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FDR Speech File

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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.

THE BUDGET

OF THE

UNITED STATES GOVERNMENT

FOR THE FISCAL YEAR ENDING JUNE 30

1942

Budget Message of the President
and
Summary Budget Statements

WASHINGTON, D. C.
1941

THE BUDGET

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UNITED STATES
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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The Budget of the United States Government for the fiscal year ending June 30, 1942, which I transmit herewith, is a reflection of a world at war. Carrying out the mandate of the people, the Government has embarked on a program for the total defense of our democracy. This means warships, freighters, tanks, planes, and guns to protect us against aggression; and jobs, health, and security to strengthen the bulwarks of democracy. Our problem in the coming year is to combine these two objectives so as to protect our democracy against external pressure and internal slackness.

The threatening world situation forces us to build up land, sea, and air forces able to meet and master any contingency. It is dangerous to prepare for a little defense. It is safe only to prepare for total defense.

Total defense means more than weapons. It means an industrial capacity stepped up to produce all the matériel for defense with the greatest possible speed. It means people of health and stamina, conscious of their democratic rights and responsibilities. It means an economic and social system functioning smoothly and geared to high-speed performance. The defense budget, therefore, must go beyond the needs of the Army and Navy.

It is not enough to defend our national existence. Democracy as a way of life is equally at stake. The ability of the democracies to employ their full resources of manpower and skill and plant has been challenged. We meet this challenge by maximum utilization of plant and manpower and by maintaining governmental services, social security, and aid to those suffering through no fault of their own. Only by maintaining all of these activities can we claim the effective use of resources which our democratic system is expected to yield, and thus justify the expenditures required for its defense.

The National Program

In this Budget I am presenting a program for 1942, carefully worked out to combine these objectives. This program, including defense and nondefense activities, will cost about 17.5 billions of dollars. For the same period, we expect the largest national income for the Nation as a whole and also the largest tax receipts.

In addition to, but essentially and rightly as a complement to this program, the time has come for immediate consideration of assuring the continuation of the flow of vitally necessary munitions to those nations which are defending themselves against attack and against the imposition of new forms of government upon them.

Such a complementary program would call for appropriations and contract authorizations over and above this Budget. The sum of all these defense efforts should be geared to the productive capacity of this Nation expanded to literally its utmost efforts.

The Defense Program and Defense Expenditures

Sixty-two percent of the expenditures proposed in this Budget are for national defense. No one can predict the ultimate cost of a program that is still in development, for no one can define the future. When we recall the staggering changes in the world situation in the last six months, we realize how tentative all present estimates must be.

These expenditures must be seen as a part of a defense program stretching over several years. On the basis of the appropriations and authorizations enacted for national defense from June 1940 up to the present time, plus the recommendations for supplementary appropriations and authorizations for 1941 and the recommendations contained in this Budget for 1942, we have a program of 28 billion dollars.

This is a vast sum, difficult to visualize in terms of work actually to be done. If we can prove that we are able to organize and execute such a gigantic program in a democratic way, we shall have made a positive contribution in a world in which the workability of democracy is challenged.

This defense program is summarized below:

	Appropriations, authorizations, and recommendations (June 1940–June 1942) [In millions of dollars]
Army	$12,704
Navy	11,687
Expansion of industrial plant	1,906
Other defense activities	1,387
Total	28,480

The Army funds provide for the training and maintenance of a force of men increasing from 250,000 in June 1940 to 1,400,000 in 1942, equipped with the most modern devices of motorized and mechanical warfare. The Navy estimates continue the construction of our over-all Navy and contemplate the doubling of naval personnel. There is provision for a great increase in the number of Army and Navy planes and for training pilots, technicians, and ground crews.

Behind the lines a whole new defense industry is being built ~~with the financial~~ support of the Federal Government. One hundred and twenty-five new plants are under contract; more are planned.

In submitting these recommendations, I have not covered the full requirements of the civilian training program. At present, surveys are under way which will provide a basis for transmitting an estimate of funds needed for the extension of this essential defense activity. In the current fiscal year, over a million men and women are included in the various programs of apprentice training, vocational training in trade schools and engineering colleges, work-experience shops, and pilot training.

