when he is put down to hard facts. The Budget, for example, is the not believe that the integrity of the people in this country is so low as to permit the Government to spend \$1,800,000,000 for national defense. This is an attempt to enter the current year, but it is far less than many reports on national defense which should be spent, though it is in my judgment a sufficient amount for the coming year.

I do not believe that the majority of people in this country want to see the work relief programs for the coming year reduced below \$1,000,000,000. This man, in fact, covering the activities of the War Relocation Authority, the Civil Control Administration, the Civilian Control Administration, the Civilian Conservation Corps, and parts of the Farm Security Administration represents a large—perhaps too large—reduction of current expenditures.

I do not believe that the majority of people feel that the agricultural program should be reduced below the figure of \$800,000,000 because the figure in itself is large relative to the current year,

will be barely sufficient to carry out all protection and surplus removal operations.

I do not believe that the majority of people wish the sum for public works and \$1,000,000,000 can be further reduced in any part of the country.

I do not believe that the majority of people feel that the Government can possibly reduce, by any substantial sum, the figure of \$1,200,000,000 for pensions, retirements, and annuities of many kinds, including public-health work, and for dependent children and the blind, and veteran's benefits.

The item of \$1,100,000,000 for interest on the public debt, of course, is not a new figure, and it is not a new figure that the majority of the people feel by the Government is being one-half lower than it was in 1933.

All of these items amount to estimated expenditures of \$7,600,000,000 and there remains only one other item of \$1,000,000,000—13 percent of the total—for the operating costs of the regular departments of the Government. These are down to the bottom of the activities and functions outlined by the Congress. If further savings are to be made in these operating costs, the Congress will have to take the organization of every Federal department and every Federal office and the services thereof in the Budget could only be a small percentage of the total.

Therefore, those who call for further cuts should have the courage and the honesty to specify where they should be made.

National defense.—These estimates represent expenditures needed to develop and maintain our current defense program. They also include, in view of the current world defense program, the cost of the program for the War Relocation Authority, the Civil Control Administration, the Civilian Conservation Corps, Department of Justice, and the Department of Education.

It is either that the Government's program may be clearly above 1. The amount needed for both the fiscal years 1940 and 1941. They call for supplemental expenditures of \$272,000,000 in the fiscal year 1940, and expenditures of \$102,000,000 and \$300,000,000 in these two years. This program will, I hope, help to reduce the cost of our emergency defense expenditures, and to a certain extent to save the Government from having to resort to a normal program when the current emergency has passed.

Work-relief programs.—For the purpose of this summary I have included the activities of the Work Projects Administration, the National Youth Administration, the Civilian Conservation Corps, and the grants of the Farm Security Administration.

In submitting estimates for these agencies I have taken into consideration the current improvement in business conditions. The first effects of increased business activity have not resulted in a proportionate reduction in relief needs. This is because the increase in employment has affected principally those who have had casual or part-time work. But there is reason to hope that a continued expansion of business would diminish relief requirements substantially.

While the estimates are appreciably less than those for the current year, I am hopeful that they will prove adequate. The Work Projects Administration will be able to provide employment for an average of 1,250,000 persons. The National Youth Administration can employ an average of nearly 600,000 American youths, and the Civilian Conservation Corps will operate 1,227 camps and provide for a monthly average of 230,000 enrollees. The Farm Security Administration will operate on about 80 percent of its 1940 level. Relief expenditures should be closely geared to actual needs. If conditions fail to meet our hopes additional funds may be necessary. I may, therefore, submit revised estimates later in the session.

Agricultural programs.—Under the broad heading of agricultural programs I have included agricultural adjustment benefits, the surplus removal program and parity payments arising from 1940 appropriations.

Despite a gratifying general increase in farm income, agriculture is still not receiving its proper share of the national income. I am, therefore, proposing to continue substantially undiminished the various agricultural programs.

I have not, however, included estimates for new appropriations for parity payments in 1941. I am influenced by the hope that next year's crops can be sold by their producers for at least 75 percent of parity. I do not suggest in any way abandonment of the policy of parity payments heretofore adopted, and future events may call for some appropriation to this end. I note, however, in passing, that the Congress has failed to make any provision for the financing of these payments already made or obligated for 1938 and 1939 crops.

Public works and investments.—This broad class of expenditure represents the use of Federal capital for investment in useful public works, for ship construction, and for loans largely for aid to agriculture.

While the expenditures for these purposes in 1941 remain large, a substantial portion of them arises from existing appropriations or takes the form of reimbursable loans.

The estimated expenditure for the general public works program is \$641,000,000, but the proposed new appropriation for this line to carry on already authorized projects is only \$408,000,000. To obtain this relatively low figure the starting of important new projects has had to be postponed and the purchase of additional land has had rigidly to be limited. This action brings the public-works program down to the minimum goal of \$500,000,000 a year suggested by me on several previous occasions, and conserves the reservoir of public projects for a time when private construction declines.

