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**File No. 1263-B**

**1940 January 4**

**Budget Message**

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CAUTION: This Budget Message must not be confused with the President's Annual Message. A separate release is necessary.

STEPHEN EARLY,  
*Secretary to the President.*

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THE PRESIDENT'S  
BUDGET MESSAGE FOR 1940  
AND  
SUMMARY BUDGET STATEMENTS

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## 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, 1940, together with this message, which is an integral part thereof. The estimates in this Budget are based upon a continuation of all taxes now in force and upon a careful analysis of the existing obligations and future needs of the Government. I, therefore, recommend appropriations for the purposes specifically detailed in the tables which follow.

### THE BUDGET AND THE NATIONAL INCOME

Taxation yields almost all of the income of the Government, leaving less than 5 percent to come from miscellaneous sources. Revenue from taxes depends mainly on two factors: The rate of taxation and the total of the national income. This holds true not only of direct taxes on personal and corporate income but also of what are known as ad valorem taxes or other forms of indirect taxes, for the very good reason that the volume and value of goods produced or articles imported vary with the rise or fall of the Nation's total income.

We can and do fix the rate of taxation definitely by law. We cannot by a simple legislative act raise the level of national income, but our experience in the last few years has amply demonstrated that through wise fiscal policies and other acts of government we can do much to stimulate it.

Today the Nation's income is in the neighborhood of 60 billion dollars a year. A few years ago it was much lower. It is our belief that it ought to be much higher.

In order that you may know the amount of revenue which the Government may expect under the existing tax structure as the national income rises, the following table is submitted. It shows the estimated revenues which may be derived when national income reaches certain levels between 70 billion and 90 billion dollars.

*Estimated Federal receipts<sup>1</sup> by principal sources, at certain assumed levels of national income based on December 1938 tax rates*

(In billions of dollars)

National income	70	80	90
Income taxes.....	2.1	3.0	4.7
Miscellaneous internal revenues.....	2.2	2.0	2.1
Customs.....	.4	.5	.7
Miscellaneous receipts.....	.2	.2	.2
Pay-roll taxes.....	.7	.8	.9
Total.....	5.6	8.0	10.6

<sup>1</sup> Tax liabilities excluding trust accounts. Pay-roll taxes at calendar year 1939 rates.

The table is not intended to indicate the national income for any particular year and, of necessity, the estimates are rough and may vary somewhat either way. Since taxes are paid from one month to fifteen months after income is realized, the achievement of a 90 billion dollar national income in one year will not, for instance, mean tax collections of 10 billion dollars in that same year. This table is an indicator and not a gauge.

During the past nine fiscal years—a period which has seen the national income drop from a high of 81 billion dollars in the calendar year 1929 to around 40 billion dollars in 1932 and rise again to about 70 billion dollars in 1937—Federal revenues, even though on a higher tax base, have never completely covered expenditures.

We require continual study of the revenues necessary to carry on the normal functions of the Federal Government and of the role which Federal policy should play in the stabilization of the national economy.

This study includes a consideration of: (a) The practicability of reclassifying expenditures on a functional basis and the most appropriate methods of financing the different classifications; (b) the problem of human security including relief and its costs; and (c) the correlation between national income on the one hand and Government receipts and expenditures on the other.

An analysis of receipts and expenditures by major classes over a ten-year period, as set forth in the following table, indicates the nature of the problems to be studied.

MESSAGE TRANSMITTING THE BUDGET

Actual and estimated receipts and expenditures of the Government for the fiscal years 1931-39  
(Classifications include expenditures from both general and emergency funds)

(In millions of dollars)

