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[Budget Message]

FDR Speech File

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STEPHEN EARLY, Secretary to the President.

THE BUDGET OF THE UNITED STATES GOVERNMENT

FOR THE FISCAL YEAR ENDING JUNE 30

1944

—
Budget Message of the President
and
Summary Budget Statements



WASHINGTON, D. C.
1943

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting herewith a war Budget exceeding 100 billion dollars for the fiscal year beginning July 1, 1943. Last year I called the Budget an instrument for transforming a peace economy into a war economy. This Budget presents the maximum program for waging war.

We wage total war because our very existence is threatened. Without that supreme effort we cannot hope to retain the freedom and self-respect which give life its value.

Total war is grim reality. It means the dedication of our lives and resources to a single objective: Victory.

Total war in a democracy is a violent conflict in which everyone must anticipate that both lives and possessions will be assigned to their most effective use in the common effort—the effort for community survival—Nation survival.

In total war we are all soldiers, whether in uniform, overalls, or shirt sleeves.

BUDGETING FOR TOTAL WAR

WAR EXPENDITURES

The huge and expanding rate of war expenditures shows our determination to equip our fighting forces and those of our Allies with the instruments of war needed for victory. Monthly expenditures for war purposes amounted to 2 billion dollars just after Pearl Harbor; they now exceed 6 billion dollars and they will average more than 8 billion dollars a month during the fiscal year 1944. For the whole of the current fiscal year total war expenditures are now estimated at 77 billion dollars; for the next fiscal year, at 100 billion dollars. These estimates include the net outlays of Government corporations for war purposes and assume only a small rise in prices.

Victory cannot be bought with any amount of money, however large; victory is achieved by the blood of soldiers, the sweat of working men and women, and the sacrifice of all people. But a 100-billion-dollar expenditure program does reflect a national effort of gigantic magnitude. It calls for vision on the part of those in charge of war production, ingenuity of management, and the skill, devotion, and tenacity of the men on the farms and in the factories. It makes

possible the expansion of our armed forces necessary to offensive operations, the production of planes and munitions to provide unquestioned superiority, and the construction of ships which will make it possible for us to strike at the enemy wherever he may be. It reflects the determination of the civilians to "pass the ammunition." Moreover, consumers' goods and services will have to be produced in an amount adequate to maintain the health and productivity of the civilian population. And all of this will have to be done while we are withdrawing millions of men from production for service in the armed forces.

Some persons may believe that such a program is fantastic. My reply is that this program is feasible. If the Nation's manpower and resources are fully harnessed, I am confident that the objective of this program can be reached, but it requires a complete recognition of the necessities of total war by all—management, labor, farmers, consumers, and public servants—regardless of party. Production short of these military requirements would be a betrayal of our fighting men.

This Budget does not include the detailed estimates of war expenditures which would reveal information to our enemies. An additional reason for such action at this time is that rapid developments on far-flung battle fronts make it impossible to submit a detailed war Budget for a year ending 18 months hence. I shall continue, however, to report on the broad categories of war expenditures. The following table summarizes our present estimates of war expenditures from general and special accounts and by Government corporations.

Estimates of total expenditures for war, fiscal years 1943 and 1944

[Billion]

Object of expenditure	Fiscal 1943	Fiscal 1944
Munitions.....	\$48	\$66
Military and civilian pay, subsistence, and travel.....	15	21
Industrial construction.....	4	3
Other construction.....	4	5
Other, including agricultural lend-lease.....	5	6
Total.....	77	101

This spring I shall submit the necessary information upon which the Congress can base war appropriations for the fiscal year 1944. In the meantime there are available about 170 billion dollars of unspent war

appropriations and authorizations; about two-thirds of this amount is already obligated or committed. Further appropriations will soon be needed to permit letting of contracts with industry for the next year.