Last year, in the interests of more accurate and intelligible statements of the financial operations of the Government, I invited the attention of the Congress to the desirability of capitalizing certain capital expenditures of the Government that have proved to be self-liquidating. I renew that recommendation at this time. As before, I would confine this principle to projects that are definitely capable of yielding revenues sufficient to defray, with interest, their cost of construction. In accordance with this principle, I propose that the requirements for new self-liquidating loans of the Rural Reconstruction Administration be met through funds advanced by the Reconstruction Finance Corporation instead of by direct appropriation.

Pensions, retirement, and assistance.—This category includes grants to the States under the Social Security Act for old-age assistance, for maternal and child welfare, for public health work, and for aid to dependent children and the blind, as well as veterans' benefits, railroad retirement benefits, and contributions to Federal employee retirement funds. It does not include insurance benefits paid out of the old-age and unemployment trust funds. This general category affects the individual security and health of millions of citizens. Its growth reflects mainly the beginning of a comprehensive social-security program.

Interest on the public debt.—Obviously no reduction in this item can be made in the next year. The average interest rate paid on the public debt for the fiscal year 1939 was 3.9 percent. The present computed rate is 2.8 percent.

Regular operating expenses.—This item represents the basic financial requirements of the Government. Blue pencil increases are not easy to make. In the face of large and appealing requests for increases I have

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held appropriations and estimates of expenditures generally to the 1940 level or below. Where legislation has added new activities I have offset the cost by reductions in old activities.

I have carefully checked the individual estimates under these broad categories and I am satisfied that no lower figures can be attained except at the expense of impairing the efficiency with which laws are administered or of working undue hardship on individuals and economic groups. I refuse to accept the responsibility of adopting either alternative.

THE OTHER SIDE OF THE BUDGET

Revenue estimates.—Total tax revenues are estimated at \$6,151,998,000. Tax revenues, after deducting appropriations to the old-age security fund, are estimated at \$5,548,009,000. Although net revenue collections for the fiscal year 1941 are estimated to exceed by \$282,000,000 the estimated collections for the fiscal year 1940, the increase is not as large as some might have expected. This is owing partly to the inevitable lag of tax collections behind increasing incomes, and also partly, it is feared, to an impairment of the productivity of the tax base arising from the revisions in 1938 and 1939 of corporate and individual income and capital-gains taxes.

Return of surplus funds from Government corporations.—At various times in the past as emergencies have arisen, the Federal Government has established credit corporations and has invested substantial amounts in their capital structures. Although these expenditures were nonrecurring and extraordinary costs, they were reflected in the annual Budgets as charges against current receipts and increased the deficits of prior years. With the lessening need for loans in some cases and the growing surpluses in other cases, it appears that some of these corporations will have excess capital funds. Currently, in response to Senate Resolution 150, Seventy-sixth Congress, a comprehensive survey and appraisal of assets of Government corporations is being carried out. On the basis of preliminary studies, I estimate that it will prove feasible to reduce the capital funds of some of these corporations by an aggregate figure of \$760,000,000, without in any way impairing their operations.

In the case of certain lending agencies, any funds received from the retirement of stock will be credited to revolving funds in the Treasury

and will be available for new subscriptions to stock when, as, and if needed. In these cases payments to the Treasury will appear as credits under certain expenditure items. In other cases, payments will be reflected in miscellaneous receipts.

National defense taxes.—I am convinced that specific tax legislation should be enacted to finance the emergency national defense expenditures. Although these expenditures appear unavoidable, they will not increase the permanent wealth-producing capacity of our citizens. I believe that it is the general sense of the country that this type of emergency expenditure be met by a special tax or taxes. Moreover, this course will make for greater assurance that such expenditures will cease when the emergency has passed.

I strongly recommend to the Congress, therefore, that additional taxes be imposed to yield in the fiscal year 1941 at least enough to cover the emergency national defense expenditures in the fiscal years 1940 and 1941. In seeking additional sources of revenue, I hope that the Congress will follow the accepted principle of good taxation of taxing according to ability to pay and will avoid taxes which decrease consumer buying power.

The deficit.—The deficit for the fiscal year 1941 is estimated at \$2,178,000,000, as contrasted with \$3,533,096,000 for the fiscal year 1940. It is expected that these deficits will be met in normal course partly by additional tax collections, partly by carrying lower balances, and partly by borrowing. If the Congress adopts my recommendations with reference to taxes the deficit for 1941 will be reduced to \$1,710,000,000.

Financing the maintenance cost of certain services.—I have always believed that many facilities made available to our citizens by the Government should be paid for, at least in part, by those who use them. For example, I believe that in the case of parks, national forests, historic monuments, and so forth, small fees, as low as 5 or 10 cents per person, should be charged to those who enjoy them. A start on this policy has been made. In such a way a substantial part of the annual cost of maintenance of roads, trails, and grounds in forests and parks will come back to the Treasury and reduce the annual cost of government. Another example is the \$50,000,000 the Government spends annually in the maintenance of dredged channels, bays, lighthouses, lighthouse stations, and so forth. It would seem reasonable that some portion of these annual expenditures should come back in the form of small fees from the users of our lakes, channels, harbors, and coasts. If the Congress would make a

special study of the further possibilities along these lines I will be glad to make available for such a study material from various departments.