	Total, 1931- 39	Estimated		Actual									
		1940	1939	1928	1927	1926	1925	1924	1923	1922	1921		
<b>RECEIPTS</b>													
Internal revenue:	15,790	1,903	2,098	2,045	2,158	1,627	1,059	815	731	1,637	1,809		
Income tax.....	25	0	0	0	0	0	0	0	0	0	0		
Tax on mutual enrichment.....	10,236	1,171	1,171	1,171	1,171	2,000	1,637	1,459	825	304	279		
Miscellaneous internal revenue.....	2,153	694	611	602	602	2,000	1,637	1,459	825	304	279		
Taxes under Social Security Act.....	303	124	108	108	108	0	0	0	0	0	0		
Taxes upon carriers and their employees.....	52	0	0	0	0	77	621	153	0	0	0		
Proceeding tax on farm products.....	0	0	0	0	0	0	0	0	0	0	0		
Railroad Unemployment Insurance Act.....	3,063	804	555	559	596	287	183	511	351	528	527		
Customs.....	2,119	208	200	204	211	219	388	362	355	117	264		
Miscellaneous receipts.....	52	0	0	0	0	0	0	0	0	0	0		
<b>Total receipts.....</b>	<b>41,053</b>	<b>3,069</b>	<b>3,526</b>	<b>4,282</b>	<b>4,294</b>	<b>4,119</b>	<b>3,603</b>	<b>3,191</b>	<b>2,068</b>	<b>2,666</b>	<b>3,108</b>		
<b>EXPENDITURES</b>													
Ordinary expenditures:													
Legislative, judicial, and civil establishments:													
Legislative establishment.....	197	22	21	21	21	22	24	24	16	19	21		
Department of Agriculture.....	1,699	136	252	334	319	119	119	73	65	66	65		
Department of Commerce.....	328	49	31	39	31	37	33	33	33	29	48		
Department of the Interior.....	704	92	92	92	92	72	62	65	33	34	35		
Department of Justice.....	605	59	42	41	37	38	33	31	32	45	43		
Department of Labor.....	99	29	29	29	29	27	19	17	14	17	15		
Post Office Department (deficiency).....	626	33	27	47	39	36	64	64	117	202	183		
Department of State.....	339	17	17	17	17	17	17	17	17	17	17		
Treasury Department.....	1,432	379	365	330	335	345	379	341	332	330	334		
War Department (contingent).....	603	51	51	51	51	51	51	51	51	51	51		
District of Columbia (1921-1928 share).....	64	5	5	5	5	5	5	5	5	5	5		
War Relocation Authority.....	705	149	0	0	0	0	0	0	0	0	0		
Independent offices and commissions.....	70	33	33	33	33	33	33	33	33	33	33		
Supplemental items.....	0	0	0	0	0	0	0	0	0	0	0		
<b>Total, legislative, judicial, and civil.....</b>	<b>6,747</b>	<b>863</b>	<b>799</b>	<b>712</b>	<b>689</b>	<b>675</b>	<b>562</b>	<b>458</b>	<b>394</b>	<b>736</b>	<b>647</b>		
National defense:	5,819	1,120	1,637	590	800	880	651	494	633	664	627		
Veterans' pensions and benefits.....	5,659	539	189	22	1,128	1,194	504	254	609	573	513		
Expenditure on the public debt.....	1,633	578	625	605	605	749	821	737	669	599	612		
Public works.....	5,745	71	65	160	56	14	75	66	70	168	94		
Armed Forces Administration.....	3,429	894	793	262	327	633	712	721	721	721	721		
Social security.....	2,151	926	843	635	448	28	0	0	0	0	0		
Reduced retirement.....	309	127	112	85	8	0	0	0	0	0	0		
Government employees retirement funds.....	428	97	75	73	47	41	21	23	23	21	24		
Other (Commodity Credit loans, settlements of war claims, etc.).....	171	0	0	68	1	1	14	5	40	0	0		
Supplemental items.....	300	66	150	68	0	0	0	0	0	0	0		
<b>Total, national defense, etc.....</b>	<b>33,768</b>	<b>4,672</b>	<b>4,652</b>	<b>3,934</b>	<b>3,974</b>	<b>4,631</b>	<b>3,865</b>	<b>3,180</b>	<b>2,267</b>	<b>2,607</b>	<b>2,949</b>		
<b>Total, ordinary expenditures.....</b>	<b>40,515</b>	<b>3,535</b>	<b>3,451</b>	<b>4,460</b>	<b>4,603</b>	<b>5,509</b>	<b>4,457</b>	<b>3,651</b>	<b>2,851</b>	<b>3,163</b>	<b>2,967</b>		
Extraordinary expenditures:													
Supplemental items:													
New national defense program.....	210	210	0	0	0	0	0	0	0	0	0		
Public works:													
Public highways.....	2,424	333	282	237	331	244	317	268	176	230	174		
Carsonite Valley Authority.....	263	65	61	42	42	42	36	36	31	31	31		
Helmshorn.....	459	68	65	45	42	41	41	29	25	25	14		
Rivers and harbors, improvement.....	805	83	83	58	149	126	120	112	112	112	112		
Flacet canal.....	130	181	96	61	46	36	31	41	41	28	28		
Public buildings.....	749	62	60	77	76	69	65	66	66	66	66		
Grants to public bodies, including administration.....	1,325	266	319	189	273	234	69	79	56	51	79		
Other.....	1,726	134	23	131	116	55	81	36	52	41	41		
<b>Total.....</b>	<b>7,902</b>	<b>1,044</b>	<b>1,220</b>	<b>860</b>	<b>1,102</b>	<b>914</b>	<b>766</b>	<b>685</b>	<b>473</b>	<b>499</b>	<b>421</b>		
Unemployment relief:													
Direct relief.....	4,048	42	97	154	184	266	3,054	716	351	0	0		
War relief (W. F. A., etc.).....	2,196	965	790	236	1,362	1,298	1,111	862	181	823	263		
Civilian Conservation Corps.....	2,450	965	790	236	1,362	1,298	1,111	862	181	823	263		
Supplemental items.....	2,436	1,985	790	0	0	0	0	0	0	0	0		
<b>Total.....</b>	<b>14,231</b>	<b>2,010</b>	<b>2,741</b>	<b>1,996</b>	<b>3,837</b>	<b>3,972</b>	<b>3,963</b>	<b>1,863</b>	<b>966</b>	<b>926</b>	<b>966</b>		
Loans, subscriptions to stock, etc. (net).....	3,220	126	271	344	136	57	424	862	181	823	263		
Supplemental items.....	65	65	0	0	0	0	0	0	0	0	0		
<b>Total, extraordinary expenditures.....</b>	<b>37,297</b>	<b>3,438</b>	<b>4,241</b>	<b>2,960</b>	<b>3,779</b>	<b>3,937</b>	<b>3,553</b>	<b>3,360</b>	<b>1,913</b>	<b>1,372</b>	<b>664</b>		
<b>Total expenditures, exclusive of debt retirement.....</b>	<b>68,312</b>	<b>8,063</b>	<b>8,492</b>	<b>7,426</b>	<b>8,432</b>	<b>8,966</b>	<b>7,010</b>	<b>6,911</b>	<b>3,964</b>	<b>4,535</b>	<b>4,631</b>		
Net deficit.....	37,279	3,226	3,972	3,584	3,148	4,550	3,210	2,935	1,793	2,529	481		
Increase in gross public debt.....	38,273	3,226	3,997	740	2,947	4,077	1,684	4,514	3,023	2,688	656		
Gross public debt at the end of each fiscal year.....	61,438	41,132	37,165	36,423	33,774	28,774	28,767	27,652	25,539	28,487	34,901		

