

CONFIDENTIAL

Press Conference #706,
Executive Offices of the White House,
January 3, 1941, 11.38 A.M.

THE PRESIDENT: Good morning!

Q Good morning, Mr. President!

THE PRESIDENT: Where's the big boy?

MR. REYNOLDS: He decided he better go up to the Hill this morning.

THE PRESIDENT: Sit down, yourself.

MR. REYNOLDS: Thank you!

THE PRESIDENT: I think you rate it.

Q He's been sitting down all the morning, Mr. President!

THE PRESIDENT: Been sitting down all the morning?

MR. REYNOLDS: Yes, but I had a hard night, though. (Laughter)

MR. DONALDSON: All in!

THE PRESIDENT: There are only two things I can think of; one is that because it is perfectly obvious that so much tonnage in the way of ships has been going to the bottom for a year and a half, probably at the end of the war, sooner or later, there will be a shortage -- a world shortage -- of tonnage, and therefore we have begun taking the first steps toward a program of building about 200 merchant ships -- a program which will cost somewhere around \$300,000,000., between \$300,000,000. and \$350,000,000., in a number of new plants. This is on the general theory that there has been a tremendous expansion, as you all know, in existing shipbuilding plants, and the time seems to have come when it is advisable to create some new plants; and toward that program, in order to get started, I have taken \$36,000,000. out of the President's Special Contract Authorization Fund. The other thing -- I don't think

of anything else on that that's not an "if" question -- and in addition to that I expect next week to send to the Senate a name for Ambassador to Great Britain; but in the meantime I am asking Harry Hopkins to go over as my personal representative for a very short trip to the other side, just to maintain -- I suppose that is the best word for it -- personal contact between me and the British Government. He would only be over there a couple of weeks and then come back here.

Q Does Mr. Hopkins have any special mission, Mr. President?

THE PRESIDENT: No, no, no!

Q Any title?

THE PRESIDENT: No, no!

Q Is that \$300,000,000. to be for constructing new yards, or actual construction of ships?

THE PRESIDENT: Actual construction.

Q Where will the majority of the new yards be?

THE PRESIDENT: I thought I would not bring that subject up, because if I were to say now one were to go to the State of X and another to the State of Y, they would at once try to get them away.

Q How will the new shipbuilding yards be financed?

THE PRESIDENT: Out of this \$36,000,000. Some of you older people remember a place called Squantum in 1917 that I built on the marshes between Boston and Fall River, near Quincy, Massachusetts. Actually, the shipyard itself cost very little, because it was more a question of driving a lot of piles for the ways and putting a nice tin shed over the ways and putting in some light construction shops. It is not an expensive type of plant for this type of ship.

Q Will this work be done entirely by existing shipbuilding companies?

THE PRESIDENT: Not necessarily, no.

Q Will the Government own the ships?

THE PRESIDENT: Yes; that is a question of working it out.

Q One more question; you may not wish to answer it, but I am interested in the old Morris Shipbuilding Company in Connecticut.

THE PRESIDENT: I honestly don't know. There was some talk of reviving them when we were up there in New London. We went right by the old Morris plant; but whether there is enough salvage material there or enough labor supply, I don't know.

Q Are there others of the old World War plants that are in the same condition? I have in mind Hog Island.

THE PRESIDENT: At Hog Island there is nothing left. There is an old plant that was running in World War days on the Hudson River, at Newburgh. Some of the piling and docks have rotted away; the buildings are still there. That is being studied, whether it is worth while to rehabilitate them.

Q How long does it take, generally speaking, to build one of those shipyards?

THE PRESIDENT: I hate to be categorical on that. Suppose you figure it out this way, that we ought to get ships inside of a year.

Q Mr. President, would this program of 200 ships make it possible for us to release other ships just coming off the ways for the British?

THE PRESIDENT: That's what I remarked about a while ago -- that "if" questions are not very good.

Q Mr. President, is the Maritime Commission supervising this?

THE PRESIDENT: Yes.

Q What design of ships?

THE PRESIDENT: Anyone of you that knows a ship and loves a ship would hate

them, as I do. In other words, they are the type of ship that is built by the yard or the foot. Nobody that loves ships can be very proud of them; but it gets them out, and the difference, roughly speaking, in time between building a ship that is built like a square, oblong tank and a ship that is really a ship is six or eight months. In other words, by building this dreadful looking object you save six or eight months.

Q Why not give them to the British? (Laughter)

Q Mr. President, when is Mr. Hopkins going to London?

THE PRESIDENT: Very soon.

Q What is the total tonnage of these ships involved, could you say?

THE PRESIDENT: I think -- I may not be exactly correct -- I think, roughly, about 7500 tons each.

Q Mr. President, will there be any prefabrication of parts?

THE PRESIDENT: Yes, we'll do all we can in the steel plant and have the shipyard itself, as much as possible, merely an assembly plant.

Q Will the specifications, sir, prevent the building of many of these ships on the Great Lakes?

THE PRESIDENT: I don't know.

Q Will consideration be given to construction in places where the Government already owns property?

THE PRESIDENT: I cannot think of any such place.

Q We mentioned Hog Island; the Government still holds a large amount of land there.

THE PRESIDENT: There are other considerations -- labor supply and things of that kind.

Q Have we sufficient skilled labor to build them?

THE PRESIDENT: Probably so.

Q There will not be any training programs for this, will there?

THE PRESIDENT: Yes, like everything else; we are training people for all kinds of things. I think NYA alone, as a Government proposition, is training about 300,000 people at this moment. In addition to that, you have a great many people that are being trained under the supervision of labor unions; you have an enormous number of people being trained in private plants. The total is very large.

Q Mr. President, in connection with the ships, there was a morning story in London suggesting that we were going to give more ships to Britain.

THE PRESIDENT: A morning-paper story?

Q Yes.

THE PRESIDENT: That's what it sounds like. (Laughter)

Q Mr. President, with regard to Mr. Hopkins, you said he was going over as personal representative; will he have a status of ambassador?

THE PRESIDENT: No, he has no status at all; he is going over as my representative. The question of title doesn't enter into it.

Q You said next week you would name the new ambassador; does that mean a name has been submitted?

THE PRESIDENT: No.

Q Mr. President, is it safe to say Mr. Hopkins will not be the next Ambassador?

THE PRESIDENT: You know Harry isn't strong enough for that job.

Q Will he be on the Government pay roll?

THE PRESIDENT: I suppose they will pay his expenses -- probably a per diem, not very large -- either for you or Hopkins! (Laughter)

Q Has the date of his departure been fixed?

THE PRESIDENT: No.

Q Has Mr. Kennedy's resignation become effective?

THE PRESIDENT: Not yet.

Q Will it be effective on Mr. Hopkins' going over?

THE PRESIDENT: No.

Q Will anyone accompany Mr. Hopkins?

THE PRESIDENT: No. And he will have no powers.

Q Will he have any mission to perform?

THE PRESIDENT: No; you can't get anything exciting. (Laughter) He's just going over to say "How do you do?" to a lot of my friends! (Laughter)

Q When can we say this shipbuilding program will get under way?

THE PRESIDENT: You better ask the Maritime Commission; the allocation has been made.

Q Mr. President, there have been some conflicting reports on the St. Lawrence Waterway; one is about your sending a treaty up to the Senate.

