

CONFIDENTIAL
Press Conference #797 -- (BUDGET SEMINAR)
Executive Office of the President
January 6, 1942 -- 3.10 P.M.

(Director of the Budget, Harold D. Smith, and John B. Blandford, Jr., Assistant Director, were present)

MR. EARLY: (to the President) Look at these financial experts, sir!

(indicating press association newsmen in the front row)

THE PRESIDENT: (laughing) I think it's fine.

MR. J. HENRY: We are already groggy.

MR. DONALDSON: All in.

THE PRESIDENT: A very small group. I am very glad to welcome the financial editors of the country! (laughter)

Q We will be after this.

Q We ought to be.

THE PRESIDENT: Of course, very few newspapermen know the difference between a dollar and a dime, anyway. But then, on the other hand, very few Presidents do. (laughter) So we start even.

This is probably the biggest Budget in the history of any nation -- any time. I have no information about the Roman budgets. They were said to have been very high.

I suppose the best thing to do is for me to refer most of the questions to Harold Smith and Jack Blandford. I suppose we had better go through the Budget Message, and any time I come to the end of a sentence interrupt me and ask a question of somebody behind me.

(reading): "I am submitting herewith the Budget of the United States for the fiscal year ending June 30, 1943."

By the way, off the record, I don't suppose it's any news -- it may be in the future -- I have always felt uncertain as to whether to

write a Message to Congress, or a speech, on New Year's. I always get mixed up -- and you do, and the public does -- between fiscal year and calendar year. I don't think the public understands the difference. You don't all understand the difference, and I don't understand the difference half the time. I make mistakes.

And I think it would be a great reform that might come out of this situation, to make the fiscal year of the United States -- and a lot of State governments, and municipal governments -- conform to the calendar year. It is a thing, of course, that will require legislation. But I talked to -- I don't think I will send any Message, or anything like that -- I have talked to some leaders about it lately, and they had all been talking in the same terms to get that change made.

(reading): "It is the budget of a nation at war in a world at war.

"In practical terms the Budget meets the challenge of the Axis powers."

I don't believe we need read this first section, because I said the same thing this morning.

(reading): "THE WAR PROGRAM

"Our present war program was preceded by a defense effort which began as we emerged from the long depression. During the past 18 months we laid the foundation for a huge armament program. At the same time industry provided ample consumers' goods for a rapidly growing number of workers. Hundreds of thousands of new homes were constructed; the production of consumers' durable goods broke all records. The industrial plant and equipment of the country were overhauled and expanded.

"Adjustment to a war program can now be made with greater speed and less hardship. The country is better stocked with durable goods. Our factories are better equipped to carry the new production load. The larger national income facilitates financing the war effort.

"There are still unused resources for agricultural and industrial production. These must be drawn into the national effort. Shortages, however, have developed in skilled labor, raw

materials, machines, and shipping. Under the expanding war program, more and more productive capacity must be shifted from peacetime to wartime work.

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

"WAR APPROPRIATIONS

"This is a war budget. The details of a war program are, of course, in constant flux. Its magnitude and composition depend on events at the battlefronts of the world, on naval engagements at sea, and on new developments in mechanized warfare. Moreover, war plans are military secrets.

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

Q At that point, Mr. President, does that mean, for example, that there won't be published and made available records of Committee hearings or Committee reports? Those appropriations will provide, say, for 3 thousand airplanes, and 3 thousand tanks, etcetera? It will be a lump sum for the Army?

THE PRESIDENT: Very largely, because -- well, we all know the practical problem. So does every member of the Committee on the Hill.

Q But there will be hearings?

THE PRESIDENT: Oh Yes. Oh my, Yes. Heavens, Yes.

Q All that information made available?

THE PRESIDENT: I doubt, for example, if we would ask for 3 thousand airplanes. I doubt if we would get a breakdown on the -- on the types of those planes. On one particular supplemental bill it might be a majority of pursuit planes. On another supplemental hearing it might be a majority of bombers, or something like that. Now those things are details

you can't give out, and that is one reason why, quite frankly, when you say 3 thousand planes it may mean an awful lot, and it may not.

I have been rather considering the idea -- so as to give the people -- give people a chance to see whether the step-up is a constant step-up month by month -- of using, instead of -- instead of the terms of planes, or ships, which may be large or small, of using "manhours." In other words, if we see that this country is every week increasing the manhours, we know we are going places. But it is a fantastic term when you talk of manhours. I don't get it. I still don't understand what 10 million manhours means. And I am open to suggestions.

There is an old -- there is an old crossword puzzle word called an "erg," -- an E-R-G -- a unit of work. I don't know what an erg is. If somebody could get that across in simpler terms than manhours, it would be an awfully good thing. It is something that we need to have invented. We might all be thinking about it. I think I might almost offer a prize.

Lloyd George, in '18, when I went to the other side, said, "You Americans have got inventive genius. Invent me a term to take the place of the word 'cooperation.'" Nobody has done it yet. It is an amazing thing. It is a horrible word, but we haven't got a substitute yet.