\* Excess of credits, deduct.

Note.—This statement is on the basis of the daily Treasury statement as revised on July 1, 1928.

## ORDINARY EXPENDITURES

The expenditure side of a budget may be divided into two major classes, namely—ordinary, which includes the operating expenditures for the normal and continuing functions of government, and extraordinary, which includes those expenditures required to meet the non-operating or the unusual costs of government.

General public works of an annual recurring nature may fall in either class, but in view of their flexibility they have been classed as extraordinary for the purpose of this statement.

The foregoing table shows that the excess of expenditures over revenues in the ordinary classification is attributable to various causes: New functions undertaken; more carrying charges on the national debt, though at lower interest rates; and the inauguration of the social security and agricultural programs. Under all of these classifications, new expenditures have been added without corresponding increases in taxes.

Fixed costs have also increased because of numerous new appropriations for grants and subsidies.

Another type of expenditure has been forced upon us in increasing volume by the real necessity for expanding our national defense. We are all aware of the grave and unsettling developments in the field of international relations during the past few years. Because of the conditions of modern warfare, we must now perform in advance tasks that formerly could be postponed until war had become imminent. A large part of additional national defense expenditures should, I think, be put in a special category on a temporary basis.

The operating expenses of the Government have also increased because of reductions in the hours of work of certain classes of Federal employees, and because of expansion of the normal functions of the Government with the growth of the country.

Among the new governmental functions which have added to the costs of the ordinary budget, the farm program is outstanding. Soil conservation expenditures and other outlays for the crop adjustment program which are of a continuing nature and produce no direct return to the Federal Government have been only partially covered by new revenues.

A new, and partly self-financing, addition was made to the ordinary expenditures when the Social Security Act was passed to safeguard the economic security of a large portion of our population. However, no provision was made for revenues which would pay for grants to States for old-age assistance, for maternal and child welfare, for public health work, and for aid to dependent children and the blind, which expenditures in 1940 will approximate \$286,000,000. Furthermore, consideration is now being given to plans for spreading the

Draft of 12/27/38

*Budget message*

Pursuant to provisions of law, I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1940, together with this message, which is an integral part thereof. The estimates in this budget are based upon a continuation of all taxes now in force and upon a careful analysis of the existing obligations and future needs of the Government. I, therefore, recommend appropriations for the purposes specifically detailed in the tables which follow.

The Budget and the National Income

Taxation yields almost all of the income of the Government, leaving less than 5 per cent to come from miscellaneous sources. Revenue from taxes, however, depends upon two main factors: the rate of taxation and the national income. This dependence is as true of excise and ad valorem taxes as it is of direct taxes on income, for the volume and value of goods produced or imported vary with the national income.

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Although the rate of taxation is definitely fixed by law, the level of the national income is not. In order that you may know the amount of revenue which the Government may expect under the existing tax structure as the national income rises or falls, the following table is submitted. It shows the estimated revenues which may be derived when national income reaches certain levels between \$60 billion and \$100 billion.

Estimated Federal Receipts\* by Principal Sources,  
at Various Assumed Levels of National Income  
Based on December 1938 Tax Rates

(In millions of dollars)

	National income paid out				
	\$60,000	\$70,000	\$80,000	\$90,000	\$100,000
Income taxes	1,780	2,573	3,329	4,268	5,350
Miscellaneous internal revenue	1,983	2,385	2,761	3,153	3,559
Customs	309	400	496	602	712
Miscellaneous receipts	200	200	200	200	200
Payroll taxes	720	824	938	1,058	1,173
Total	<u>4,992</u>	<u>6,382</u>	<u>7,724</u>	<u>9,281</u>	<u>10,994</u>

\* Excludes trust accounts. Payroll taxes at 1938 rates.

The table is not intended to indicate the national income for any particular year and, of necessity, the estimates are rough and may vary ~~as much as \$500 million~~ <sup>perhaps</sup> either way. Since taxes are paid from one month to 15 months after income is realized, the achievement of a \$90 billion national income in one year will not, for instance, mean tax collections of <sup>9</sup>\$8 billion in that same year. This table is an indicator and not a gauge.