THE PRESIDENT: I don't know yet; I am still talking it over -- forgot to this morning.

Q There have been several stories out of Mexico stating that there is a destroyer arrangement.

THE PRESIDENT: I am afraid that's a Mexican story.

Q There have been some unofficial complaints from Sweden about your reference Sunday night to the fact that they were sending materials to Germany.

THE PRESIDENT: I'll give you something -- off the record. This is what happened: In the draft -- No. 6 draft, I think it was -- I had it worded in such a way that it took half a page -- half a typewritten page. This is off the record; it has to be. You see how these things happen. I had explained that Sweden, under a form of duress -- that is the word I used originally, which would be certainly true -- was sending

iron, steel, and oil into Germany every day. It was perfectly true; it was a form of duress. I went on and I said, in the case of Rumania, it was oil, and it is again a form of duress. I came to the case of Russia; well, that probably is not duress; that is a question of Russian policy, because they are an awfully big country, and I left out the word "duress" in the case of Russia. And then I bumped into the awful problem of what is the status of supplies going into Germany from Yugoslavia; is that duress or not? I got so involved in trying to explain the status of supplies going to Germany from different nations near Germany, and I needed to save space anyway, so I put it all into one sentence and left out what the reason was behind the supplies going in. Of course the reason differs in almost every country. I just lumped it and called it "Sweden, Russia, and other nations near Germany"; and the fact remains that the supplies are going in. So that is what happened; that is the story of the sentence.

Q Mr. President, do you consider that the steel supply -- the present steel supply -- is adequate for the shipbuilding program?

THE PRESIDENT: I hope so. In other words, you know perfectly well on this question of this, that, and the other shortage, taking steel for instance, that we got the very best advice we could on steel way back, when was it? -- last autumn, from people who know steel, and we don't. They said that there were ample steel production facilities in the United States. We told them, "Hold on, now, you may have more steel to turn out -- plates, ships, et cetera -- than you think". They said, "We still think we have ample."

This went on until October or November. It wasn't their fault, but the program itself developed faster than they thought, and in November I insisted that they review the whole situation, and then they came to

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believe that additional steel production was necessary, and since then they have picked up. For instance, Tennessee Coal and Iron is putting in 400,000 tons; Bethlehem is putting in 800,000, and they are adding another 800,000 for our glass furnaces and things like that; so probably the production has been increased about 2,000,000 tons of steel a year.

I think on this --

Q (interposing) Beginning when? It takes 18 months to build a glass furnace. [blast?]

THE PRESIDENT: That is a thing I am trying to cut. In this we probably have enough to turn out the ships and plates. It is very simple work. On the general question whether we will have to increase steel production facilities, I expect a report within two or three days, and it looks as if we would have to increase the facilities.

Q Would you say a word on what the circumstances were that brought about the suspension of work on the naval bases leased from Britain?

THE PRESIDENT: Where?

Q On suspension of the 8-hour day for Government workers working on the four naval bases leased from Britain. It was announced that you would release an Executive Order in the Federal Register this morning.

THE PRESIDENT: You know, on those bases we are employing almost entirely local labor, and it is in order to conform with the work situation in whichever colony it may happen to be in, paying the type of going scale in that colony -- the type of the going scale in wages and the minimum of the average hours -- put it that way.

Q Is it logical to assume that Great Britain will benefit either directly or indirectly from this program?

THE PRESIDENT: I would say it would depend entirely on where it is. If you take one of those little islands --

Q (interposing) Pardon me, I meant the shipbuilding program.

THE PRESIDENT: I don't know; I haven't the faintest idea. That is another "if" question.

Q The retiring president of the National Association of Manufacturers has asked that the Government make known whether it will revise contracts so they can pay time and a half or double time.

THE PRESIDENT: That sounds like a political question; it is so general it means nothing. If you will specify, I will give an answer.

Q That's all.

Q Mr. President, you didn't send up appointments for the Governor of Puerto Rico and Virgin Islands to this Congress; is there any reason for submitting it to the next Congress instead?

THE PRESIDENT: They were pretty crowded at the end. They talked a long time about the Madden nomination.

Q Going up Monday?

THE PRESIDENT: Yes.

MR. REYNOLDS: Thank you, Mr. President!

CONFIDENTIAL

Press Conference #707 - Budget,
Executive Offices of the White House,
January 7, 1941, 11.35 A.M.

(Hon. Harold D. Smith, Director of the Budget, and Mr. John B.
Blandford, Assistant Director, were present at this Conference.)

THE PRESIDENT: You might almost think this is a general Press Conference,
because I see so many people that don't know the difference between
a dollar and a dime. (Laughter)

Q Is there any, Mr. President?

THE PRESIDENT: Very little!

Q Only the matter of the zero.

THE PRESIDENT: Well, I have got two people here (referring to Mr. Smith
and Mr. Blandford) that will be able to go into more details for you than
I can. The general idea, I suppose, is best explained by going through
the Message itself; then if you have any questions to come up at the
time, go ahead and ask them.

Of course this Budget is caused entirely -- the size of it -- by
the world situation.

Page V is the first page of the Budget Message -- another dis-
sertation on the state of the world and the reason for the program.

On page VI, "The National Program," it says this Budget I am pre-
senting covers the whole thing to combine these objectives; in other
words, to keep going and at the same time prepare ourselves against
world dangers. The program will cost about 17.5 billions of dollars.

In the same period, we expect the largest national income for the Nation
as a whole and also the largest tax receipts. Of course those are two

entirely different things, for the kindergarten pupils here. The national income will be up, we hope, this coming year. Is it in the Budget what we hope it will be up to?

MR. SMITH: No.

THE PRESIDENT: During this fiscal year -- is it the fiscal year we talk about? -- no, in the calendar year that is just ended, I don't know whether the figures have been given out or not, but it will be somewhere around 73 billion dollars, and for the calendar year 1941 that we are in, we hope it will run as high as 80.

MR. SMITH: Mr. President, for the fiscal year, on which most of the calculations have been made, the estimates, of course, vary but range between 86, 87, or 88, -- the top figures for the national income for the fiscal year.

THE PRESIDENT: In other words, if you take 1941 as calendar year, it will probably run 80 or 81, but if you take the fiscal year from next July to 1942, we think it will run a good deal higher than that -- as Harold (Mr. Smith) says, around 86 or 87, pushing it up by six months.

Q Mr. President, will that be the largest in history?

THE PRESIDENT: I think it will. I think '29 -- whether it was the calendar year '29 or the fiscal year '30 I don't remember -- but as I remember the figures, it was just a little over 80.

Q Will there be increased taxes?

THE PRESIDENT: Of course it depends on whether you mean the present tax base or whether you would include possible increased taxes.

MR. SMITH: There is a point of difference that might be confusing; the Treasury statement has an estimate of tax revenue, I think, of 9.6, based upon the national income that they indicate. We have another esti-

mate of revenue. Their estimate is on tax liability, whereas there is a lag in the collection of taxes. They have made their estimate on the basis of tax liability for the particular period rather than on actual tax payments.

THE PRESIDENT: Yes. (Reading)

"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."

In other words, that is in addition to this Budget.

Q I notice, Mr. President, it doesn't mention round figures; do you have any idea how much more that will be, Mr. President?

THE PRESIDENT: No, I don't know yet.

Q Nothing that you mention here is in this Budget?