THE PROCUREMENT OF MUNITIONS

Total mobilization of all our men and women, all our equipment, and all our materials in a balanced production program will enable us to accomplish the production goals underlying this war Budget.

Manpower.—Marked progress has been made in mobilizing manpower. In spite of the increase in the armed services, industrial production rose by 46 percent, and agricultural production by 15 percent between calendar years 1940 and 1942. Industrial production has not been delayed and crops have not been lost because of lack of manpower except in a few isolated cases. More than 10 million people have been added to the employed or the armed forces since the summer of 1940, 7 million of whom were unemployed and more than 3 million of whom are additions to the Nation's labor and armed forces.

Manpower mobilization is now entering a much more difficult phase. During the calendar year 1943 approximately 6 million people will be needed above present requirements for the armed services and war production. This number can be obtained by transferring from less essential work, and by drawing into the working force people who have not recently sought employment. Vigorous action is required to mobilize and train our reserve of women and young people, to accelerate the transfer of workers to essential industries, and to reduce harmful turn-over and migration of workers in essential industries. It also requires prevention of labor hoarding and elimination of hiring restrictions based on sex, creed, or race. I reiterate my previous recommendation for a unified and adequate rehabilitation service to make available a million persons for war industry and to restore to civil employment persons who are being disabled in the armed forces.

Manpower needs of the armed forces and of war production during the calendar year 1943 can be met without impairment of essential civilian requirements. I stress the important distinction between "essential requirements" and the thousand and one things that are nonessentials or luxuries. The production of these nonessentials wastes manpower at a time when careful economy and greater effi-

ciency in the use of our manpower resources is imperative. Private thought and public discussion of this subject are very necessary.

Equipment.—Were it not for an unprecedented program of conversion and the building up of a new war industry during the past two and one-half years, we could not expect to fulfill the war-production program outlined in this Message.

Some progress, but not enough, has been made in spreading war contracts more widely among medium-sized and smaller plants. Further efforts are necessary. In certain cases, of course, saving of manpower and materials requires concentration in those plants best equipped to produce a given commodity.

Materials.—Furthermore, war production is limited by our supply of raw materials. The available materials must be transformed into the maximum of striking power. The production of less urgent or the wrong quantity of items, or poor scheduling of production in any single plant or in the munitions program as a whole, results in waste of precious materials. The Nation's war production must be so scheduled that the right items are produced in the right amounts at the right time.

War contracts.—The procurement program must achieve maximum production with minimum waste and with the speed essential in time of war. This is the controlling objective not only for the original negotiation of contracts but also for the renegotiation required by law. The law provides for the prevention or recapture of excessive profits, thus supplementing and reinforcing the objectives of the excess-profits tax. I believe that control of the costs of production is of equal importance.

The proper negotiation and renegotiation of contracts must strive to reconcile the avoidance of excessive profits with the maintenance of incentives to economical management.

FARM AND FOOD PROGRAM

Food is a primary weapon of war. An adequate food supply is, therefore, a basic aspect of a total war program. I have placed in the hands of the Secretary of Agriculture full responsibility for determining and fulfilling the food requirements in this war. Our agricultural production is larger than ever in our history but the needs of our armed services and our Allies are so great that a shortage of certain foods is inevitable. The production of the less-needed commodities must be reduced, while the production of commodities for war and

essential civilian use must be increased. It is imperative also that this increased demand for food be adjusted to available supplies. There will be sufficient volume in our bill of fare but less variety. That may hurt our taste but not our health.

To facilitate this program, I am recommending appropriations for Aids to Agriculture totaling 837 million dollars for the fiscal year 1944. Among the major items included in the 837-million-dollar total are 400 million for Conservation and Use of Agricultural Land Resources; 194 million for Parity Payments on the 1942 crops; and 96 million for Exportation and Domestic Consumption of Surplus Commodities. Other large items included are 64 million dollars for payments under the Sugar Act; 38 million for the Farm Security Administration; and 31 million for reductions in interest rates on farm mortgages.

