

1942

[Address of the President]

FDR Speech File

-

ADDRESSES  
OF THE PRESIDENT

---

---

1942

---

J. Romagna  
OFFICIAL REPORTER

---

**Franklin D. Roosevelt — “The Great Communicator”**  
**The Master Speech Files, 1898, 1910-1945**

**Series 3: “The Four Freedoms” and FDR in World War II**

---

**File No. 1408-A**

**1942 January 3**

**Budget Message**

January 3, 1942

file

*1<sup>st</sup> Draft*

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am submitting herewith the Budget of the United States for the fiscal year ending June 30, 1943. It is the budget of a nation at war in a world at war.

In practical terms the Budget meets the challenge of the Axis powers. We must provide the funds to man and equip our fighting forces. We must provide the funds for the organization of our resources. We must provide the funds to continue our role as the Arsenal of Democracy.

Powerful enemies must be outfought and outproduced. Victory depends on the courage, skill, and devotion of the men in the American, British, Russian, and Chinese forces, and of the others who join hands with us in the fight for freedom. But victory also depends upon efforts behind the lines — in the mines, in the shops, on the farms. We must exert boundless effort to supply the armies of the free countries with superior weapons.

And we shall succeed. A system of free enterprise is more effective than an "order" of concentration camps. The struggle for liberty first made us a Nation. The vitality, strength, and adaptability of a social order built on freedom and individual responsibility will again triumph.

THE WAR PROGRAM

Our present war program was preceded by a defense effort which began as we emerged from the long depression. During the past 18 months

we laid the foundation for a huge armament program. At the same time industry provided ample consumers' goods for a rapidly growing number of workers. Hundreds of thousands of new homes were constructed; the production of durable consumers' goods broke all records. The industrial plant and equipment of the country were overhauled and expanded.

Adjustment to a war program can now be made with greater speed and less hardship. The country is better stocked with durable goods.

[Our improved factories can be operated with a minimum of additional machines and replacements during the emergency.] The larger national income facilitates financing the war effort.

There are still unused resources for agricultural and industrial production. These must be drawn into the national effort. Shortages, however, have developed in skilled labor, raw materials, machines, and shipping. Under the expanding war program, more and more productive capacity must be shifted from peacetime to wartime work.

Last year fiscal policy was used to shift the economy into high gear. Today it is an instrument for transforming our peace economy into an all-out] war economy. This transformation must be completed with minimum friction and maximum speed. The fiscal measures which I outline in this Message are essential elements in the Nation's war program.

War appropriations This is a war budget.

The war program is in constant flux. Its magnitude and composition depend on events at the battlefronts of the world, on naval

engagements at sea, and on new developments in mechanized warfare. Moreover, war plans are military secrets.

Under these circumstances I cannot hereafter present details of future war appropriations. However, total appropriations and expenditures will be published so that the public may know the fiscal situation and the progress of the Nation's effort.

The defense program, including appropriations, contract authorizations, recommendations, and commitments of government corporations, was \$29 billion on January 3, 1941. During the last 12 months \$46 billion have been added to the program. Of this total of \$75 billion there remains \$24 billion for future obligation.

In this Budget I make an initial request for a war appropriation of \$13.6 billion for the fiscal year 1943. Large supplemental requests will be made as we move toward the maximum use of productive capacity. Nothing short of a maximum will suffice. I cannot predict ultimate costs because I cannot predict the changing fortunes of war. I can only say that we are determined to pay whatever price we must to preserve our way of life.

#### War expenditures

Total war expenditures are now running at a rate of \$2 billion a month and may surpass \$5 billion a month during the fiscal year 1943. As against probable budgetary expenditures of \$24 billion for the current fiscal year, our present objective calls for war expenditures

of nearly \$53 billion for the fiscal year 1943. Net outlays of government corporations for war purposes are estimated at about \$2 and \$3 billion for the current and the next fiscal year, respectively.

These huge expenditures for ships, planes, and other war equipment will require prompt conversion of a large portion of our industrial establishment to war production. These estimates reflect our determination to devote at least one-half of our national production to the war effort.