THE PRESIDENT: In that paragraph, nothing is Budget.

Q Mr. President, in connection with that supplemental program, will many of those millions be added under fiscal year 1942?

THE PRESIDENT: It depends entirely on whether you mean obligations or actual money out of the treasury.

Q Disbursements.

THE PRESIDENT: Yes, we can figure it out roughly from our own program; some will be money out of the treasury, and some obligations.

Q Do you not expect to budget that additional expenditure very soon?

THE PRESIDENT: No, I can't give you that yet.

Q Is the plan anywhere near ready?

THE PRESIDENT: They are working on it now.

Q In addition to the 17.5 billion, there will be a supplemental Message?

THE PRESIDENT: Yes.

Q You are not considering some of the appropriations for any help to Britain?

THE PRESIDENT: No.

Q This will be entirely different from the National Defense Program?

THE PRESIDENT: Yes, remembering always, as you and I know, that the future of the world needs can change awfully fast. As I said yesterday, in the Message, we have to remember that the things that would be built for the democracies are nearly all of them available for our own defense.

Q Mr. President, that is broad enough to include Greece and China, I take it.

THE PRESIDENT: Yes.

Q This is a tentative Budget, as it is now?

THE PRESIDENT: No, it is not a tentative Budget; it is the Budget.

Q It doesn't take into consideration those other expenditures.

THE PRESIDENT: No, that depends on legislation.

Q Is there any estimate as to the amount added for this fiscal year?

THE PRESIDENT: No.

Q You will ask immediate consideration of a deficiency appropriation and make these funds available for British purchases?

THE PRESIDENT: I don't know whether you will call it a deficiency or a separate appropriation bill. What it will be, will be asking for more money.

Q Mr. President, won't the British continue paying cash for some time?

THE PRESIDENT: Oh, yes! My, yes!

Q Well into this fiscal year?

THE PRESIDENT: Yes.

Q Mr. President, you expected that day you spoke of the lend-lease plan that it would take place in this fiscal year?

THE PRESIDENT: Some of it, yes.

Q One other question, Mr. President, please: Does this 17 billion and aid for England -- does that contemplate drawing off supplies paid for out of the 17.5 billion for Army and Navy -- does this contemplate drawing off any of those supplies for England?

THE PRESIDENT: No, this is our program.

MR. SMITH: There may be a point of confusion in this way, that this Budget -- any Budget -- has to be made up on the basis of existing law.

THE PRESIDENT: This is made up under existing law -- that is your point. I can't put in any new request for funds to build ships or planes, and so forth and so on, on the loan program until I get the legislation for the loan program. (Reading)

"Such a complementary program would call for appropriations and contract authorizations over and above this Budget."

That sentence does it. (Continued reading)

"The sum of all these defense efforts should be geared to the productive capacity of this Nation expanded to literally its utmost efforts."

Putting it a different way, the productive capacity of the Nation, running at top speed -- utmost efforts -- is really the criterion of appropriations and authorizations. There is no use to get appropriations and authorizations for things that are beyond that utmost capacity. In other words, to put it still a different way, they are going to ask for enough money and authorizations to contract up to the limit of what we can produce, because the world situation calls for that today. What that total figure is, I can't tell you now, because it is a developing matter. We are learning more and more all the time. For instance, this question -- I will just cite a very simple example -- this question of either building airplanes or building ships; I told you the

other day about 200 ships; immediately there comes up the question, "Have we got enough skilled labor, semi-skilled labor, riveters, and so forth and so on -- common labor and high-class labor -- to build 200 ships?" Yes, we think we have. If the need is such that we would have to build 200 more, we would have to check up on that problem. I don't know; none of us know -- except the columnists! (Laughter) You know what I mean.

Then take the question of airplanes; various needs are being given a regular combing -- a going over. You have various suggestions to add to the total output of airplanes, over and above the present program, not merely to speed up that program but also to increase the total of the program. Well, that involves all kinds of things that no one of us knows the answer to -- except the columnists! (Laughter)

Can we get something out of the suggestion that was made by the CIO people out in Detroit the other day? Yes, probably we can.

Can we recomb the small factories in the United States and get certain parts? You know I always think in local terms; can we get certain parts of airplanes made by comparatively small concerns? Take, on the Hudson River, the De Laval Cream Separator Company; if you know anything about a cream separator, you know it is a tricky thing to make. It takes a good deal of skill to make parts for a cream separator. We may be able to get that kind of factory to make certain parts for an additional airplane program.

Down in Newburgh there is the old Caldwell Lawn Mower Company; well, maybe they can do something.

So we are engaged at the present time in combing over all the small, local industries that might be able to make one little part for addi-

tional airplanes. And we learn by experience; we probably will know a great deal more about it in 60 or 90 days than we do today. The program is geared to the utmost effort possible. What the total means in dollars and cents, none of us have any idea. (Reading)

"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."

We have on the books 18 and are asking for 10 more.

Q Mr. President, does that mean total contracts and authorizations during this period, or the actual outlay of cash?

THE PRESIDENT: What is your question?

Q Does that mean total expenditures on contracts and authorizations during that period, or does it mean actual outlay?

THE PRESIDENT: No, it doesn't mean cash outlay. It means things that have been appropriated for, most of which have already been let out by contract. Out of not quite 12 billion that we have been working on in our figures up to the present time, we have already let since -- what? -- since last July, over 10; and that doesn't mean "on order"; that means -- of course that's a purely political attempt to make "on order" appear that the thing is not in process; they are things that have been let.

Q Twenty-eight billion?

MR. SMITH: The table below answers that.

THE PRESIDENT: (Reading)

"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,--"

six months

"--plus the recommendations for supplementary appropriations and authorizations for 1941--"

that is still this fiscal year

"--and the recommendations contained in this Budget for 1942, we have a program of 28 billion dollars."

In other words, break that down a little bit, Harold (Mr. Smith).

"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:"

These, as Harold says, are appropriations and authorizations that have been made up to the present time, and recommendations of changes in this.

"Appropriations, authorizations,
and recommendations (June
1940, 1941, 1942)
(In millions of dollars)

"Army-----	\$13,704
Navy-----	11,587
Expansion of industrial plant-----	1,902
Other defense activities-----	<u>1,287</u>
Total-----	28,480"

Q What percentage of the 10 billion you are asking for, Mr. President, is authorizations?

THE PRESIDENT: That I could not tell you.

MR. SMITH: We will have to check up on that; I can't give you that, offhand.

Q Can you tell us what percentage is for new employment and what percentage is for maintenance of existing Army and Navy and payment of soldiers?

THE PRESIDENT: (Turning to Mr. Smith) What table is that in? Do you have that?

MR. SMITH: We would have to do some reconstructing, Mr. President, to get that out.

THE PRESIDENT: We never worked out a table for that --

MR. SMITH: (interposing) A81, Contracts.

THE PRESIDENT: A81, down there, is a recapitulation of contract authorizations. If you can make head or tail out of that, you are good.

Q I am afraid I can't.

THE PRESIDENT: I can't either. (Reading)

"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--" (omitting rest of sentence)
"One hundred and twenty-five new plants are under contract; more are planned."

Nearly all of these plants, of course, are pretty big plants and the total amount runs up to -- what from the Government? I don't believe we have that. Jones has put into these plants -- what? -- about 600 million -- I think that is the allocation, of Government money. But of course a lot of these larger firms are putting in their own money. I haven't the figures to show what private firms are putting in, but I think it is a safe guess to say that well over a billion dollars will go into those plants, part government and part private.