Prior to the 1943 appropriation acts, annual appropriations for parity payments were made a year in advance of actual need, and acreage allotments for the year ahead were used as a factor in determining payments on the crops of the current year. In the 1943 Budget and appropriation acts, provisions were made to insure that all factors used in determining the amount of parity payments on the crops of a given year would pertain to the program of that year. Also, to bring this item into conformity with our general budgetary practice, the annual cash appropriation for parity payments was omitted, but the Secretary was authorized to incur contractual obligations assuring the cooperating producers of cotton, corn, wheat, rice, and tobacco that such payments would be made, if and as necessary, on their 1942 crops.

The appropriation now requested, therefore, is simply the amount estimated to be necessary to compensate the producers of corn, wheat, and certain minor types of tobacco for the disparity between the market returns from the normal yield of their 1942 allotted acreage and the parity price return from that production. It is expected that no parity payments will be necessary on the 1942 crops of cotton, rice, and most types of tobacco.

Since the established national policy is to assure the cooperating producers of these basic crops parity prices on the normal yields of their allotted acreages, I am again recommending that the authority to incur contractual obligations for such payments on future crops be renewed.

On the other hand, I am recommending a reduction of 50 million dollars in the appropriation for Conservation and Use of Agricultural

Land Resources. I am also directing the Secretary of Agriculture to utilize the 400 million dollars still provided under this heading as fully and effectively as the basic law will permit to encourage greater production of the crops essential to the war effort. This fund will not be used for restriction of production except of less-needed crops. Payments will be made only to those producers who comply fully in their plantings with the stated war-production goals.

For Exportation and Domestic Consumption of Agricultural Commodities the Budget includes only the permanent annual appropriation of 30 percent of customs revenues provided by law, plus reappropriation of unobligated balances. The food-stamp plan, which is a major item of the current program, will be discontinued shortly. Although other items such as school lunch and school milk projects and the direct distribution of surplus commodities are somewhat expanded, there will be an over-all reduction of about 30 million dollars.

Provision for operations under the Farm Tenant Act and for Loans, Grants, and Rural Rehabilitation are continued on about the same level as for the current year. Small farms, like other small war plants, must be encouraged to make a maximum contribution to the war. I hope the Congress will give as much sympathetic consideration to these smaller and poorer farmers as it has given to the smaller and poorer industrial concerns.

Because no one can immediately foresee all the needs we may encounter in fulfilling our essential war requirements for agriculture, various loan and purchase operations, involving contingent liabilities which cannot be exactly predetermined, may be necessary.

CIVILIAN CONSUMPTION

In spite of a 100-billion-dollar war program, civilians can be supplied with an average of about \$500 worth of goods and services during the next year. This implies an average reduction of almost 25 percent in civilian consumption below the record level of the calendar year 1941. Even then most of us will be better fed, better clothed, and better housed than other peoples in the world. Do not let us assume from that statement, however, that there is no need for great improvement in the living conditions of a large segment of our population.

It is the responsibility of the Government to plan for more production of essential civilian goods and less of nonessential goods.

Production and distribution of goods should be simplified and standardized; unnecessary costs and frills should be eliminated. Total war demands simplification of American life. By giving up what we do not need, all of us will be better able to get what we do need.

In order to distribute the scarce necessities of life equitably we are rationing some commodities. By rationing we restrict consumption, but only to assure to each civilian his share of basic commodities.

The essentials for civilian life also include a good standard of health and medical service, education, and care for children in wartime as well as in peace.

THE STABILIZATION PROGRAM

We must assure each citizen the necessities of life at prices which he can pay. Otherwise, rising prices will lift many goods beyond his reach just as surely as if those goods did not exist. By a concerted effort to stabilize prices, rents, and wages we have succeeded in keeping the rise in the cost of living within narrow bounds. We shall continue those efforts, and we shall succeed. By making effective use of all measures of control, we shall be able to stabilize prices with only a limited use of subsidies to stimulate needed production.