Expenditures under the defense program during the last six months amount to 1,750 million dollars. This is two and one-half times the amount spent for national defense in the same period of the fiscal year 1940. However, these expenditures understate the progress already made. In six months, contracts and orders for 10 billion dollars have been placed. This means that in addition to present defense production, all over the country more factories, large and small, are getting ready rapidly to increase production. Once these preparations have been completed actual deliveries and expenditures will be greatly accelerated.

I expect actual expenditures to be stepped up to four and three-quarter billion dollars in the six months ~~ending June 1941~~ and ~~to~~ almost 11 billion in the fiscal year 1942. We shall actually expend more than 25 billion dollars for defense within a 3-year period. This can be accomplished, but only if management, labor, and consumers cooperate to the utmost.

Nondefense Expenditures

The increased military expenditures permit a substantial reduction in nondefense expenditures, particularly for those activities which are made less necessary by improved economic conditions. Obligations such as interest, pensions, and insurance benefits are fixed. Almost as fixed are the appropriations for which the Congress has already made legislative commitments—security grants to the States, Federal aid for highways, the 30 percent of tariff revenue set aside for reducing agricultural surpluses, and similar items. Together, these fixed items make up nearly half of the nondefense expenditures I am proposing for the fiscal year 1942. For the items subject to administrative rather than legislative action, I have been able to reduce expenditures by 600 million dollars or 15 percent. This reduction and its relation to total expenditures are shown below:

Expenditures	Estimated in millions of dollars		Percent change
	1942	1941	
Defense program	$10,811	$6,464	+67
Fixed commitments	3,156	2,948	+7
Other activities	3,476	4,094	−15
Total (excluding returns from Government corporations)	17,443	13,505	+29

Certain reductions are possible in carrying out the established policies relating to public works and relief, but little change can be made in the regular operating costs of government. As I indicated in my Budget Message last year, the operating costs of the regular departments are already down to the bedrock of the activities and functions ordered by the Congress. In spite of the defense pressure on many of these regular programs, expenditures will be kept below the level of the current year.

SOCIAL AND ECONOMIC PROGRAMS

It is our policy to retain the ideals and objectives of our social and economic programs in the face of war changes. The costs of those programs affected by economic activity are flexible. Because of the defense effort some of these programs can be carried on at a lower cost. In other cases, no curtailment is possible without sacrificing our objectives.

We should realize, however, that even with a fully functioning defense effort there will remain special areas of need and that social security, agricultural benefits, and work relief contribute to total defense in terms of the health and morale of our people.

Social-security programs.—I recommend the continuance in full measure of the social-security programs. This includes not only the

payment of old-age benefits as required by law but also aid to youth and continued payments toward the State aid of old persons not covered by the insurance benefits; aids to children and to the physically handicapped. In total, these services will require approximately the same expenditure as in the current fiscal year, except for some increase in grants to the States as required by law.

Furthermore, I deem it vital that the Congress give consideration to the inclusion in the old-age and survivors insurance system and the unemployment compensation system of workers not now covered.

Agricultural programs.—The increased domestic market for farm products, resulting from defense expenditure, will improve the income position of many farmers. At the same time the curtailment of foreign markets, particularly in cotton, wheat, and tobacco, would leave large numbers of these farmers in a serious plight without the continuance of the farm programs. After weighing both of these factors, I estimate a reduction of 45 million dollars in the agricultural programs. We are definitely maintaining the principles of parity and soil conservation.

Public works.—During this period of national emergency it seems appropriate to defer construction projects that interfere with the defense program by diverting manpower and materials. Further, it is very wise for us to establish a reservoir of post-defense projects to help absorb labor that later will be released by defense industry.

With this in mind, I am recommending reductions for rivers and harbors and flood-control work. Where possible, without placing the projects or the water users thereof in jeopardy, reductions are proposed in the expenditures for reclamation projects. I have requested that further contracts for the construction of public buildings outside the District of Columbia be held in abeyance for the present. On the other hand, I have recommended funds for power and other projects considered essential to national defense.

Projects under construction, or on which bids have been solicited, will go forward to completion. Throughout the Federal service other projects are being deferred until a more appropriate time. However, surveys and the planning of new projects will go forward so that construction can be resumed without delay. This will produce a long list of public work projects, apart from defense construction, arranged according to priorities. Such a list could be submitted to a future Congress for the appropriation of funds to put it into operation.