The agencies responsible for the administration of this vast program must make certain that every dollar is speedily converted into a maximum of war effort. We are determined to hold waste to a minimum.

THE CIVIL FUNCTIONS OF GOVERNMENT

~~There are no longer so-called non-defense expenditures. There are only activities directly or indirectly related to the war.~~ In the preparation of the present Budget, expenditures not directly related to the war have been reduced to a minimum or reoriented to the war program.

We all know that the war will bring hardships and require adjustment. Assisting those who suffer in the process of transformation and taxing those who benefit from the war are integral parts of our National Program.

It is estimated that expenditures for the major Federal assistance programs--farm aid, work relief, youth aid--can be reduced

by \$600 million from the last to the current fiscal year, and again by \$850 million from the current to the next fiscal year. These programs will require about \$1.4 billion during the fiscal year 1943, only slightly less than one-half of the expenditures for these purposes during the fiscal year 1941.

Improved economic conditions during the current year have made possible the execution of economic and social programs with smaller funds than were originally estimated. By using methods of administrative budget control, \$415 million of appropriations for civil purposes have been placed in reserves.

Excluding debt service, total appropriations for other than direct war purposes have been reduced from \$5.3 billion for the current year to \$4.5 billion for the fiscal year 1943.

Agricultural aid

I propose to include contract authorizations in the Budget to assure the farmer a parity return on his 1942 crop, largely payable in the fiscal year 1944. I do not suggest a definite appropriation at this time because developments of farm income and farm prices are too uncertain. Agricultural incomes and prices have increased and we hope to limit the price rise of the products actually bought by the farmer. But if price development~~s~~ should turn against the farmer, an appropriation will be needed to carry out the parity objective of the Agricultural Adjustment Act.

The remaining expenditures for the agricultural program are being brought into accord with the war effort. Food is an essential war material. I propose to continue the farm conservation and use program on a moderately reduced scale. Acreage control by cooperative efforts of farmer and government was inaugurated in a period of over-production in almost all lines of farming. Then its major objective was the curtailment of production to halt a catastrophic decline in farm prices. At present, although there is still excess production in some types of farming, serious shortages prevail in other types. The present program is designed to facilitate a balanced increase in production and to aid in controlling prices.

Work projects

The average number of WPA workers was 2 million in the fiscal year 1940, the year before the defense program started; the average has been cut to 1 million this year. With increasing employment a further considerable reduction will be possible. I believe it will be necessary to make some provision for work relief during the next year. I estimate tentatively that \$465 million will be needed for WPA but shall submit a specific request later in the year. Workers of certain types and in certain regions of the country probably will not be absorbed by war industries. It is better to provide useful work for the unemployed on public projects than to lose their productive power through idleness. Wherever feasible they will be employed on war projects.

Material shortages are creating the problem of "priority unemployment". I hope these workers will be reemployed by expanding war industries before their unemployment compensation ceases. Some of the workers affected will not, however, be eligible for such compensation and may be in need of assistance.

Rather than rely on relief a determined effort should be made to speed up reemployment in defense plants. I have, therefore, instructed the Office of Production Management to join the procurement agencies in an effort to place contracts with those industries forced to cut their peacetime production. The ingenuity of American management has already adapted some industries to war production. I am confident that concerted effort will succeed in solving this problem for many others. Ever increasing use of subcontracts, pooling of industrial resources,<sup>the use of substitutes</sup>, and wider distribution of contracts are of paramount importance for making the fullest use of our resources. The newly nationalized Employment Service will greatly help unemployed workers in obtaining employment.

Aids to youth

Under war conditions there is need and opportunity for youth to serve in many ways. It is therefore possible to make a considerable reduction in the programs of the Civilian Conservation Corps and the National Youth Administration. The youth, too, will be aided by the National Employment Service in finding employment opportunities.

Although I am estimating \$150 million for these two agencies, including \$50 million for defense training, it is probable that the total amount will not be needed. I am postponing until next spring presentation to the Congress of specific recommendations as to youth aid.