Some would like to see the controls relaxed for this or that special group. They forget that to relax controls for one group is an argument to relax for other groups, thereby starting the cost-of-living spiral which would undermine the war effort and cause grave post-war difficulties. Economic stabilization for all groups—not for just the other fellow—is the only policy consistent with the requirements of total war. I have read of this bloc, and that bloc, and the other bloc, which existed in past Congresses. May this new Congress confine itself to one bloc—a national bloc.

Stabilization goes beyond effective price control. Under war conditions a rise in profits, wages, and farm incomes unfortunately does not increase the supply of goods for civilians; it merely invites the bidding up of prices of scarce commodities. The stabilization of incomes and the absorption of excess purchasing power by fiscal measures are essential for the success of the stabilization program. I am confident that the Congress will implement that program by adequate legislation increasing taxation, savings, or both. Thus, we will help to "pay as we go" and make the coming peace easier for ourselves and our children.

CIVILIAN CONTROLS IN TOTAL WAR

Total war requires nothing less than organizing all the human and material resources of the Nation. To accomplish this all-out mobilization speedily, effectively, and fairly we have had to adopt extensive controls over civilian life. We use the Selective Service System to man the armed forces. We are systematizing the movement of labor to assure needed manpower to war industries and agriculture. We regulate prices, wages, salaries, and rents; we limit consumer credit; we allocate scarce raw materials; and we ration scarce consumer goods—all to the end of providing the materials of war and distributing the sacrifices equitably.

Such regulations and restrictions have complicated our daily lives. We save rubber, metal, fats—everything. We fill out forms, carry coupons, answer questionnaires. This is all new. We have overdone it in many cases. By trial and error we are learning simpler and better methods. But remember always that reaching the objective is what counts most. There is no easy, pleasant way to restrict the living habits—the eating, clothing, heating, travel, and working habits—of 130 million people. There is no easy, pleasant way to wage total war.

About 400,000 civilian employees of the Federal Government are engaged in the task of civilian administration for total war. They direct and schedule war production; handle the procurement of food, munitions, and equipment for our armed forces and our Allies; supervise wartime transportation; administer price, wage, rent, labor, and material controls and commodity rationing; conduct economic and propaganda offensives against our enemies; and do necessary paper work for the armed forces.

Besides these Government employees, millions of men and women volunteers—who draw no pay—are carrying out tasks of war administration, many of them after long hours at their regular occupation. These patriotic citizens are serving on draft boards, on war price and ration boards, in the civilian defense organization, the war bond campaign, and many other activities. They deserve the gratitude of their countrymen.

More than 1,600,000—or approximately three-fifths—of all Federal civilian employees are engaged directly in war production. They build and load ships, make guns and shells, repair machines and equipment, build arsenals and camps, sew uniforms, operate airports and

signal systems. These are the workers in navy yards, arsenals, storage depots, military airfields, and other operating centers. It is scarcely ethical to try to make people believe that these workers are holding down armchair or unnecessary Government jobs.

This huge organization, created overnight to meet our war needs, could not be expected to function smoothly from the very start. Congressional committees and many individuals have made helpful suggestions. Criticism is welcome if it is based on truth. We will continue our efforts to make the organization more fully effective.

Compensation of Federal employees.—Last month the Congress took temporary and emergency action, which will expire April 30, 1943, relative to compensation for Federal employees. The legislation removed inequities, lengthened the workweek to conserve manpower, increased payment for longer hours, and provided bonus payments for certain employees. The pay increases should be met largely by reducing the total number of employees proportionate to the increase in the workweek.

In the present appropriation requests and expenditure estimates for the fiscal years 1943 and 1944, no allowance has been made for any cost increase resulting from the adjustment in Federal salaries.

The problems of Federal salary administration need further study in the early days of the new Congress for enactment of more permanent legislation for the duration of the war.