Work Projects Administration.—The defense program has already resulted in a substantial increase in production, employment, and national income. Although industrial production is now running 20 percent above the average level of 1929, there are still many persons either unemployed, or employed as emergency workers, or incapable of steady employment.

The defense program will lead to further reemployment, and also to a further increase in the labor force and to a shift from part-time to full-time or over-time employment. But even under the full defense program we cannot expect full absorption of the labor force because some people just cannot be fitted into the picture. There will be some localities with a labor shortage at the same time that others have a labor surplus. There will be shortages of particular skills and aptitudes at the same time that others are in surplus.

I recommend an appropriation of 995 million dollars for work relief for the full fiscal year. This is 400 million dollars less than the amount required for the present fiscal year. It will not be necessary to use this full amount if the defense program should result in a more general reemployment than is presently indicated. The expenditure can also be reduced if employers will contribute by hiring unskilled or semi-skilled or older workers for those jobs where special skills are not required.

We must face the fact that even with what we call "full employment" there will remain a large number of persons who cannot be adjusted to our industrial life. For this group, the Government must provide work opportunities.

FINANCING THE NATIONAL PROGRAM

Estimates of expenditures and revenue compared.—The defense program dominates not only the expenditure side of the Budget, but influences also the expected revenue. Economic activities and national income are rising to record heights. From a higher national income a greater revenue will flow, although in the case of most taxes there is, of course, a time lag. The revenue for the fiscal year 1941 will reflect some of the increase in defense activities; the revenue for the fiscal year 1942 will be affected to a larger extent; but the full impact will not be felt before the fiscal year 1943.

The revenue for the fiscal year 1942 is expected to be 9 billion dollars. It will exceed the revenue collected in the fiscal year 1940—the last year before the start of the present defense program—by 3 billion dollars. One-half of this increase will come from the defense taxes already enacted by the Congress, the other half from the increase in national income.

The revenue expected for 1942 will be 1.6 billions larger than the total of all nondefense expenditures. This 1.6 billions is greater than the annual expenditure on defense before the present program started, but less than will be necessary for maintaining the Army and Navy at the new level.

Estimates of receipts for 1942 and 1941 are set forth below:

Receipts	Estimated in millions of dollars		Percent change
	1942	1941	
Progressive taxes on individuals and estates	[illegible]	[illegible]	[illegible]
Profit and capital taxes on corporations	[illegible]	1,744	[illegible]
Customs, excise, stamp, and miscellaneous taxes	[illegible]	[illegible]	+4
Employment taxes for Federal old-age and survivors insurance	[illegible]	[illegible]	[illegible]
Other employment taxes	[illegible]	[illegible]	[illegible]
Miscellaneous receipts (including bank [illegible] taxes)	[illegible]	[illegible]	[illegible]
Total receipts (excluding returns from Government corporations)	[illegible]	[illegible]	[illegible]
Deduct net appropriation for Federal old-age and survivors insurance trust fund	[illegible]	[illegible]	[illegible]
Net receipts (excluding returns from Government corporations)	[illegible]	[illegible]	[illegible]

Under present tax laws, deficits of 6.2 billion dollars in 1941 and 9.2 billion dollars in 1942 may be expected. ~~The calculations follow:~~

Summary	Estimated in millions of dollars	
	1942	1941
Expenditures	[illegible]	[illegible]
Receipts	[illegible]	[illegible]
Excess of expenditures over receipts	[illegible]	[illegible]
Less return of surplus funds from Government corporations		[illegible]
Deficit	[illegible]	[illegible]

In presenting the above calculations, I am assuming that the Congress will accept the recommendation of the Secretary of the Treasury that the earmarking of taxes for retirement of defense obligations be repealed; and the proposal of the Postmaster General that the 3-cent rate on first-class postage be continued.

Tax policy.—There is no agreement on how much of such an extraordinary defense program should be financed on a pay-as-you-go basis and how much by borrowing. Only very drastic and restrictive taxation which curtails consumption would finance defense wholly on a pay-as-you-go basis. I fear that such taxation would interfere with the full use of our productive capacities. We have a choice between restrictive tax measures applied to the present national income and a higher tax yield from increased national income under less restrictive tax measures. I suggest, therefore, a financial policy aimed at collecting progressive taxes out of a higher level of national income. I am opposed to a tax policy which restricts general consumption as long as unused capacity is available and as long as idle labor can be employed.