During the past eight fiscal years -- a period which has seen the national income drop from a high of \$78 billion to around \$40 billion and rise again to about \$69 billion -- revenues, even though on a higher tax base, have never completely covered expenditures. If deficits are to be eliminated in future years, I feel that Congress at this session should definitely determine the future policy of the Federal Government. I strongly recommend that this policy be formulated as soon as possible so that it may be the foundation on which the Budget for the fiscal year 1941 is based. ?

~~Formulation of this policy will~~ <sup>W<sub>3</sub></sup> require <sup>Constitutional</sup> ~~careful~~ study

of the revenues required to carry on the normal functions of the Federal Government and of the role which Federal policy <sup>should</sup> ~~might~~ play in the stabilization of the national economy.

This study ~~might well~~ include a consideration of:

(a) the practicability of reclassifying expenditures on a

functional basis and the most appropriate methods of financ-

ing the different classifications; (b) the problem of relief

and its costs; and (c) the correlation between national income

and Government ~~expenditures~~

*less than security in -  
-climbing  
On the  
new hand  
Receipts and expenditures  
see the other*

An analysis of receipts and expenditures by major

classes, over a ten-year period as set forth in the following

table, indicates the nature of the problems to be solved by

the formulation of this policy.

(Insert table)

Ordinary Expenditures

The expenditure side of a budget may be divided into two major classes, namely -- ordinary, which includes the operating expenditures for the normal and continuing functions of government, and extraordinary, which includes those expenditures required to meet the non-operating or ~~the~~ unusual and ~~emergency~~ costs of government.

The foregoing table shows that the excess of expenditures over revenues in the ordinary budget is attributable to various causes: *new functions undertaken, more carrying charges on the national debt, through at home interest rate* ~~higher fixed charges, increased operating expenses~~, and the inauguration of the social security and agricultural programs. Under all of these classifications, new expenditures have been added without *offsetting* ~~offsetting~~ increases in taxes.

*Also*  
Fixed charges have increased because ~~the deficits of recent years have resulted in an increase in the interest-bearing debt,~~ ~~and~~ because of numerous new appropriations for grants and subsidies.

Another type of expenditures has been forced upon us in increasing volume by the necessity for expanding our <sup>plans</sup> ~~plans~~ for national defense. We are all aware of the grave and unsettling developments in the field of international relations during the past few years, ~~and particularly during the past year.~~ These developments plainly bespeak the need ~~for an enlarged national defense program.~~ Because of the conditions of modern warfare, we must now perform in advance tasks that formerly could be postponed until war had become imminent. I expect, therefore, to send to Congress in the very near future a special message on our new requirements for national defense. ~~It is pertinent at this time to point out that such a program will provide useful and even vital employment for thousands of our unemployed. It should include provision for apprentice training in industrial processes necessary for national defense needs. Such training would not only relieve any national shortage of skilled workers.~~

*A large part of additional*  
~~which may develop in these fields, but would put a part~~  
~~of the national defense expenditures where they belong~~ *should I think be put*  
^  
on a temporary basis.

The operating expenses of the Government have also increased because of reductions in the hours of work of certain classes of Federal employees, such as the forty-hour week for postal employees, and because of expansion of the normal functions of the Government *with the growth of the*  
*country.*

Among the new Governmental functions which have added to the costs of the ordinary budget, the farm program is outstanding. Soil conservation expenditures and other outlays for the crop adjustment program which are of a continuing nature and produce no direct return to the Federal Government have been only *in small part directly*  
^  
~~partially~~ covered by new revenues.

A new and *partly*  
~~an~~ ~~partly~~ self-financing addition was made to the ordinary budget when the Social Security Act was passed to safeguard the economic security of a large portion of our

population. However, no provision was made for revenues which would pay for grants to states for old-age assistance, for maternal and child welfare, for public health work, and for aid to dependent children and the blind, which expenditures in 1940 will approximate \$285,000,000. Furthermore, consideration is now being given to plans for spreading the coverage of, and for revising the benefits under, the Social Security Act, and for <sup>improving</sup> ~~supplementing~~ public health <sup>facilities</sup> ~~grants~~. These plans present major questions of future national policy and directly affect the Budget.

*Obviously all*  
~~I have said from the start that the recurring, non-revenue producing expenditures in the Government's ordinary budget should be covered by current revenues. The adoption and maintenance of such a policy involve not only a resurvey of the expenditures previously mentioned, but also a careful consideration of methods of securing the necessary revenue with which to finance these expenditures.~~

Extraordinary Expenditures

Beyond these questions of ordinary expenditures are those which relate to the non-operating or unusual ~~and emergency~~ costs of Government and involve extraordinary expenditures that deal more particularly with the relationship between fiscal policy and the economic welfare of the country. These questions concern Government loans, capital outlays, and <sup>debit of record.</sup> ~~unemployment relief~~. Expenditures made under these heads are of such a flexible character as to provide, through their contraction or expansion, a partial offset for the rise or fall in the national income.

The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, <sup>or</sup> for self-liquidating projects, ~~and~~ <sup>or</sup> for other capital outlays which increase the wealth of the Nation.