Public works program

The public works program is being fully adjusted to the war effort. The general program of \$588 million includes those projects necessary for increasing production of hydroelectric power, for flood control, and for river and harbor work related to military needs. Federal aid for highways will be expended only for construction essential for strategic purposes. Other highway projects will be deferred until the postwar period. For all other Federal construction I am restricting expenditures to those active projects which cannot be discontinued without endangering the structural work now in progress.

Civil departments and agencies

The work of the civil departments and agencies is undergoing thorough reorientation. Established agencies will be used to the greatest possible extent for defense services. Many agencies have already made such readjustment. All civil activities of the government are being focussed on the war program.

Federal grants and debt service

A few categories of civil expenditures show an increase. Under existing legislation Federal grants to match the appropriations for

public assistance made by the individual states will increase by \$73 million. I favor an amendment to the Social Security Act which would modify matching grants to accord with the needs of the various states. Such legislation would probably not affect expenditures substantially during the next fiscal year.

Because of heavy Federal borrowing, interest charges are expected to increase by \$139 million in the current fiscal year, and by another \$425 million in the fiscal year 1943. Debt service is *of course* increasingly affected by war spending.

Coordination of fiscal policies

The fiscal policy of the Federal Government, especially with respect to public works, is being reinforced by that of state and local governments. Executive committees of the Council of State Governments and the Governors' Conference have issued excellent suggestions for harmonizing various aspects of state and local fiscal policy with national objectives. These governments are readjusting many of their services so as to expedite the war program. Many are making flexible plans for the postwar readjustment and some are accumulating financial reserves for that purpose. The larger the scale of our war effort, the more important it becomes to provide a reservoir of postwar work by business and by Federal, state and local governments.

FINANCING THE WAR

Determination, skill, and matériel are three great necessities for victory. Methods of financing may impair or strengthen these essentials. Sound fiscal policies are those which will help win the war. A fair distribution of the war burden is necessary for national unity. A balanced financial program will stimulate the productivity of the Nation and assure maximum output of war equipment.

With total war expenditures, including outlays of government corporations, estimated at \$26 billion for the current fiscal year and almost \$56 billion for the fiscal year 1943, war finance is a task of tremendous magnitude requiring a concerted program of action.

Receipts under present legislation

Total receipts from existing tax legislation will triple under the defense and war programs. They are expected to increase from \$6 billion in the fiscal year 1940, to \$18 billion in the fiscal year 1943. This increase is due partly to the expansion of economic activities and partly to tax legislation enacted during the last two years. As we approach full use of our resources, further increases in revenue next year must come predominantly from new tax measures rather than from a greater tempo of economic activity.

Yields from taxes on incomes, estates, and corporate profits are increasing most, yields from employment taxes less, and the yields from customs and excise taxes least. On the whole, our tax system has become more progressive since the defense effort started.

DEVELOPMENT OF MAJOR SOURCES OF FEDERAL RECEIPTS  
COMPARED WITH FISCAL YEAR 1940  
(Indexes, 1940 = 100)

Sources	1940 (actual)	1941 (actual)	1942 (estimate)	1943 (estimate)
Corporate taxes .....	100	173	328	519
Individual income and estate taxes .....	100	136	275	405
All employment taxes .....	100	111	143	209
Excises and customs duties .....	100	125	158	169
Miscellaneous receipts .....	100	70 <sup>a/</sup>	90	106
Gross receipts .....	100	134	216	300

Deficits under present laws

The estimate of deficits must be tentative and subject to later revision. The probable net outlay of the Budget and government corporations, excluding revenues from any new taxes, will be \$20.9 billion for the current fiscal year, and \$45.4 billion for the fiscal year 1943. Borrowing from trust funds will reduce the amounts which must be raised by taxation and borrowing from the public by about \$2 billion in the fiscal year 1942 and \$2.8 billion in the fiscal year 1943.

(Insert Table: ~~Summary~~ Financing of Federal Operations,  
1940-1943)

In estimating expenditures and receipts, only a moderate rise in prices has been assumed. Since expenditures are affected by rising prices more rapidly than are revenues, a greater price increase would further increase the deficit.