"NONWAR" EXPENDITURES

I am making recommendations in the usual detail for so-called "nonwar" appropriations for the fiscal year 1944. This classification includes the same items as in former years.

Actually, the "nonwar" classification now has little, if any, meaning. Most of these expenditures are related to the war effort and many are directly occasioned by it. This "nonwar" category includes, for instance, expenditures for war tax collections, for budgeting, disbursing, and auditing war expenditures, and for statistical and scientific services to war agencies. It includes also such items as the control of white pine blister rust, which I recently discussed. Expenditures for controlling this threat to our timber resources are necessary to avoid possible loss of millions of dollars in lumber from trees which require more than 50 years to reach maturity.

All counted, there are less than 850,000 civilian employees of the Federal Government, including the Postal Service, who are engaged in these so-called "nonwar" activities.

A few weeks ago I transmitted to the Congress a comprehensive report on "nonwar" expenditures during the past decade. This document demonstrated the important reductions which had been made in these expenditures, especially since the start of the defense program.

The following table summarizes reductions analyzed in the report, to which it is now possible to add revised estimates for the fiscal year 1943 and estimates for 1944 as developed in this Budget.

"Nonwar" expenditures, fiscal years 1939-44
(Excluding interest and statutory debt retirement)

(Millions)

Fiscal year	Total non-war expenditures	Reduction below 1939
1939.....	85,516	
1940.....	6,268	9,270
1941.....	6,268	1,218
1942.....	6,125	1,381
1943 (estimated).....	4,582	1,984
1944 (estimated).....	4,126	2,902

The table shows a reduction of 36.7 percent in "nonwar" expenditures in the next fiscal year compared with 1939. In appraising these reductions, it should be borne in mind that large items, such as veterans' pensions and social-security grants, are controlled by legal or other commitments. In fact the outstanding increase for the fiscal year 1944 is for the Veterans' Administration, for which expenditures are estimated at 879 million dollars, or 265 million dollars higher than in the current year. Most of the increase is for insurance for our fighting forces in the present war.

The most important reductions recommended for the coming year relate to work relief and general public works. Because of present high levels of employment, I am able to recommend elimination of the Work Projects Administration. This action under present conditions does not cast upon the State and local governments more than the proper burden of financing the relief of those who are unable to work. Expenditures for general public works will be greatly curtailed.

Continuing projects are directly related to war needs. Others have been discontinued as rapidly as this could be done without risking the loss of the investment already made.

I shall be glad to cooperate with the Congress in effecting further reductions in "nonwar" expenditures through the necessary revision of underlying legislation and in every other way. It should be pointed out to the Congress and to the Nation, however, that we are fast approaching the subsistence level of government—the minimum for sustaining orderly social and economic processes—and that further reductions will necessarily be of much smaller magnitude than those already achieved.

My recommendations contemplate that in the fiscal year 1944, 96 cents of every dollar expended by the Federal Government will be used to pay war costs and interest on the public debt, and only 4 cents for all the so-called "nonwar" purposes.

INTEREST

War financing has raised the requirement for interest on the public debt from 1,041 million dollars in 1940, the fiscal year before the defense program started, to an estimated 1,850 million dollars for the current year and 3,000 million dollars for the fiscal year 1944 under existing legislation.

FINANCING TOTAL WAR

THE NEED FOR ADDITIONAL FUNDS

Financing expenditures which will exceed 100 billion dollars is a task of tremendous magnitude. By meeting this task squarely we will contribute substantially to the war effort and clear the ground for successful reconstruction after the war. An adequate financial program is essential both for winning the war and for winning the peace.