MR. SMITH: The table on page VI shows it.

THE PRESIDENT: Yes, \$1,902,000,000. It will run about 3 billion dollars, with the private money.

Q The 3 billion is for the 125 plants you mentioned?

THE PRESIDENT: Yes, I suppose so.

Q Mr. President, Mr. Prentis, of the National Association of Manufacturers,

said he wanted to know how far the Government was prepared to go in reopening defense contracts to permit payment of time and a half for overtime to speed up the program; is there anything in this Budget to take care of that -- to increase the amount of that contract so as to let the manufacturer pay time and a half for overtime? Is there anything in this Budget for that?

THE PRESIDENT: I don't know. It would depend on the individual case. Some do put in an over-all figure to cover that and some don't.

Q I wonder whether you have any other money to do that?

THE PRESIDENT: (laughing) It might depend a little on how much profit they were making.

Q Mr. President, aren't you doing that for the Government? See page 1028.

THE PRESIDENT: Those are for the commitments; those are straight Government.

(Reading)

"In submitting these recommendations, I have not covered the full requirements of the civilian training program."

We talked about that last Friday.

"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."

Now, of course this Civilian Pilot Training Program is being done in a great many different places, some at private cost and some at Government cost. As I said the other day, probably the most effective training is to take, let's say, a young fellow and actually put him into the plant. That probably is the most effective way. You learn more in the plant about certain definite work than you do in training schools and vocational schools and things like that. That's obvious.

But at the same time you do get benefit out of vocational training in schools; even in high schools you can learn something; it's preparatory.

The NYA is doing extraordinarily good work; at the same time, this study is caused by the fact that we don't want to be wasteful if we can help it; and therefore we are studying this civilian pilot training which has been going on, as you know, with a total of 30-some million dollars.

MR. SMITH: That is educational, for education.

THE PRESIDENT: Pilot training, CAA, 30-some million. Some years ago it was a good thing for all of us to learn how to run an automobile; but the Army and the Navy don't think that we are getting enough out of these schools in the way of military and naval pilots. That doesn't mean the abandonment of those schools; it may mean that the training in those schools will be greatly improved to meet the needs of the Army and Navy; and secondly, that all these people who go into these schools, largely at the expense of the Government, with thereby some obligation on their part to serve in the Army or Navy -- which there never has been up to the present time.

Q Was there a large percentage that declined to serve?

THE PRESIDENT: Yes, quite large.

Q Intensification of this training will mean a smaller number will be trained?

THE PRESIDENT: Yes. And incidentally, you take, on the physical side, there are a lot of these young men that there is no use of even putting them through the CAA course, a 60-hour course, for later on they are going to be found physically unfit to go into the Army or the Navy.

Q This is the 20,000 air-pilot program; and you say that costs 27 million?

MR. SMITH: Thirty-seven million last year; and that is not on the expenditure basis; that is on the appropriation basis.

THE PRESIDENT: In other words, Jay (Mr. Hayden of the Detroit News), it was a grand idea that we were going to teach everybody to fly; and now, from practical experience, we think we ought to do some pretty careful combing of the people so as to make them useful for military and naval needs. (Reading)

"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 underestimate 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--"

next

--six months 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."

Cooperation needed.

"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 those activities which are made less necessary by improved economic conditions. Obligations such as interest, pensions, and insurance benefits are fixed."

And of course you who, like myself, are financial experts -- you realize that is one thing I have harped on year after year, that you can't save money on certain very large items in any budget -- interest charges, pensions, and insurance benefits; but beyond that almost all of these

are fixed by appropriations made by Congress.

"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."

In other words, those are the things that no human being can change.

Try to put a bill through Congress to decrease World War pensions -- just try! (Laughter)

"For the items subject to administrative rather than legislative action,--"

that's the other part that the administrative branch of the Government can try to reduce

--I have been able to reduce expenditures by 600 million dollars or 15 percent."

Of course that is a very important item -- the fact that we have been able to estimate a 15 percent decrease in this normal nondefense program. Items which can be reduced 15 percent -- that is something pretty good. I am rather happy in it; I hope it will stick. Sometimes I make recommendations on reducing these expenditures which can be reduced, and the recommendations don't always stick.

Q You aren't thinking of rivers and harbors, are you, Mr. President? -- that 600 million-dollar saving?

THE PRESIDENT: That's in there; we'll come to it.

Q Mr. President, in connection with that civilian training program, do you expect to send up a request for supplemental appropriations when those surveys have been completed?

THE PRESIDENT: I don't know; I can't tell you; it depends. We might want to cut some and increase others. Whether the total will be increased, I cannot say. (Reading)

"This reduction and its relation to total expenditures are shown below:

Expenditures		: Estimated in mil-: lions of dollars: Percent : : change : 1942 : 1941 :
Defense program-----	\$10,811	\$6,464: +67
Fixed commitments-----	3,196	2,984: +7
Other activities-----	3,478	4,094: -15
Total(excluding returns from Government corporations)----	17,485	13,542: +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 ideal 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."

That's like the thing we are coming to pretty soon -- work relief.

"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."

Well, that's a thing which sounds, on the old-age thing, like a very large sum; actually, it isn't. If you are working in any so-called industry, you come under old-age insurance. If you are not working in an industry, or if you are working in, let's say, a gasoline station, where they employ less than 8 people, you don't come in. The objective is to increase the number of people in the United States that are covered, to bring in people that are not covered now.

Q All people, Mr. President?

THE PRESIDENT: Eventually.

Q By reducing the present exemption -- by bringing the benefits down to two or three persons who may be employed in an enterprise?

THE PRESIDENT: Yes, that is one of the things -- instead of making it 8 people, reduce the number of people. That is one way of doing it. Another way is to extend it to certain classes that are not covered now. There are a great many classes that have been talked about; one is the people who work in domestic service; well, it's pretty tough to have nothing to look forward to in your old age because you happen to be in domestic service. Another group would be people who work on farms. Another group would be people who run their little industries or stores -- the man and his wife who run a gasoline station between them. The coverage ought to be extended. Why should one American, because he happens to work in industry, be covered, and somebody who works at something else not have it?

Q Would that require an appropriation?

THE PRESIDENT: Very little the coming year. And actually, the number of people who do not come into the present set-up is very much smaller than

most people realize. It is not much more than a million more people, according to the figures.

Q Mr. President, in that connection, are you going to ask for funds to inspect the health of defense workers? There is some talk about that.

THE PRESIDENT: What?

Q Funds to inspect the health of people working in defense factories.

THE PRESIDENT: The Advisory Commission is working awfully hard on that.

Q You say only a million more on the old age, Mr. President?

THE PRESIDENT: Yes, who would come in on an extension so it could be done in a practical way at the present time, about a million more.

Q That would include farmers and domestic help?

THE PRESIDENT: Yes, self-help. Of course there are so many things to consider; there are classes of people in the community, like the farmer; probably that would be a voluntary system, not a compulsory system in that case.

Q Don't you mean that only about a million would be brought in who would be over the age limit who would receive the payments?

THE PRESIDENT: Yes, it is surprisingly low.

Q Some of the estimates of Bob Wagner and the Federation of Labor go up into millions.