The need for additional taxes

In view of the tremendous deficits, I reemphasize my request of last year that war expenditures be financed as far as possible by

<sup>a/</sup> Excludes return of surplus funds by government corporations.

FINANCING OF FEDERAL OPERATIONS  
FISCAL YEARS 1940 - 1943  
(in millions)

<u>Classification</u>	1943 (estimated)	1942 (estimated)	1941 (actual)	1940 (actual)
<b>A. SUMMARY OF FEDERAL OPERATIONS:</b>				
<b>I. BUDGET</b>				
Budget deficit under present tax legislation (See Page )	\$42,454.3	\$18,631.2	\$5,103.4	\$3,611.1
Adjustments for receipts from and payments to Government Corporations	<u>158.7<sup>b</sup>/</u>	<u>289.4<sup>a</sup>/</u>	<u>488.5</u>	<u>182.8<sup>a</sup>/</u>
Adjusted Budget Deficit	42,295.6	18,341.8	5,591.9	3,428.3
<b>II. GOVERNMENT CORPORATIONS, Net Operating Outlays</b>				
Net Outlays of Budget and Government Corporations	<u>3,099.7</u>	<u>2,509.4</u>	<u>660.3</u>	<u>382.9</u>
Deduct: Excess of receipts over disbursements under present legislation <sup>1/</sup>	<u>2,763.9</u>	<u>2,018.3</u>	<u>1,385.3</u>	<u>1,159.3</u>
Combined Net Cash Requirements	<u>\$42,631.4</u>	<u>\$18,832.9</u>	<u>\$4,866.9</u>	<u>\$2,651.9</u>
<b>B. FINANCING COMBINED NET CASH REQUIREMENTS:</b>				
Under Proposed Legislation:				
Taxes	\$7,000.0	\$ 500.0	\$ ....	\$ ....
Increase in social security trust funds <sup>2/</sup>	2,000.0	500.0	....	....
By Borrowing from the Public (net):				
Government issues	<u>34,926.6</u>	<u>18,527.5<sup>b</sup>/</u>	<u>4,602.3</u>	<u>1,380.4</u>
Government Corporation issues	<u>1,297.8<sup>a</sup>/</u>	<u>710.1<sup>b</sup>/</u>	<u>972.8</u>	<u>318.7</u>
Total	42,628.8	18,817.4	5,575.1	1,699.1
Adjustment for Changes in Cash Balances during Year	<u>2.6</u>	<u>15.5</u>	<u>708.2<sup>b</sup>/</u>	<u>952.8</u>
<b>Total Financing</b>	<b>\$42,631.4</b>	<b>\$18,832.9</b>	<b>\$4,866.9</b>	<b>\$2,651.9</b>

<sup>1/</sup> Substantially all of this excess is invested in government bonds.

<sup>2/</sup> This increase to be invested in government bonds.

<sup>a</sup> Deduct.

taxation. When so many Americans are contributing all their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes. Until ~~war is won~~ this job is done, we will not talk of burdens.

I believe that \$7 billion in additional taxes should be collected during the fiscal year 1943. Early legislation should enable us to raise at least \$500 million additional taxes during the remainder of the current fiscal year. Under new legislation proposed later in this Message, Social Security trust funds will increase by \$500 million and \$2 billion in these two years. Thus new means of financing would provide a total of \$1 billion and \$9 billion, respectively, in the fiscal years 1942 and 1943.

Specific proposals to accomplish this end will be transmitted in the near future. In this Message I shall limit my recommendations on war finance to the broad outline of a program.

Tax programs too often follow the line of least resistance. The present task definitely requires enactment of a well balanced program which takes account of revenue requirements, equity, and economic necessities.

There are those who suggest that the policy of progressive taxation should be abandoned for the duration of the war because these taxes do not curtail consumers' demand. The emergency does require measures of a restrictive nature which impose sacrifices on all of us. But such sacrifices are themselves the most compelling argument for making progressive taxes more effective. The anti-inflationary aspect of taxation should supplement, not supplant, its revenue and equity aspects.