I recognized the merit of these <sup>expenditures</sup> criticisms by recommending

in my last Budget Message a change in the method of financing the requirements of the Commodity Credit Corporation. This recommendation provided for an annual appraisal of the assets and liabilities of the Corporation, and contemplated that any surplus from operations or any impairment of capital resulting from losses be reflected as receipts or expenditures in the annual budget. Under this method the budget would be affected, not when the investment or loan is made, but in the fiscal year when the surplus or loss occurs. Congress approved this recommendation in the Act of March 8, 1938, and it might well give consideration to an extension of this principle to all the lending agencies of the Government.

Public projects of a self-liquidating character represent another class of expenditures appearing in the annual Budget as current outlays, to which this principle might also be applied. For example, outlays for the Boulder Canyon project amounting to

more than 150 million dollars have been included in annual budgetary expenditures of the Government, notwithstanding that the total cost of the project, including capitalized interest during the period of construction, will be returned to the Government within 50 years, with interest at 4 per cent.

While I do not advocate that the Government capitalize all of its expenditures for physical improvements, it seems to me that such portions of the cost of public projects as ~~will be~~ *are* self-liquidating should be excluded from the annual budgetary expenditures. ~~I do believe, of course, that our financial statements~~ *of issues,* should clearly reflect, in appropriate classifications, the amount of Government outlays for physical improvements that are not self-liquidating in character. ~~No consideration of the fiscal policy for the Government will be complete unless it takes~~ *into account* into account the necessity for making such of these and other changes as will permit the presentation to the Congress and to the public of more accurate and intelligible statements of the financial operations of the Government.

2/10/24  
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*by which*  
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(B)

I should like to call your attention to the following table comparing for the ten-year period the amount of the Federal deficit and the increase in the public debt, with the amount included therein for capital outlays. It should be understood that this table is not intended to represent values on an earning basis. Nevertheless, under our policy of expanding capital outlays to compensate for variation in private capital expenditures and of making loans to meet emergency needs of our people, the table clearly shows that the greater part of the deficits and the larger part of the increase in the public debt have gone for permanent additions to our national wealth.

(C)

(Insert table)

Consideration of these questions leads directly to the related problem of work relief. On this question, too, we have accumulated a fund of experience which should enable us to lay down a permanent program together with a means for financing it.

Experience has shown, for instance, that many who were thought to be employable and for whom work has been provided have been carried for long periods on the rolls of WPA and its predecessor agencies. [ Probably many of these people should be classed as unemployables and the task of providing for them be left to the states, perhaps with limited Federal aid such as is given the states in the care of the aged under the Social Security Act. ] Thereafter, any permanent program of work relief could be confined properly to (1) those persons just coming of age for work, including those eligible for the CCC, (2) those who are not eligible for unemployment insurance benefits because now unemployed or because their unemployment has exceeded the period of benefit payments, and (3) those who are out of employment for technological or seasonal reasons which will vanish with the

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~~acquisition of new skills or the resumption of industrial activity.~~

~~Under any circumstances, employment provided by Federal emergency funds should be for a limited period and should not be so attractive as to remove the normal incentive to seek private employment.~~

A year ago I recommended an increase in work relief, public works, and other related expenditures to check the downward spiral of business. The program undertaken at that time has contributed materially, I believe, to the existing upward movement of business and employment; and I feel that the business men <sup>and farmers and workers</sup> of the country, no less than the unemployed, are entitled to an assurance that

this program will not be curtailed arbitrarily or violently. The ~~Government will~~ <sup>actual cost of</sup> work relief and similar expenditures <sup>goes down</sup> as

<sup>after</sup> ~~business~~ jobs <sup>are</sup> found by the workers now on these rolls. A violent contraction before the natural expansion of private industry is ready to take up the slack would mean, not only human misery, but a disruptive withdrawal from American industry of a volume of purchasing power which business needs at this time. The necessity of increasing Federal expenditures a year ago to check a

recession and the desirability of decreasing those expenditures

now that recovery has <sup>just started</sup> resumed ~~are~~ the sort of <sup>policy</sup> ~~problem~~ <sup>which the</sup> ~~the~~ <sup>would</sup>  
that ~~the~~ <sup>be</sup> adapted <sup>without full understanding</sup>  
Federal Government should be better able to meet after the formula-  
tion of a new national policy.

May I say emphatically that I am not suggesting a normal budget which is always balanced and an extraordinary budget which is always unbalanced. I hope that the ordinary expenses of Government can generally be met out of current revenues. But I also hope that those revenues in times of prosperity will provide a surplus which can be applied against the public debt that the Government must incur in lean years because of extraordinary demands upon it.

It seems to me that Congress should create a committee, or give authority to an existing committee, to make a comprehensive study of these questions of the ordinary budget, of capital outlays, and work relief, and to lay before this session of the Congress a definite future national policy for the Federal Government. It is essential that such a policy be adopted in time for its use as

~~the basis for preparation of the Budget for 1941.~~

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The revised estimate of receipts for the fiscal year 1939 as contained in this Budget is \$5,510,000,000, and of expenditures, \$9,486,000,000, leaving a deficit of \$3,976,000,000.