We cannot yet conceive the complete measure of extraordinary taxes which are necessary to pay off the cost of emergency defense and to aid in avoiding inflationary price rises which may occur when full capacity is approached.

However, a start should be made this year to meet a larger percentage of defense payments from current tax receipts. The additional tax measures should be based on the principle of ability to pay. Because it is the fixed policy of the Government that no citizen should make any abnormal net profit out of national defense, I am not satisfied that existing laws are in this respect adequate.

I hope that action toward these ends will be taken at this session of the Congress.

I see many ways in which our tax system can be improved without resort to restrictive tax levies. By adjustments in the existing tax laws the present rates of progressive taxation could be made fully effective, as I believe the Congress intended.

We must face the fact that the continued maintenance of an expanded Army and Navy and the interest on our defense debt will call for large Federal expenditures in the years ahead. Our tax system must be made ready to meet these requirements.

I am as much concerned about our long-run need for an improved tax system as I am about the immediate necessity of financing the defense program.

I have often expressed my belief that no really satisfactory tax reform can be achieved without readjusting the Federal-State-local fiscal relationship. I urge a thorough investigation of the possibilities of a comprehensive tax reform; I propose that meanwhile we make all possible progress in improving the Federal tax system.

Borrowing.—A substantial part of the defense program must, of course, be financed through borrowing. Individual investors will be

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given increased opportunities to contribute their share toward defense through the purchase of Government securities. Such borrowing is not hazardous as long as it is accompanied by tax measures which assure a sufficient tax yield in the future. This raises the question of the debt limit. The Congress, by making appropriations and levying taxes, in fact, controls the size of the debt regardless of the existence of a statutory debt limit. If the Congress, subsequent to the establishment of a statutory debt limit, makes appropriations and authorizations which require borrowing in excess of that limit, it has, in effect, rendered that prior limit null and void. In the first 130 years of our national life, the Congress controlled the debt successfully without requiring such a limit. In view of these facts, I question the significance of a statutory debt limit, except as it serves as a fiscal monitor.

The fiscal policy outlined here would be in accord with our objective of financing the defense program in an equitable manner, facilitating full use of our national resources, and avoiding inflationary policies which would aggravate the problems of post-defense adjustment.

The debt problem.—For more than 25 years the world has been in a state of political turmoil and its economies have been out of balance. This world condition is reflected in unbalanced budgets in all countries. Here, the first World War, the war against the depression, the present defense program, all resulted in large additions to the Federal debt.

I understand the concern of those who are disturbed by the growth of the Federal debt. Yet the main fiscal problem is not the rise of the debt, but the rise of debt charges in relation to the development of our resources. [roughly from 34 to 69]

The fight for recovery raised national income by more than 30 billion dollars above the depression depth. In the same period the total annual Federal interest charges increased by 400 million dollars. Even if these interest charges increase, they can scarcely present a serious fiscal problem so long as a high level of national income can be maintained.

Investors are fully aware of this fact. The bonds of the United States Government are the safest securities in the world because they are backed by the best asset in the world—the productive capacity of the American people. Our tax burden is still moderate compared to that of most other countries.

It should be borne in mind that our national debt results from wars and the economic upheavals following war. These conditions are not of our own making. They have been forced upon us. The national debt of almost all nations would be far lower today if competitive armaments had not existed during the past quarter of a century. If this war should be followed, as I hope it will, by peace in a world of good neighbors, then the complete elimination of competitive armaments will become possible. Only in such a world can economic stability be restored.

If a high level of economic activity can be maintained during the defense period and—what will be a more difficult task—maintained in the post-defense period, then the fiscal needs can be readily met.

The Budget of the United States presents our national program. It is a preview of our work plan, a forecast of things to come. It charts the course of the Nation.

The necessity for loading the present Budget with armament expenditures is regretted by every American. A wry turn of fate places this burden of defense on the backs of a peace-loving people.

We can meet the demands of armament because we are a people with the will to defend and the means to defend. The boundaries of our productive capacity have never been set.

The whole program set forth in this Budget has been prepared at a time when no man could see all the signposts ahead. One marker alone stands out all down the road. That marker carries not so much an admonition as a command to defend our democratic way of life.

Franklin D. Roosevelt.

January 3, 1941.

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STEPHEN EARLY,
Secretary to the President.