Progressive taxes

Progressive taxes are the backbone of the Federal tax system. In recent years much progress has been made in perfecting income, estate, gift, and profit taxation but numerous loopholes still exist. Because some taxpayers use them to avoid taxes, other taxpayers must pay more. The higher the tax rates the more urgent it becomes to close the loopholes. Exemptions and deductions in estate and gift taxation should be lowered. The privileged treatment given certain types of business in corporate income taxation should be reexamined.

Excessive profits undermine unity and should be recaptured. The fact that a corporation had excessive profits before the defense program started is no reason to permit them now. Unreasonable profits are not necessary to obtain maximum production and economical management. Under war conditions the country cannot tolerate undue profits.

Our tax laws contain various technical inequities and discriminations. With taxes at wartime levels, it is more urgent than ever to eliminate these defects in our tax system.

Anti-inflationary taxes

I stated last year in the Budget Message that extraordinary tax measures may be needed to "aid in avoiding inflationary price rises which may occur when full capacity is approached". The time for such measures has come. A well balanced tax program must include measures which combat inflation. Such measures should absorb some of the additional purchasing power of consumers and some of the additional funds which accrue to business from increased consumer spending.

A number of tax measures have been suggested for that purpose, such as income taxes collected at the source, pay roll taxes, and excise taxes. I urge the Congress to give all these proposals careful consideration. Any tax is better than an uncontrolled price rise.

Taxes of an anti-inflationary character at very high rates spell hardship in individual cases and may have undesirable economic repercussions. These can be mitigated by timely adoption of a variety of measures, each involving a moderate rate of taxation.

Excise taxes

All through the years of the depression I opposed general excise and sales taxes and I am as convinced as ever that they have no permanent place in the Federal tax system. In the face of the present financial and economic situation, however, we are compelled to reconsider the necessity of such measures. I am impressed by arguments that a general business excise tax, based on the "value added", with well-considered deductions and exemptions, is preferable to a retail sales tax from an administrative, economic, and social point of view.

Any such tax should be considered an emergency measure. It may help combat inflation; its repeal in a postwar period may help restore an increased flow of consumers' purchasing power.

Selective excise taxes are frequently useful for curtailing the demand for consumers' goods, especially luxuries and semi-luxuries. They should be utilized when manufacture of the products competes with the war effort.

Pay roll taxes and the Social Security Program.

I oppose the use of pay roll taxes as a measure of war finance unless the worker is given his full money's worth in increased social security. From the inception of the Social Security Program in 1935 it has been planned to increase the number of persons covered and to provide protection against hazards not initially included. By expanding the program now, we advance the organic development of our social security system and at the same time contribute to the anti-inflationary program.

I recommend an increase in the coverage of old age and survivors' insurance, addition of permanent and temporary disability payments and hospitalization payments beyond the present benefit programs, and liberalization and expansion of unemployment compensation in a uniform national system. I suggest that collection of additional contributions be started as soon as possible, to be followed one year later by the operation of the new benefit plans.

Additional employer and employee contributions will cover increased disbursements over a long period of time. Increased contributions would result in reserves of several billion dollars for postwar contingencies. The present accumulation of these contributions would absorb excess purchasing power. Investment of the additional reserves in bonds of the United States Government would assist in financing the war.

The existing administrative machinery for collecting pay roll taxes can function immediately. For this reason Congressional

consideration might be given to immediate enactment of this proposal, while other necessary measures are being perfected.

I estimate that the Social Security trust funds would be increased through the proposed legislation by \$500 million during the current year, by \$2 billion during the fiscal year 1943.

Flexibility in the tax system

Our fiscal situation makes imperative the greatest possible flexibility in our tax system. It is highly important to have effective machinery for the collection of additional taxes even if the new taxes are at first enacted at moderate rates. The Congress should consider the desirability of tax legislation which makes possible quick adjustment in the timing of tax rates and collections during an emergency period.