The estimated receipts for the fiscal year 1940 amount to \$5,669,000,000, and the expenditures for that year are estimated at \$8,971,000,000, resulting in a deficit of \$3,302,000,000.

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*Step*

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# Budget Message - 1939.

Pursuant to provisions of law, I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1940, together with this message, which is an integral part thereof. The estimates in this budget are based upon a continuation of all taxes now in force and upon a careful analysis of the existing obligations and future needs of the Government. I, therefore, recommend appropriations for the purposes specifically detailed in the tables which follow.

## The Budget and the National Income

A.

Taxes yield practically all of the revenues of the Federal Government. While tax rates are one factor of importance in determining revenues, the amount of the national income is also important. There is no one answer as to the amount of revenue which will be received by the Government at a given level of national income. The distribution of that national income and its trend -- upward, downward, sidewise, or irregularly fluctuating -- also influences the amount of the revenues.

*Article page 1-2nd para.*

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The Budget and the National Income

A Taxation yields almost all of the income of the Government, leaving less than 5 per cent to come from miscellaneous sources. Revenue from taxes depends <sup>mainly on</sup> ~~on~~ two ~~main~~ factors: the rate of taxation and the total of the national income. This holds true not only of direct taxes on personal and corporate income but also on what are known as ad valorem taxes or other forms of indirect taxes, for the very good reason that the volume and value of goods produced or articles imported vary with the rise or fall of the nation's total income.

B We can and do fix the rate of taxation definitely by law, but we do not and cannot legislate the level of the national income. ~~All that~~

we can do by passing laws and administering them is to try to strike a happy balance between laws on one hand that are not so punitive that they will compel the national income to recede and on the other hand laws which go so far in stimulating national income that they either over-stimulate it or make the people too dependent on government.

Today the nation's income is in the neighborhood of sixty billion dollars a year. A few years ago it was much lower. It is our belief that it ought to be much higher.

In order that you may know the amount of revenue which the Government may expect under the existing tax structure as the national income rises ~~as it does~~, the following table is submitted. It shows the estimated revenues which may be derived when national income reaches certain levels between ~~\$60~~<sup>70</sup> billion and ~~\$100~~<sup>90</sup> billion.

C

I fully recognize the difficulties of estimating the revenues which will most probably be associated with given future levels of national income. Nevertheless, I feel it highly important that for policy formation purposes you have before you an indication of the relative magnitudes of the revenues which the Government may expect to receive at varying improved levels of our national income.

The following table shows the estimated revenues which may be derived when national income reaches certain levels between \$70 billion and \$100 billion.

Estimated Federal Receipts\* by Principal Sources,  
at Various Assumed Levels of National Income  
Based on December 1938 Tax Rates  
(In billions of dollars)

	National income paid out			
	\$70	\$80	\$90	\$100
Income taxes	2.5	3.9	5.7	8.0
Miscellaneous internal revenue	2.2	2.6	3.1	3.8
Customs	.4	.5	.7	.8
Miscellaneous receipts	.2	.2	.2	.2
Payroll taxes	.7	.8	.9	1.1
Total	6.0	8.0	10.6	15.9

\* Tax liabilities excluding trust accounts. Payroll taxes at calendar year 1938 rates.

*Sheet*

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Estimated Federal Receipts\* by Principal Sources,  
at Various Assumed Levels of National Income  
Based on December 1938 Tax Rates

(In millions of dollars)

	National income paid out				
	\$60,000	\$70,000	\$80,000	\$90,000	\$100,000
Income taxes	1,780	2,473	3,329	4,268	5,350
Miscellaneous internal revenue	1,983	2,385	2,761	3,153	3,559
Customs	309	400	496	602	712
Miscellaneous receipts	200	200	200	200	200
Payroll taxes	720	824	938	1,058	1,173
Total	<u>4,992</u>	<u>6,362</u>	<u>7,724</u>	<u>9,281</u>	<u>10,994</u>

\* Excludes trust accounts. Payroll taxes at 1933 rates.

The table is not intended to indicate the national income for any particular year and, of necessity, the estimates are rough and may vary somewhat either way. Since taxes are paid from one month to 15 months after income is realized, the achievement of a \$90 billion national income in one year will not, for instance, mean tax collections of \$9 billion in that same year. This table is an indicator and not a gauge.

~~During the past eight fiscal years — a period which has seen the~~

~~3~~ 3 A

During the past eight fiscal years -- a period which  
has seen the national income drop from a high of \$78 billion <sup>in 1930</sup>  
to around \$40 billion <sup>in 1932</sup> and rise again to about \$69 billion <sup>in 1937</sup> --

Federal revenues, even though on a higher tax base, have

never completely covered expenditures. ~~If deficits are~~

~~to be eliminated in future years, I feel that Congress at~~

~~this session should definitely determine the future national~~

~~policy of the Federal Government. I strongly recommend that~~

~~this policy be formulated as soon as possible so that it~~

~~may be the foundation on which the Budget for the fiscal~~

~~year 1941 is based.~~

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national income drop from a high of \$78 billion to around \$40 billion and rise again to about \$69 billion — revenues, even though on a higher tax base, have never completely covered expenditures. If deficits are to be eliminated in future years, I feel that Congress at this session should definitely determine the future policy of the Federal Government. ?