THE PRESIDENT: Actually, it would not, because, after all, a lot of people don't need it.

Q Entirely on the basis of need?

THE PRESIDENT: Yes.

Q Mr. President, is this plan of yours, the social security thing, looking forward to doing away with that dollar matching system we have to help the so-called poor states?

THE PRESIDENT: I don't think there's any story in it yet, because it's "one of them things". We are going over all kinds of formulas at the present time, trying to find a formula which will aid the poorer States on the basis of the income of the people of the State, on a per capita basis.

Q You would presumably deal with that subject later in a Message to Congress.

THE PRESIDENT: I think so.

Q Can you give us any idea what that initial appropriation might come to for the million people?

THE PRESIDENT: It would depend entirely on the type of legislation. In the beginning it would not be very much, and very soon it would be on a self-sustaining basis, like the social security as a whole.

Q The "eight or more," that's simply unemployment compensation.

THE PRESIDENT: Yes; of course that's a different thing.

Q And that might be reduced?

THE PRESIDENT: Oh, no, unemployment would not be reduced at all.

Q The minimum number might be reduced?

THE PRESIDENT: Actually, the unemployment expenditures which are handled by the states are being very materially reduced, of course, at this time. During this period we are saving money, because there is so little of that 12 weeks of unemployment money which is being paid out; the fund is growing. (Reading)

"AGRICULTURAL PROGRAMS.--The increased domestic market for farm products, resulting from defense expenditure, will improve the income position of many farmers."

As you know, the total farm income this year will run to 9 billion dollars, which, as I remember it, is the highest ever.

Q Calendar year, Mr. President?

THE PRESIDENT: Do you (turning to Mr. Smith) remember whether that is fiscal or calendar?

MR. SMITH: Fiscal.

Q Fiscal, 1941?

THE PRESIDENT: Yes. (Reading)

"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."

No change in the objective.

Q Parity payments are in this Budget for the first time?

THE PRESIDENT: Yes.

Q Heretofore you said you did not object to them as long as Congress was appropriating the money.

THE PRESIDENT: Yes.

Q How are you going to get the money this time?

THE PRESIDENT: It's actually in.

Q How about parity payments to cover those? Are you going to make recommendations on that?

THE PRESIDENT: I don't know.

Q Are you still hoping to get tax legislation to cover parity payments last time?

THE PRESIDENT: "Hope springs eternal." How many years have I fallen down on that? Put it the other way, How many years has Congress fallen down on its promise?

Q Mr. President, how much is that parity payment?

MR. BLANDFORD: It is 205.

Q It was 212 before, according to the table.

THE PRESIDENT: (Reading)

"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."

I mentioned the other day the simile of the bookcase. I have up there several shelves of projects up there, all ready to take out, all engineered, so that we could start work on those contracts within a comparatively short time. The specifications are all there, the borings made, ready to proceed and take them out in order of priority. That order of priority, of course, would be set by Congress. (Reading)

"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."

Q Is that our old friend, St. Lawrence?

THE PRESIDENT: I don't think there's anything in there about St. Lawrence.

MR. SMITH: No.

THE PRESIDENT: Buffalo is still safe! (Laughter)

Q Now that we are talking in terms of the community, is it correct that you are not going to send up a treaty this time but a joint resolution?

THE PRESIDENT: I don't know yet. I really, honestly, don't know, because I haven't had a chance to talk with Senator George and some of the others.

Q Mr. President, in reference to the "public buildings outside of the District of Columbia", do you have in mind any public buildings inside the District as part of the new program or additional programs?

THE PRESIDENT: Only a question of space; we are having a bad time on space. They might have to be temporary buildings in an acute situation.

(Reading)

"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."

Q Mr. President, can you give us any idea of the over-all saving on public works?

MR. BLANDFORD: About 67 million.

MR. SMITH: The answer to the question about public buildings inside the District is to be found in a little table on page A97.

THE PRESIDENT: (Reading)

"West central heating plant
General Accounting Office
Land for future construction
Annex buildings, Government Printing Office
Extension and remodeling, Department of Agriculture,
Bureau of Economics Building
Site, State Department Annex Building
National Archives Building"

MR. GODWIN: State Department Annex Building -- what's that?

THE PRESIDENT: As I remember it, Earl, there has been a desire to do something about what we call Jackson Square or LaFayette Square.

MR. GODWIN: That's what you said before.

THE PRESIDENT: Same thing. Trying to save some of the historic houses on it. If we could save the Beale (?) house on the corner and save the Blair house down on the corner, it would be fine.

MR. SMITH: This is purely for the land that is now vacant; on the back side of the lot there is threatened development.

THE PRESIDENT: (Reading)

"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."

Right on that -- I don't think you should use the example, because it is pretty rough on certain people, but let's put it this way: A certain Government plant somewhere, a defense plant, up to the first of July was employing a thousand WPA workers, white and colored; and that particular Government plant was given a great deal more permanent work to do, turning things out; and that meant that the number of regular civil service employees had to be tremendously increased -- all kinds, some skills, some semiskills, some common labor; but, being a Government plant, all the employees came under the civil service.

The man who was running the plant did absolutely the right thing; he went first of all to this list of a thousand WPA workers who were already in the plant doing all kinds of things. They were putting up some simple buildings; they were paving some streets, fixing up a new water line, and so forth. And he went through this list of a thousand WPA workers. He has been able to get about 600 of them who were capable of steady employment and has made them regular Government employees. They are, therefore, of course, off the WPA rolls.

I am using this example because it hit me as being well worth while for the country to know about. There were 400 of these people who, for one reason or another, were incapable of steady Government employment. Now those reasons: (I am not telling you where this plant was, because I don't want to hurt anybody's feelings.) There were quite a lot of them who were physically incapable of a full 8 hours' work 5

days a week; just physically, they couldn't stand it -- perfectly good people, but they couldn't stand 8 hours' work. Of course a good many of them were elderly people, under 65; and there were quite a lot of them who were comparatively young people. We all know young people who couldn't do 8 hours' work, 5 days a week, without their health breaking down.

Then there were other people who, in many cases through no fault of their own, didn't have the early mental training that made them mentally capable of filling a job. Don't use the word "moron", but I am using that, off the record; you know what I mean -- people who are so darn dumb they couldn't even dig a ditch; and there are a lot of people who couldn't dig a ditch; you would have to put somebody over them all the time to show them how to dig a ditch. They just weren't capable of filling any kind of Government job.

And then there was a third class of people who were -- what shall I say? -- so unsteady that you didn't know in the afternoon whether they would turn up again the next morning. There are all kinds of causes for that; I don't like to run people down, but we all know that in almost every stratum of society, including Government service, and the newspaper work, there are some people you can't count on to turn up in the morning. It might have been liquor, or might have been something else. Those people aren't capable of holding a steady job. I don't know what the technical word for them is.

Out of this 1,000 people there were about 400 who could not be given a steady job in the Government, and private industry could not give them a steady job. You may say that, theoretically, those people would come into the unemployable class that the community ought to take care of. That is all very lovely; but the community, perhaps, doesn't take care

of them. They are borderline cases. The community says, "This fellow is perfectly capable of working." Sure. And they say, "We won't take care of him." We can't let him starve. So these 400 people, in this particular case, are remaining on WPA. Hence, we have to continue WPA appropriations.