Borrowing and the menace of inflation

The war program requires not only substantially increased taxes but also greatly increased borrowing. After adjusting for additional tax collections and additional accumulation in Social Security trust funds, borrowing from the public in the current and the next fiscal year would be <sup>nearly</sup> \$18 billion and \$34 billion, respectively. The adjustments are indicated in the preceding table.

Much smaller deficits during the fiscal year 1941 were associated with a considerable increase in prices. Part of this increase was a recovery from depression lows. A moderate price rise, accompanied

by an adjustment of wage rates, probably facilitated the increase in production and the defense effort. Another part of the price rise, however, was undesirable and must be attributed to the delays in enacting adequate measures of price control.

With expenditures and deficits multiplied, the threat of inflation will apparently be much greater. There is, however, a significant difference between conditions as they were in the fiscal year 1941 and those prevailing under a full war program. Last year, defense expenditures so stimulated private capital outlays that intensified use of private funds and private credit added to the inflationary pressure created by public spending.

Under a full war program, however, most of the increase in expenditures will replace private capital outlays rather than add to them. Allocations and priorities, necessitated by shortages of material, are now in operation; they curtail private outlays for durable consumers' goods, private and public construction, expansion and even replacements in non-defense plant and equipment. These drastic curtailments of non-defense expenditures add, therefore, to the private funds available for non-inflationary financing of the government deficit.

This factor will contribute substantially to financing the tremendous war effort without disruptive price rises and without necessitating a rise in interest rates. The remaining inflationary pressure will be large but manageable. It will be within our power to control it if we adopt a comprehensive program of additional anti-inflationary measures.

A comprehensive anti-inflationary program

A great variety of measures is necessary in order to shift labor, materials, and facilities from the production of civilian articles to the production of weapons and other war supplies. Taxes can aid in speeding these shifts by cutting nonessential civilian spending. Our resources are such that even with the projected huge war expenditures we can maintain a standard of living more than adequate to support the health and productivity of our people. But we must forego many conveniences and luxuries.

The system of allocations--rationing on the business level--should be extended and made fully effective, especially with relation to inventory control.

I do not at present propose general consumer ration cards. There are not as yet scarcities in the necessities of life which make such a step imperative. Consumers' rationing has been introduced, however, in specific commodities for which scarcities have developed. We shall profit by this experience if a more general system of rationing every becomes necessary.

I appeal for the voluntary cooperation of the consumer in our national effort. Restraint in consumption, especially of scarce products, may make necessary fewer compulsory measures. Hoarding should be encouraged in only one field, that of defense savings bonds. Economies in consumption and the purchase of defense savings bonds will facilitate financing war costs and the shift from a peace to a war economy.

An integrated program, including direct price controls, a flexible tax policy, allocations, rationing, and credit controls, together with producers' and consumers' cooperation will enable us to finance the war effort without danger of inflation. This is a difficult task. But it must be done and it can be done.

THE INCREASE IN FEDERAL DEBT

On the basis of tentative budget estimates, including new taxes, the Federal debt will increase from \$43 billion in June 1940, when the defense program began, to \$110 billion three years later. About \$2 billion increase in Federal debt will be used for the redemption of notes of government corporations guaranteed by the Federal government.

These debt levels require annual interest payments of \$1 billion and above \$2 billion respectively. Such an increase in interest requirements will prevent us <sup>for some time</sup> from lowering taxes after the war to the prewar level. The import of this fact will depend greatly on economic conditions in the postwar period.

Paying \$2 billion out of an extremely low national income would impose an excessive burden on taxpayers while the same payment out of a \$100 billion national income, after reduction of armament expenditures, may still permit substantial tax reductions in the postwar period.

If we contract a heavy debt at relatively high prices and must pay service charges in a period of deflated prices, we shall be forced to impose excessive taxes. Carrying a debt of above \$100 billion in a

postwar period without undue hardship depends mainly on our ability to maintain a high level of employment and income.

I am confident that we shall control the price development now and that we shall prevent the recurrence of a deep depression in the postwar period. There must be no fiscal barriers to our war effort and to victory.