We require continual study of the revenues <sup>necessary</sup> ~~required~~ to carry on the normal functions of the Federal Government and of the role which Federal policy should play in the stabilization of the national economy.

This study includes a consideration of: (a) the practicability of reclassifying expenditures on a functional basis and the most appropriate methods of financing the different classifications; (b) the problem of human security including relief and its costs; and (c) the correlation between national income on the one hand and Government receipts and expenditures on the other.

An analysis of receipts and expenditures by major classes, over a ten-year period as set forth in the following table, indicates the nature of the problems to be solved by the formulation of this policy.

(Insert table)

Ordinary Expenditures

The expenditure side of a budget may be divided into two major classes, namely -- ordinary, which includes the operating expenditures for the normal and continuing functions of government, and extraordinary, which includes those expenditures required to meet the non-operating or unusual and emergency costs of government. General public works of an annual recurring nature may fall in either class, but in view of their flexibility they have been classed as extraordinary for the purpose of this statement.

The foregoing table shows that the excess of expenditures over revenues in the ordinary classification is attributable to various causes: higher fixed costs, increased operating expenses, and the inauguration of the social security and agricultural programs. Under all of these classifications, new expenditures have been added without increases in taxes which completely offset them.

Fixed costs have increased because the deficits of recent

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Ordinary Expenditures

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The foregoing table shows that the excess of expenditures over revenues in the ordinary ~~budget~~ <sup>classifications</sup> is attributable to various causes: new functions undertaken, more carrying charges on the national debt, though at lower interest rates, and the inauguration of the social security and agricultural programs. Under all of these classifications, new expenditures have been added without corresponding increases in taxes.

<sup>costs</sup> Fixed ~~charges~~ have also increased ~~and~~ because of numerous new appropriations for grants and subsidies.

Another type of expenditures has been forced upon us in increasing volume by the real necessity for expanding our national defense. We are all aware of the grave and unsettling developments in the field of international relations during the past few years. Because of the conditions

*Inert H C* *to from 6/19/54/55*

of modern warfare, we must now perform in advance tasks that formerly could be postponed until war had become imminent. A large part of additional national defense expenditures should I think be put ~~there~~ <sup>in a special category</sup> ~~they belong~~ on a temporary basis. ~~\_\_\_\_\_~~

The operating expenses of the Government have also increased because of reductions in the hours of work of certain classes of Federal employees, [such as the forty-hour week for postal employees,] and because of expansion of the normal functions of the Government with the growth of the country.

Among the new Governmental functions which have added to the costs of the ordinary budget, the farm program is outstanding. Soil conservation expenditures and other outlays for the crop adjustment program which are of a continuing nature and produce no direct return to the Federal Government have been only ~~in small part~~ <sup>partially</sup> directly covered by new revenues.

A new and ~~partly~~ <sup>partly</sup> self-financing addition was made to the ordinary ~~budget~~ <sup>expenditures</sup> when the Social Security Act was passed to safeguard the economic security of a large portion of our population. However, no provision was made for revenues which would pay for grants to states for old-age

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assistance, for maternal and child welfare, for public health work, and for aid to dependent children and the blind, which expenditures in 1940 will approximate \$285,000,000. Furthermore, consideration is now being given to plans for spreading the coverage of, and for revising the benefits under, the Social Security Act, and for improving public health facilities. These plans present major questions of future national policy and directly affect the Budget.

~~Obviously all recurring, non-revenue producing expenditures in the Government's ordinary budget should be covered by current revenues.~~ X

#### Extraordinary Expenditures

Beyond these questions of ordinary expenditures are those which relate to the non-operating or unusual costs of Government and involve extraordinary expenditures that deal more particularly with the relationship between fiscal policy and the economic welfare of the country. These questions concern Government loans, capital outlays, and relief of need. Expenditures made under these heads are of such a flexible character as to provide, through their contraction or expansion, a partial offset for the rise or fall in the national income.

The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other capital outlays which increase the wealth of the Nation.

I recognized the merit of ~~these~~ <sup>suggestions of the nature</sup> constructive ~~criticisms~~ by recommending in my last Budget Message a change in the method of financing the requirements of the Commodity Credit Corporation. This recommendation provided for an annual appraisal of the assets and liabilities of the Corporation, and contemplated that any surplus from operations or any impairment of capital resulting from losses be reflected as receipts or expenditures in the annual budget. Under this method the budget would be affected, not when the investment or loan is made, but in the fiscal year when the surplus or loss occurs. Congress approved this recommendation in the Act of March 8, 1938, and it might well give consideration to

*Insert A*

List of Agencies which could be put on basis of Commodity Credit  
with annual appropriation for impairment of capital

Reconstruction Finance Corporation  
Export-Import Bank of Washington  
Federal Crop Insurance Corporation  
Federal Deposit Insurance Corporation  
Tennessee Valley Authority (Power operations)  
Home Owners' Loan Corporation  
Federal Savings Loan and Insurance Corporation  
Federal Farm Mortgage Corporation  
Banks for Cooperatives  
Electric Home and Farm Authority  
Inland Waterways Corporation  
Panama Railroad  
Rural Electrification Administration  
Crop loans:  
    Farm Security Administration  
    Farm Credit Administration  
Power projects:  
    Reclamation  
    Bonneville