MESSAGE TRANSMITTING THE BUDGET FOR 1943

U. S. GOVERNMENT PRINTING OFFICE: 1942

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, Chinese, and Dutch 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 cannot outfight our enemies unless, at the same time, we outproduce our enemies. It is not enough to turn out just a few more planes, a few more tanks, a few more guns, a few more ships, than can be turned out by our enemies. We must outproduce them overwhelmingly, so that there can be no question of our ability to provide a crushing superiority of equipment in any theater of the world war.

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 consumers' durable 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 factories are better equipped to carry the new production load. 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 a 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 details of a war program are, of course, 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 dollars on January 3, 1941. During the last 12 months 46 billion dollars have been added to the program. Of this total of 75 billion dollars there remains 24 billion dollars for future obligation.

In this Budget I make an initial request for a war appropriation of 13.6 billion dollars 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 dollars a month and may surpass 5 billion dollars a month during the fiscal year 1943. As against probable budgetary war expenditures of 24 billion dollars for the current fiscal year, our present objective calls for war expenditures of nearly 53 billion dollars for the fiscal year 1943. And in addition, net outlays of Government corporations for war purposes are estimated at about 2 and 3 billion dollars 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

In a true sense, there are no longer nondefense expenditures. It is a part of our war effort to maintain civilian services which are essential to the basic needs of human life. In the same way it is necessary in wartime to conserve our natural resources and keep in repair our national plant. We cannot afford waste or destruction, for we must continue to think of the good of future generations of Americans. For example, we must maintain fire protection in our forests; and we must maintain control over destructive floods. 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 dollars from the previous to the current fiscal year, and again by 860 million dollars from the current to the next fiscal year. These programs will require 1.4 billion dollars during the fiscal year 1943, about 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 dollars of appropriations for civil purposes have been placed in reserves.

Excluding debt charges and grants under the Social Security law, total expenditures for other than direct war purposes have been reduced by slightly more than 1 billion dollars in the next fiscal year.

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 developments 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 soil conservation and use program on a moderately reduced scale. Acreage control by cooperative efforts of farmer and Government was inaugurated in a period of overproduction 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 W. P. A. workers was two million in the fiscal year 1940, the year before the defense program started; the average has been cut to one 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 dollars will be needed for W. P. A., but I shall submit a specific request later in the year. Workers of certain types and in certain regions of the country probably will not all 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 the workers affected 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. Standardization and substitution are doing their part in maintaining production. Ever-increasing use of subcontracts, pooling of industrial resources, 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 United States Employment Service in finding employment opportunities.

Although I am estimating 100 million dollars for these two agencies, excluding 50 million dollars 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 578 million dollars 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 post-war 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 dollars. 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 dollars in the current fiscal year, and by another 500 million dollars in the fiscal year 1943. Debt service is, of course, 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 post-war 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 post-war 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 net outlays of Government corporations, estimated at 26 billion dollars for the current fiscal year and almost 56 billion dollars 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 dollars in the fiscal year 1940 to 18 billion dollars 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 2 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. Taxes on incomes, estates, and corporate profits are showing the greatest increase. Yields from employment taxes are increasing half as fast; and the yields from excise taxes are increasing more slowly; customs are falling off. 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]

Source	1940 (actual)	1941 (actual)	1942 (estimated)	1943 (estimated)
Corporate taxes	100	178	[illegible]	[illegible]
Individual income and estate taxes	100	188	[illegible]	[illegible]
All employment taxes	100	111	[illegible]	[illegible]
Excise taxes	100	136	[illegible]	[illegible]
Miscellaneous receipts	100	[1] 73	[illegible]	[illegible]
Customs duties	100	113	[illegible]	[illegible]
Gross receipts	100	134	[illegible]	[illegible]

[1] Excludes return of surplus funds by Government corporations.

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 dollars for the current fiscal year, and 45.4 billion dollars 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 dollars in the fiscal year 1942 and 2.8 billion dollars in the fiscal year 1943.