I cite that as a reason why we can't reduce this WPA estimate below the one-third that we have cut off in this Budget. It was, roughly, a billion five, and now it is a billion. We have cut off a third.

Q Mr. President, do you think this number of 4 able to work as compared with 6--

THE PRESIDENT: (interposing) The other way round.

Q Four unable to work as compared with 6 able to work is a new factor in the unemployment situation?

THE PRESIDENT: No, it is not.

Q That seems like a large number.

THE PRESIDENT: It isn't surprisingly high, and I'll tell you why; after all, these people are people who, especially in the last few years, represent that element in the community which has not had the "git up and git" -- the initiative -- to go out and find a job, in large part, in a place like I am talking about.

Q It might be a depression development which has become more acute over the last 8 years?

THE PRESIDENT: I don't think so.

Q Has there been any suggestion that the Government create a new category of relief instead of keeping them on full pay as WPA workers?

THE PRESIDENT: No, Jay (Mr. Hayden, of the Detroit News), I would hate the idea of starting a new category; and speaking about self-respect of people, I would hate to create a new category of people who are capable

of working but who just aren't capable of being given steady employment. I don't want to hurt them; if you set up a new category, it would hurt them.

Q Isn't that the very thing that is done between state and federal relief?

THE PRESIDENT: No, because the people who are unemployable today and who are taken care of by the city or county are really unemployable people, and in their case there is no shame in coming into that class.

Q These are borderline cases?

THE PRESIDENT: Yes, they are borderline cases.

Q Mr. President, do you think that ratio of 6 to 4 is very constant?

THE PRESIDENT: No, I don't think you can generalize on that. There are many sections of the country where the ratio would be even lower; and there are certain places where it might be higher.

Q Are there a good many states where there are few defense industries where the unemployment load will continue to be as great?

THE PRESIDENT: Yes. However, don't forget this: The defense program means there will be additional members, undoubtedly, taken off WPA. The program may go so fast that we may be able to decrease the total amount I am asking for. We are giving our best estimate as of today.

Q Mr. President, do you have any estimates as to the number of people on WPA rolls?

THE PRESIDENT: At the present time?

Q Yes.

THE PRESIDENT: It is up around a million nine, and the waiting list is smaller; it was about a million, and now it is down to less than a million.

Q Mr. President, will there be a supplemental appropriation in this fiscal year for relief?

THE PRESIDENT: Oh, yes, there will have to be. This is something new, you know; the last three or four years I asked for only enough money to tide us through for the first 8 months, and this is the first year that we are asking for money to tide us through the whole fiscal year.

Q On page VIII of the Message there is indicated a reduction of non-defense activities amounting to 616 million dollars. Can you tell us something about that?

MR. SMITH: I don't get the question.

Q The table on page VIII indicates a reduction in non-defense activities totaling 616 million dollars. There are items of 45 million for agriculture, 67 less for public works, and so on.

MR. SMITH: You are looking at the table or the Message?

THE PRESIDENT: He is looking at the table.

MR. BLANDFORD: About 400 million on collections, about 68 million on PWA expenses, about 67 million on public works, approximately 45 million on agriculture, 9 million CCC, 7 million for NYA, and the remainder, which is about 25 million, I think, is scattered throughout the departments.

Q Thank you.

THE PRESIDENT: (Reading)

"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."

Q Mr. President, with reference to that figure of 400 million less; is the figure of 420 million supplemental for WPA for the rest of this year?

THE PRESIDENT: Yes, the rest of this year.

Q The table shows a supplemental of 350 million.

MR. BLANDFORD: That is a working balance carried over.

THE PRESIDENT: (Reading)

"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."

Q Is that on the basis of existing tax rates?

THE PRESIDENT: Yes.

Q What estimates have you for additional taxes?

THE PRESIDENT: We haven't; that's up to Congress.

Q Mr. President, do you know what was the largest total of revenue ever received, or what year it was?

THE PRESIDENT: Who is old enough to remember the World War? Jim (Mr. Wright of the Buffalo Evening News), do you have any idea?

MR. WRIGHT: It is just under seven billion dollars, I believe; and it was in one of the World War years. We have exceeded it several times in the past eight years.

THE PRESIDENT: Have we, really? I didn't know that! (Laughter) You encourage me.

MR. WRIGHT: It also included the postal revenues.

THE PRESIDENT: Yes. (Reading)

"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."

That's interesting.

"Receipts	Estimated in mil- : lions of dollars :			Percent change
	1942	1941		
	:	:	:	
Progressive taxes on individuals and estates-----:	\$1,979	\$1,571	:	+26
Profit and capital taxes on corporations--:	2,839	1,745	:	+63
Customs, excise, stamp, and miscellaneous taxes-----:	2,756	2,657	:	+4
Employment taxes for Federal old-age and survivors insurance-----:	725	668	:	+9
Other employment taxes-----:	243	230	:	+6
Miscellaneous receipts (including back income taxes)-----:	429	422	:	+2
Total receipts (excluding returns from Government corporations)-----:	8,971	7,293	:	+23
Deduct net appropriation for Federal old-age and survivors insurance trust fund#---:			:	

which comes in and goes out and is up nine.

"Net receipts"

not counting those insurance things, up twenty-four.

Q I would like to ask what part of the revenue expected is represented by defense taxes.

THE PRESIDENT: About one-half.

Q Of the increase?

THE PRESIDENT: Yes. That is a billion and a half. Read the previous sentence. In other words, three billion is the increase since fiscal

year 1940; one-half comes from defense taxes and the other from income.
(Reading)

"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."

In other words, it more than covers what might be called the expenditures on Army and Navy up to a couple of years ago, before we started this big increase, because you remember at that time the Army and Navy together ran to about a billion dollars. It is not enough, of course, to maintain the Army and Navy at their new levels. (Reading)

"Under present tax laws, deficits of 6.2 billion dollars in 1941 and 9.2 billion dollars in 1942 may be expected."

	: Estimated in mil-	
	: lions of dollars	
"Summary	:	:
	: 1942	: 1941
	:	:
Expenditures-----	\$17,485	\$13,542
Receipts-----	8,275	6,653
	:	:
Excess of expenditures over receipts-----	9,210	6,889
Less return of surplus funds from Government corporations-----		700
	:	:
Deficit-----	9,210	6,189"

Q There again there is nothing shown as to what is contemplated in increased revenue by increased taxes.

THE PRESIDENT: We're coming to that. (Reading)

"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 you are Jim.

MR. WRIGHT: Yes, I have read that.

THE PRESIDENT: We are not including anything in any of these figures except present law.

MR. WRIGHT: Then we cannot have what you recommend in the way of increased taxes?

THE PRESIDENT: Yes, but that is worked out on the Hill.

MR. WRIGHT: You last year mentioned the sum which you hoped to raise in taxes.

THE PRESIDENT: Yes; I am not saying that this year. (Laughter)

MR. WRIGHT: In other words, Congress exceeded your sum by something like a billion dollars.

THE PRESIDENT: I haven't put an upper limit on it this year.

MR. WRIGHT: What does that mean?

THE PRESIDENT: You remember last year when they authorized the increase in the debt limit they authorized the issuance of a special form of defense securities which, as I remember it, were retirable in five years --

MR. WRIGHT: (interposing) That's right, four billion dollars.