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Inland Waterways Corporation  
Panama Railroad  
Rural Electrification Administration  
Crop loans:  
    Farm Security Administration  
    Farm Credit Administration  
Power projects:  
    Reclamation  
    Bonneville

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an extension of this principle to all the lending agencies of the Government. *Third agencies are:*

*Insert D*

Public projects of a self-liquidating character represent another class of expenditures appearing in the annual Budget as current outlays, to which this principle might also be applied. For example, outlays for the Boulder Canyon project amounting to more than 150 million dollars have been included in annual budgetary expenditures of the Government, notwithstanding that the total cost of the project, including capitalized interest during the period of construction, will be returned to the Government within 50 years, with interest, ~~at 4 per cent.~~

While I do not advocate that the Government capitalize all of its expenditures for physical improvements, it seems to me that such portions

of the cost of public projects as are clearly self-liquidating should *be excluded from the annual budgetary expenditures.* *Decide a separate category in budgetary reporting.* *Our* financial state-

ments, of course, should clearly reflect, in appropriate classifications, the amount of Government outlays for physical improvements that are not self-liquidating in character. We must take into account the necessity

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for making such of these and other changes as will permit the presentation to the Congress and to the public of more accurate and intelligible statements of the financial operations of the Government. ~~Inaccurate,~~

~~misleading statements or statements that tell only a half truth such as~~

~~The American public has suffered from for many years cannot be ignored by the public merely on the ground that many of them are disseminated primarily for partisan purposes. We need a reclassification under the authority of the legislative branch of the government, and in such form that the average layman can understand the salient facts regarding our Federal expenditures and income and debt.~~ X

I should like to call your attention to the following table comparing for the ten-year period the amount of the Federal deficit and the increase in the public debt, with the amount included therein for capital outlays. It should be understood that this table is not intended to represent values on an earning basis. Nevertheless, under our policy of expanding capital outlays to compensate for variation in private capital expenditures and of making loans to meet emergency needs of our people, the table

Insert P\_

Let us <sup>all</sup> fix that fact  
in our minds so that there  
shall be no doubt ~~of~~ about  
it and so that we may  
have a clear and intelligent  
idea of what we have  
been doing. We have not  
been throwing the taxpayers'  
money out of the windows  
or into the sea. We have  
been buying real values  
with it. Let me repeat:  
The greater part of the  
budgetary deficits that have  
been incurred have gone  
for permanent, tangible,  
additions to our national wealth.

The balance has been an investment in the conservation of our human resources, and I do not regard a penny of it as wasted.

clearly shows that the greater part of the deficits and the larger part of the increase in the public debt have gone for permanent additions in our national wealth.

*Insert P* ( This table, therefore, places in an embarrassing situation those who loudly proclaim that the Government of the United States has been towing the taxpayers money out of the window or into the sea. (H.S.) X

(Insert table)

*JT*

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In considering the <sup>similar</sup> ~~related~~ problem of assisting employment when private employment is slack, ~~it is clear that work relief should not~~ be so attractive as to remove the normal incentive to seek private employment; and at the same time, to guard against forcing workers to accept private employment where the wages and working conditions offered are below any reasonable human standard.

~~But~~ this ~~whole~~ subject bears a relationship to the speeding up or the slowing down of business, agriculture and finance--in other words, to the annual income of the nation.

A year ago I recommended an increase in work relief, public works, and other related expenditures to check the downward spiral of business. The program undertaken at that time has contributed materially, I believe, to the existing upward movement of business and employment; and I feel that the business men and farmers and workers of the country, no less than the unemployed, are entitled to an assurance that this program will not be curtailed arbitrarily or violently. The actual cost of work relief and similar expenditures goes down after jobs are found by the workers now on these rolls. A violent

contraction before the natural expansion of private industry is ready to take up the slack would mean, not only human misery, but a disruptive withdrawal from American industry of a volume of purchasing power which business needs at this time. The necessity of increasing Federal expenditures a year ago to check a recession, ~~was~~

*is a well known fact.*

~~The desirability of decreasing those expenditures now that recovery has just started~~ *Any decision to* ~~decrease~~ *would constitute a new* policy which ought not to be adopted without full understanding of what may be the result.

May I say emphatically that I am not suggesting ~~a normal~~ *an ordinary* budget

which is always balanced and an extraordinary budget which is always unbalanced. ~~It is not~~ the ordinary expenses of Government ~~can~~ *should* ~~generally be~~ *generally be* met out of current revenues. But I also hope that those

revenues in times of prosperity will provide a surplus which can be applied against the public debt that the Government must incur in lean years because of extraordinary demands upon it.

*Taxes*  $\triangleright$  *E*

The revised estimate of receipts for the fiscal year 1939 as contained in this Budget is \$5,510,000,000, and of expenditures,

\$9,486,000,000, leaving a deficit of \$3,976,000,000.

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