FEDERAL ADMINISTRATION

Effective execution of the Federal program for the fiscal year 1941 and the prospect of economies to be reflected in the estimates for future years is directly related to the quality of Federal administration. The economies reflected in the 1941 estimates are the result of the cooperative effort of the entire administrative service.

Generally, we are prepared to move forward on reduced rations. In several management agencies I have recognized a condition of definite undermanning. I have, for example, provided increases for the Bureau of the Budget and the Civil Service Commission. I believe in such we will be making a modest investment which will in future years pay large dividends. Furthermore, as I have suggested in my annual message, it is important for good administration that large numbers of positions now vacant should be placed under the requirements of the civil service.

Reorganization has proceeded in accordance with Plans I and II. As a result, \$11,000,000 of savings already have been impounded this year and deducted from the estimate base for 1941. With further real justness in the machinery and business practices of the Government, additional savings will be realized. Reorganization has also brought the Bureau of the Budget into the Executive Office. With the additional appropriation for this Bureau, our budgetary procedure can be greatly strengthened. We are beginning to get more effective review of estimates. With the help of Congress we can make further progress in improving our accounting and appropriation procedures. This is a necessary prelude to better budgetary control. The Bureau of the Budget is preparing itself to be increasingly helpful in the supplying of information to the appropriation committees of the Congress.

THE PUBLIC DEBT

There has been so much discussion about the public debt that I find that some concluding observations thereon would be very appropriate at this time.

There is no subject on which there is more conscious or unconscious deception than the public debt. People who would never dream of assessing their own position solely in terms of their liabilities do so continually in discussing the Government's position.

Those who state boldly that the Government's debt is 42 billion dollars—and stop there—are stating a deceptive half-truth calculated to make our people apprehensive. For one thing, it would clarify the public mind if it were pointed out that of the 42-billion-dollar figure the amount incurred between June 30, 1933, and December 31, 1935, is just over 19 billion dollars. For another thing, it would be more honest and more favorable for them to say that while one line in the national budget shows a national debt of 42 billion dollars, other lines indicate that the Government has 7 billion dollars of cash, gold available for debt redemption, and proprietary interest in Government corporations, which reduces the net debt to 35 billion dollars.

In addition, of course, there are the billions of dollars' worth of durable, tangible assets constructed or purchased by the Government that are a real offset to the debt, though never listed as such.

During the period between June 30, 1933, and June 30, 1940, nearly 14 billion dollars of Federal bonds will have gone into recoverable loans and investments and durable improvements.

Furthermore, during the same period, the burden of the combined total of public and private debts has decreased. The interest on the public debt alone in the calendar year 1939 constituted only 1.45 percent of the national income as contrasted with a corresponding percentage of 1.62 percent for the year 1933. The increase in the national income over 1932 for the year 1939 alone is far in excess of the total increase in the debt for the whole period since 1933. The credit of the Federal Government has never been higher.

The debt accumulated since 1933 represents a far more prudent and productive use of our people's savings than such of the enormous private debts piled up in the twenties. The billions that were borrowed for speculation, for foreign loans, for second and third mortgages on overproduced commercial construction, hardly represented the most prudent use of our people's savings.

It is true that incured debts can be deflated without great harm to the general economy. But this is not true when, as in 1933, a large part of our private debt was in danger of default, and the savings of the whole community, as well as the general credit of industry and agriculture, were imperiled.

A part of the existing public debt and of agency loans is in fact accounted for by the necessary assumption by the Government—through the familiar "bailing out" process—of private debts on the verge of default.

In considering the growth of the Federal debt, it must finally be borne in mind that in recent years the Federal Government has had

to take over some of the burdens which had theretofore fallen upon our States and municipalities. By 1933 the strain of the depression upon the finances of local governments had become unbearable. From June 1929 to June 1933, States and municipalities had to increase their net debt by over 4 billion dollars and their credit in many cases had approached the breaking point. By 1933 there was an insistent demand that the National Government come to the financial aid of local governments.

Consequently, between June 1933 and June 1940, the Federal Government will have made available for local relief, work relief, and local public works the sum of 17 billion dollars. In addition, during this same period, the Federal Government increased its grants for public roads by 1 billion dollars over the preceding seven years.

By reason of these Federal expenditures it became possible for the States and municipalities during this period to rehabilitate their credit, and even to reduce slightly their aggregate indebtedness. If they had continued to discharge the responsibilities that were formerly theirs to a degree commensurate with the Federal Government's effort, the aggregate indebtedness of our States and municipalities would have been increased by not less than 18 billion dollars and their taxes would have been enormously increased.

Debt, whether individual, corporate, or governmental, cannot be judged in a vacuum; it must be considered in light of earnings, assets, and credit standing. When the increase in the national debt is viewed against the background of what was accomplished by the growth of useful physical assets, and of effective national earning power, and by the strengthening of the Nation's credit and morale, there is no economic ground for anxiety, so far as the national debt is concerned, as to the Nation's future. And if our citizens understand the capacity of the Nation to produce increased national income and act thereon with all possible faith and practical energy, they will be in a position to anticipate balanced budgets without curtailing essential social programs.

FRANKLIN D. ROOSEVELT.

JANUARY 3, 1940.