THE PRESIDENT: --and that they would be taken out of the general finances of the Government and set apart over there, but that we had to put in a retirement fund equal to one-fifth of the total as an expenditure out of the Budget. We believe, to put it in the simplest way I know, that five years is too soon to retire these things; it is too much of an immediate drain on the Budget. We may need to put in longer financing than five years, now that we are held to it. (Reading)

"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."

Q Sales tax, Mr. President.

THE PRESIDENT: Well, that's one form.

Q That would be included?

THE PRESIDENT: Yes.

Q That is a general sales tax, Mr. President; what about profits taxes?

THE PRESIDENT: Well, I don't know. I suppose the easiest way to put it is that they are a borderline case.

Q Mr. President, is there any consideration of reenacting the industries tax?

THE PRESIDENT: That is done in Congress. They are calling in the Treasury people, as usual.

Q There will be no subsequent Message on taxes?

THE PRESIDENT: I imagine they will start the machinery very soon. I gave it to them yesterday.

Q There'll be no further Message?

THE PRESIDENT: I can't guarantee there won't. Sometimes one has to ask twice; maybe they didn't hear me. I might have to say it again, Paul (Mr. Leach of the Chicago Daily News).

Q Mr. President, would it be satisfactory to you for them to wait until the March returns are in, so that they can get a more accurate estimate?

THE PRESIDENT: Yes. I imagine they will start, though, on the hearings in the Ways and Means Committee almost at once; but they probably won't make any final decision until the fifteenth of March, when the returns

are in.

Q Mr. President, on this question of new tax rates to be added by Congress this year, what additional revenue is derived from that will show fifty percent on this fiscal year's income; that is, there are two classes in this fiscal year.

THE PRESIDENT: No, all we agreed on was that we wouldn't make any new tax legislation retroactive.

Q Yes, but this would apply on 1941 income; therefore, there would be two classes in 1941 to apply on this Budget. So there is some gravy there that you can't count on.

THE PRESIDENT: It wouldn't come in in cash.

Q Mr. President, you expressed dissatisfaction with certain taxes -- abnormal profits, and so on; do you refer particularly to excess profits taxes? Do you think they are not high enough?

THE PRESIDENT: You will have to take that up with Congress.

Q You are the one that expresses dissatisfaction, sir.

THE PRESIDENT: Wait a minute. (Reading)

"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."

There you are; we know lots of people are getting rich out of this National Defense Program. And you heard the applause yesterday. That's the general sentiment of the country, that people should not get rich out of this defense program; and you and I know that a lot of

people are, and therefore the present tax system on excess profits doesn't seem to be filling the bill. That's just the plain fact.

(Reading)

"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."

Now, this is entirely off the record, but Harold Smith and Jack Blandford and I had a talk about putting that in. I had been putting that in about a better relationship between the Federal Government taxes ever since I went to Albany in January, 1929. I didn't want to put it in again, but Harold says, "It's always been in; you ought to put it in again." I said, "'Hope springs eternal,'" and he said, "Yes." So I said, "All right, we'll put it in again." I said, "I'll put it in again, and you can consider it as sort of a piece of candy for you boys," and somebody said, "All-day sucker." It's one of those things that we hope before we die we'll make some progress in.

Q Mr. President, at an Annual Budget Conference I attended in the "dark ages" you said you were going to try to get together some tax experts to get at that sort of thing.

THE PRESIDENT: Yes, we have been doing it.

Q Do you think he will leave in enough to see it?

THE PRESIDENT: No, I don't think you will. (Laughter)

Q In your suggestion for general improvement of the tax laws, do you agree with the statement made in 1939 that perhaps in the upper brackets the surtax rates are too high?

THE PRESIDENT: I don't know.

Q Do you, in this Message, take Mr. Morgenthau's stand on repealing the tax exemptions?

THE PRESIDENT: We ought to do it, either by what they call the "Carter Glass method" or some other way.

Q That wouldn't improve your future local-state relationship.

THE PRESIDENT: Maybe not. (Laughter) Of course you know the joke (off the record) about a great friend of mine, a lawyer in New York, who was talking about the taxes of some of his clients. He said, "Take so and so (mentioning the name); why, he's liable to pay in income taxes 80 percent of his income, between the Federal and the State." I said, "Yes, I've heard that before; does he?" He said, "Hmmm -- no." So all this rot that is written and printed about people being liable to pay these great high-bracket taxes -- show me the man who does! I will issue the challenge to any of you to show me the man who pays anything like the actual higher-bracket taxes, because he doesn't; he has all kinds of exemptions and exceptions -- exempt bonds and so forth and so on -- so it is just pure, unadulterated tripe (that's the only word I can use) to talk about people paying the percentages named in the upper brackets. They don't.

Give me the name of one man with an income of \$500,000. a year,

net income; the excess on that would be somewhere around 60 or 65 percent. Is there any one of them that pays that percentage on \$500,000? Of course not.

Q. Isn't that the reason they buy tax-exempt bonds, Mr. President?

THE PRESIDENT: Surely!

Q. It has been suggested that one way to get more money is to broaden the income tax base and bring in a lot of people that aren't paying income taxes; would you approve of that?

THE PRESIDENT: That goes into the question of recommendations on higher brackets, or middle brackets, or lower brackets; that's up to Congress, of course.

Q. Mr. President, before we leave this tax section, what about the sentence on a "financial policy aimed at collecting progressive taxes out of a higher level of national income"? Are we to understand by that that you are fairly well satisfied with the present rates?

THE PRESIDENT: No, I wouldn't make any assumptions. In other words, there are a lot of people that -- well, what will I say? Let's take an illustration: Suppose you and your family are living on \$1,000 a year, or \$2,000 a year. In spite of exemptions, you pay all kinds of taxes -- undisclosed taxes -- moving pictures, tobacco; maybe you take a drink; you are paying taxes all the time, relatively on a higher individual basis than the fellow with \$10,000. a year, or \$15,000. a year. And the people who are getting higher incomes -- over \$2,000 a year -- they are more able to pay more taxes than the poor devils who are getting \$2,000. or less. And \$2,000., mind you, in this country is away above the average -- don't forget that. We fellows here -- every fellow in this room -- can afford to pay more Federal taxes. It's just a case of

relative ability to pay; and we, all of us, ought to pay more taxes.

That's an awful thing to say, but you all believe it.

MR. SMITH: Mr. President, the word "progressive" may be causing some trouble; there it means ability to pay.

THE PRESIDENT: (Reading)

"BORROWING.--A substantial part of the defense program must, of course, be financed through borrowing. Individual investors will be 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."

Q There is going to be a lot of talk caused by that previous sentence, that individual investors will be given an opportunity to contribute.

Is there going to be a new Treasury policy on that?

THE PRESIDENT: I think so; it has been announced.

Q That means a higher interest rate.

THE PRESIDENT: In some cases, of course; it depends on the security. I don't mean that it means the actual interest rate that the Government would pay would be any higher; but as you know, a long-term bond carries, normally, under the present quotations, a good deal higher rate of interest than a one-year note. Let's put it this way: Suppose the Government wants to borrow money on a one-year note; I think it can get the money at less than 1 percent.

MR. SMITH: Three-fourths of one percent.

THE PRESIDENT: Yes; now the average individual probably doesn't want to buy that type of bond to put his savings in; but some of this financing will be in longer-term securities, 20-year bonds.