Financing of Federal operations, fiscal years 1940–1943

[In millions]

Classification	1943 (estimated)	1942 (estimated)	1941 (actual)	1940 (actual)
A. SUMMARY OF FEDERAL OPERATIONS:				
I. Budget deficit under present tax legislation (see p. XXI)	58,440.8	33,591.6	5,103.5	3,611.1
II. Government corporations (net outlays)	2,941.8	2,259.9	[3]1,148.6	299.1
Net outlays of Budget and Government corporations (I+II)	61,382.6	35,851.5	6,252.1	3,911.2
III. Trust funds: Deduct excess of receipts over disbursements under present legislation [1]	3,700.0	3,054.3	1,365.3	1,130.3
Combined net cash requirements (I+II−III) [2]	57,682.6	32,797.2	4,886.8	2,781.0
B. FINANCING COMBINED NET CASH REQUIREMENTS:				
By borrowing from the public (net):				
Government bonds	34,013.1	19,328.1	4,802.3	1,306.4
Government corporation bonds	*1,297.9	*710.1	971.8	359.7
Subtotal	32,715.2	18,618.0	5,774.1	1,666.1
Under proposed legislation:				
Taxes	7,000.0			
Increase in social security trust funds [4]	2,000.0			
Total	41,715.2	18,618.0	5,774.1	1,666.1
Adjustment for changes in cash balances during year	2.0	15.5	*799.3	993.5
Total, financing	41,717.2	18,633.5	4,974.8	2,659.6

* Deduct.
[1] Includes return of surplus funds to the Budget.
[2] Almost all of this excess is invested in Government bonds.
[3] Includes interest accrued on U. S. savings bonds.
[4] This increase to be invested in Government bonds.

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

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 this job is done, until this war is won, we will not talk of burdens.

I believe that 7 billion dollars in additional taxes should be collected during the fiscal year 1943. Under new legislation proposed later in this Message, social security trust funds will increase by 2 billion dollars. Thus new means of financing would provide a total of 9 billion dollars in the fiscal year 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 in estate and gift taxation should be lowered. The privileged treatment given certain types of business in corporate income taxation should be reexamined.

It seems right and just that no further tax-exempt bonds should be issued. We no longer issue United States tax-exempt bonds and it is my personal belief that the income from State, municipal, and authority bonds is taxable under the income-tax amendment to the Constitution. As a matter of equity I recommend legislation to tax all future issues of this character.

Excessive profits undermine unity and should be recaptured. The fact that a corporation had large profits before the defense program started is no reason to exempt 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 excessive 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.

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

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 may later be compelled to reconsider the temporary necessity of such measures.

Selective excise taxes are frequently useful for curtailing the demand for consumers' goods, especially luxuries and semiluxuries. 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 1 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 post-war 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 2 billion dollars during the fiscal year 1943.

FLEXIBILITY IN THE TAX SYSTEM

Our fiscal situation makes imperative the greatest possible flexibility in our tax system. 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 nearly 19 billion dollars and 34 billion dollars, 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 consumers' durable goods, private and public construction, expansion and even replacements in nondefense plant and equipment. These drastic curtailments of nondefense expenditures add, therefore, to the private funds available for noninflationary financing of the Government deficit.

This factor will contribute substantially to financing the tremendous war effort without disruptive price rises and without necessitating a departure from our low-interest-rate policy. 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 ever 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 THE FEDERAL DEBT

On the basis of tentative Budget estimates, including new taxes, the Federal debt will increase from 43 billion dollars in June 1940, when the defense program began, to 110 billion dollars 3 years later. This increase in Federal indebtedness covers also the future capital demands of Government corporations. About 2 billion dollars of this increase will result from the redemption of notes of Government corporations guaranteed by the Federal Government.

These debt levels require an increase in the annual interest from 1 billion dollars in 1940 to above 2.5 billion dollars at the end of fiscal year 1943. Such an increase in interest requirements will prevent us for some time after the war from lowering taxes to the extent otherwise possible. The import of this fact will depend greatly on economic conditions in the post-war period.

Paying 2.5 billion dollars out of an extremely low national income would impose an excessive burden on taxpayers while the same payment out of a 100-billion-dollar national income, after reduction of armament expenditures, may still permit substantial tax reductions in the post-war 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. Our capacity to carry a large debt in a post-war period without undue hardship depends mainly on our ability to maintain a high level of employment and income.

I am confident that by prompt action we shall control the price development now and that we shall prevent the recurrence of a deep depression in the post-war period. There need be no fiscal barriers to our war effort and to victory.

FRANKLIN D. ROOSEVELT.

JANUARY 5, 1942.