Financing total war involves two main fiscal problems. One problem is to supply the funds currently required to pay for the war and to keep the increase in Federal debt within bounds. The second problem is caused by the disbursement of 100 billion dollars a year to contractors, war workers, farmers, soldiers, and their families, thus adding many billions to the peoples' buying power, at a time when the amount of goods to be bought is declining steadily. A large portion of this excess buying power must be recovered into the Treasury to prevent the excess from being used to bid up the price of scarce goods and thus undermine the stabilization program by breaking price ceilings, creating black markets, and increasing the cost of living.

We cannot hope to increase tax collections as fast as we step up war expenditures or to absorb by fiscal measures alone all excess purchasing power created by these expenditures. We must, therefore, provide a substantial portion of the needed funds by additional borrowing, and we must also use direct controls, such as price ceilings and rationing, for the protection of the consumer. Nevertheless, the more nearly increases in tax receipts follow increases in expenditures, the better we safeguard our financial integrity and the easier the administration of price control and rationing. All of these measures are interrelated. Each increase in taxes and each increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

The revenue acts of the past 3 years, particularly the Revenue Act of 1942, have contributed greatly toward meeting our fiscal needs. In the fiscal year 1944, total general and special receipts under present law are estimated at 35 billion dollars, or almost six times those of the fiscal year 1940. But the increase in expenditures has been even more rapid.

I believe that we should strive to collect not less than 16 billion dollars of additional funds by taxation, savings, or both, during the fiscal year 1944.

On the basis of present legislation, we expect to meet 34 percent of total estimated Federal expenditures by current receipts during the fiscal year 1944. If the objective proposed in this Message is adopted, we shall meet approximately 50 percent of expenditures during the fiscal year 1944.

THE NEED FOR A BALANCED AND FLEXIBLE REVENUE SYSTEM

I hope that the Congress in working out the revenue program will consider that the fiscal measures must be designed not only to provide revenue, but also to support the stabilization program as well by deterring luxury or nonessential spending. The cost of the war should be distributed in an equitable and fair manner. Furthermore, care should be taken that the fiscal measures do not impair but actually promote maximum war production. Finally, it is more important than ever before to simplify taxation both for taxpayers and for those collecting the tax, and to put our taxes as far as feasible on a pay-as-you-go basis.

I cannot ask the Congress to impose the necessarily heavy financial burdens on the lower and middle incomes unless the taxes on higher

and very large incomes are made fully effective. At a time when wages and salaries are stabilized, the receipt of very large net incomes from any source constitutes a gross inequity undermining national unity.

Fairness requires the closing of loopholes and the removal of inequities which still exist in our tax laws. I have spoken on these subjects on several previous occasions.

The Congress can do much to solve our problem of war finance and to support the stabilization program. In the past, wars have usually been paid for mainly by means of inflation, thereby shifting the greatest burden to the weakest shoulders and inviting post-war collapse. We seek to avoid both. Of necessity, the program must be harsh. We should remember, however, that it is a war for existence, and not taxation, which compels us to devote more than one-half of all our resources to war use. An effective program of war finance does not add to the total sacrifices necessitated by war, but it does assure that those sacrifices are distributed equitably and with a minimum of friction.

We should remember, furthermore, that helping to finance the war is the privilege mainly of those who still enjoy the receipt of incomes as civilians during the war. It is a modest contribution toward victory when we compare it with the contribution of those in the fighting forces.

By the end of the current fiscal year, the public debt will total 135 billion dollars. By June 30, 1944, it will be about 210 billion dollars under existing revenue legislation. Before the present debt limit of 125 billion dollars is reached, the Congress will be requested to extend that limit. To do this is sound, for such a debt can and will be repaid. The Nation is soundly solvent.

PREPARING FOR TOTAL VICTORY

Preparing for total victory includes preparing the base on which a happier world can be built. The tremendous productive capacity of our country, of all countries, has been demonstrated. Freedom from want for everybody, everywhere, is no longer a Utopian dream. It can be translated into action when the fear of aggression has been removed by victory. The soldiers of the fighting forces and the workmen engaged in military production want to be assured that they will return to a life of opportunity and security in a society of free men.