MR. SMITH: Up to 50..

THE PRESIDENT: We probably wouldn't touch that. On the other hand, if the

Government should do some of its financing on longterms, they would probably pay up to 2 percent.

Q The point is, that doesn't mean anything to us.

THE PRESIDENT: I think you will find that all of the securities hereafter are not going to be tax exempt.

Q Mr. President, won't the banks kick at tax-exempt?

THE PRESIDENT: I don't think so, because that is part of the Treasury policy to give the little fellow a chance to fill his subscription 100 percent.

Q LaGuardia has opposed that proposal of Mr. Morgenthau.

THE PRESIDENT: A lot of people have. I think the Conference of Mayors did. Probably if I were a mayor I would. (Laughter) That's what they call human nature.

Q Mr. President, do you expect that will affect interest rates over the long term?

THE PRESIDENT: There is no indication that interest rates are going up. The debt limit. I am awfully sorry to spoil some good future stories on that.

"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."

Q Mr. President, would you just as soon see the Congress do away with the debt limit entirely?

THE PRESIDENT: Just as soon. At the present time the debt limit is what?

MR. SMITH: Forty-nine billion.

THE PRESIDENT: Forty-nine billion; suppose this Congress passed appropria-

tions for defense that called for the expenditure of two billion more -- fifty-one. All right; and suppose I sign that bill; what happens? Is the debt limit 49, according to the previous statute, or is it fifty-one, according to the appropriations that are passed by the Congress? There is an old rule of law that where there are two conflicting statutes, the more recent one applies. If we appropriate over the forty-nine, and supposing we take no action on the forty-nine, obviously that old statutory debt limit is busted by the fact that Congress has appropriated two billion dollars more than the debt limit. You can't get away from that; it's mandatory. The debt limit is a "stop, look, and listen" signal; it is not controlling. Appropriations are controlling, because they are the last word from the Congress. The whole thing is purely economic; it doesn't amount to a hill of beans, except as a monitor to tell the people of this country, "Look! We're higher than we ever have been before!"

Q Mr. President, don't the appropriation bills use this phrase, that there is hereby appropriated out of funds not otherwise appropriated, and so on?

THE PRESIDENT: Yes.

Q If all funds are otherwise appropriated, wouldn't that render the appropriation bill null and void?

THE PRESIDENT: No. The power of Congress lies in the last appropriation bill that they pass.

Q Haven't they already gone over that?

MR. SMITH: No.

Q In connection with sales of bonds to individuals, would it be considered unpatriotic not to buy them?

THE PRESIDENT: Not to buy what?

Q These bonds that are to be sold widely to individuals.

THE PRESIDENT: It depends somewhat on circumstances -- how many children one has, and things like that.

Q Can the debt limit be interpreted as a notice to Congress?

THE PRESIDENT: Congress has final power, through the appropriating method.

Q Does an appropriation bill take legal precedence over the statute that fixed the limit?

THE PRESIDENT: As I said before, suppose you have two conflicting statutes; you have an old statutory debt limit, and then Congress comes along and appropriates money in excess of that debt limit; what do I do? -- I guess I would probably take the last word of Congress rather than what they said the year before.

Q Mr. President, isn't the debt limit expressed by the limit on the issuance of bonds and securities against the Secretary of the Treasury? And therefore, if he can't raise additional money by issuing bonds, wouldn't he have to go to taxes?

THE PRESIDENT: I don't know; that raises a very nice constitutional question. Suppose you get into the situation of no money in the treasury, and Congress goes into a tailspin -- talks, talks, talks, and does nothing, and there is no money in the treasury; what do I do? I don't know.

Q Mr. President, don't you think that acts as a sort of moral restraint?

THE PRESIDENT: Yes; that's why we use this word, fiscal monitor.

Q There is a conflict of opinion between yourself and the Secretary; he has suggested raising the debt limit to 60 or 65 billion dollars. He wants a debt limit.

THE PRESIDENT: That's all right.

Q What about Congress?

THE PRESIDENT: I would just as soon Congress raised the debt limit; frankly, I would just as soon they would repeal the old thing. I couldn't write an article about it, because it is so uninteresting.

Q On recapitulation of the public debt, it seems that Congress has already exceeded the 49-billion-dollar limit.

THE PRESIDENT: Harold (Budget Director Smith) says no, it has not.

Q Page 23 shows --

MR. SMITH: (interposing) That is the end of the fiscal year.

THE PRESIDENT: You mean we will be busted at the end of the fiscal year?

MR. SMITH: With authorizations.

Q Mr. President, in your opinion, how high could this national debt go and the country remain solvent?

THE PRESIDENT: Well, you know the quotation I gave seven or eight years ago about banking opinion?

Q About 80 billion?

THE PRESIDENT: No, I think 60 or 70; that was on very good banking advice. I just passed it on.

Q You don't have any opinion yourself?

THE PRESIDENT: I just passed on what the bankers said at that time.

Q Some of us younger ones don't remember that; what was it?

THE PRESIDENT: It was just that eminent bankers had said because of the size of the country, the income and resources and assets and appropriate values, the country could stand a debt limit of somewhere around 70 billion dollars. That's just recollection.

Q Who said that?

THE PRESIDENT: Eminent bankers; and then everybody wanted to pin it on

certain eminent bankers, because they wanted to crucify the eminent bankers.

Q. The prohibition on the public debt is against the amount of securities which the Government can stand at any one time; you can't spend what you haven't got.

THE PRESIDENT: That is the question you raise; it is terribly academic. We are going to pay for these defense orders some way. It's awfully academic.

Q. The function of the debt limit as fiscal monitor is the reason for it?

THE PRESIDENT: That is really the only reason for maintaining a statutory debt limit.

Q. Would you think that would be an adequate reason for maintaining a statutory debt limit?

THE PRESIDENT: I think that is up to Congress, remembering always that they can bust it without repealing it.

Q. Do you think Congress would give greater attention to other controls if the debt limit were repealed?

THE PRESIDENT: That's a terrible "if". (Reading)

"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 twenty-five 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.

"The fight for recovery raised national income by more than

30 billion dollars above the depression depth."

Roughly from thirty-nine to sixty-nine. (Reading)

"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."

This is background stuff: It is an interesting thing that if you were to count up the deficits of all the big nations and small nations, especially the past eight years, you would find that the cost of armament, plus the cost of previous wars, was just about responsible for the total of that deficit. That is an amazing fact.

Take Sweden, take Belgium, Holland, France, Germany, England, ourselves, and all of these deficits. I am talking about the last eight years, because it dates back to the arrival of Herr Hitler on the scene (this is background stuff) in January, 1933, eight years ago, and the sum of armament expenditures, plus the cost of former wars, is equal to the total of that deficit. That is an amazing thing. People have never got that through their heads. It's just a question of war. That is the reason why I talk about one of the elements of world peace, the representation of cost of armament, in order to make the world solvent -- a perfectly obvious thing, quite aside from the humanitarian end of it. In order to make the world solvent, we have got to cut out spending so much money on armaments. (Reading)

"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."

Of course that includes the World War, debts caused by it. (Reading)

"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."

And that is a thing you who write for financial papers and papers like the Sun, and so on, ought to hammer home.

That's about all on that.

(The President did not read the remainder of the Message.)

MR. GODWIN: Thank you, Mr. President!