MR. EARLY: Mr. President, Pete Brandt came through this morning with a suggestion. You might call upon him to give it to you.

THE PRESIDENT: Go on, Pete.

MR. P. BRANDT: Use, say, 60 thousand manhours.

THE PRESIDENT: (interjecting) Yes.

MR. P. BRANDT: (continuing) That's a thousand men working 60 hours a week.

THE PRESIDENT: (interjecting) Yes.

MR. P. BRANDT: (continuing) I don't know how you can do that with one million manhours. If you take the 60 thousand hours to make a plane, that's a thousand men working for a week, or sixty hours a week. You can understand it better. You can visualize it.

THE PRESIDENT: If we would get down to small figures.

MR. P. BRANDT: I mean -- if you say a bomber takes 60 thousand manhours, well then you can visualize a thousand men working for 60 hours.

THE PRESIDENT: Yes.

Q Why not number of planes?

Q And types?

Q You can use dollars.

MR. HAROLD SMITH: Not on types.

THE PRESIDENT: That's the trouble. It brings you down to type, it brings you down to bombers. If we could get -- I am just thinking out loud -- if we could get something on the scale of 100, that would mean that -- well, let us put it this way -- I am just thinking out loud again -- suppose we figure 100 or 110 as the maximum effort in this country, as shown by the national income. All right. We hope to get up to 56 -- I mentioned the word this morning -- 56 billions, which is a little over half of the total income of the country. And in general terms it represents also 56% of the effort of the country. That is the thing we are shooting at.

Well, now, what are we at today? We are up to 27 -- something like that -- 29. Now would it be -- don't write any stories on this, we are just looking for an idea -- would it be possible to use -- get the Director of the Budget to give us something showing what we are at

now, figure 27 -- 29 -- whatever it is? Then month by month watch us go up, we hope, toward the 56 that everybody has got in mind.

Q (interposing) Why wouldn't it be ---

THE PRESIDENT: (continuing) It is the effort of every man, woman and child -- farmer -- everything else -- being represented by a figure, let us say, of 110. Now that might work. Will you figure on that and see if something like that wouldn't work? As of the first part of the month, where are we at now on manhours, translated into this new objective? Well, this past month we rose from 29 to 31. It will give us a -- a yardstick.

Q Would it be possible, Mr. President, to take the war production as of the date of Pearl Harbor as index number one?

THE PRESIDENT: (interjecting) Yes, yes.

Q (continuing) And then go up from there?

THE PRESIDENT: Go up from there. What do you think, Harold, is something like that possible?

MR. HAROLD SMITH: Yes. Use 100 as of some date. Then you have got a term that people can understand.

THE PRESIDENT: Yes, sure.

Q Well, Mr. President, how does that get around this lag in checks credited to the Treasury, and that sort of thing? Your activity is considerably ahead of your bookkeeping.

THE PRESIDENT: No. Nor are we -- our bookkeeping keeps pace with it. The actual banks ---

Q (interposing) That is what I had in mind.

THE PRESIDENT: (continuing) --- are far better.

Q That is what I had in mind.

THE PRESIDENT: That is mere expenditure.

Q So that you will talk in terms of actual activity?

THE PRESIDENT: Actual activity instead of money going out in Treasury checks.

Q Would there be any complications, Mr. President, if we happened to go down somewhat instead of going up?

THE PRESIDENT: I don't think we need worry about that. I think we are all right on it.

Q (interposing) Could it be translated ---

THE PRESIDENT: (continuing) If we are not, you can guess it by the absence of an answer, when you ask the question. (laughter)

Q It might be translated, Mr. President, into units of weapons for a man. One man to a rifle. Four men to an airplane. Two men to a tank. Units of striking power.

THE PRESIDENT: Little pictures? Well, I don't know.

Q I can see these little spear-men running up and down hill.

THE PRESIDENT: It's all right for the weeklies.

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

"In this Budget I make an initial request for a war appropriation of 13.6 billion dollars for the fiscal year 1943."

That illustrates that thing exactly.

Q Mr. President, that would give you 24 billion plus 13.6, or a total of 37 billion, six hundred million?

THE PRESIDENT: Yes.

Q 24 billion.

THE PRESIDENT: To obligate immediately.

Q To obligate immediately, that's right.

THE PRESIDENT: But there might be another supplemental the end of January.

That's right.

Q Mr. President, does that 37.6 contemplate your 5 billion dollar figure that you mention a little later -- this 5 billion a month in effect in the next paragraph? I mean does this initial 13.6 that you mention here provide for enough funds to reach that level of production during the year?

THE PRESIDENT: By the end of the year?

Q By the end of the year.

THE PRESIDENT: Is that right? (turning to Harold Smith)

MR. HAROLD SMITH: Yes, the 13.6 is really an extension of the present regular and supplementary appropriations for the War and Navy Departments, which is based on so many men, and so forth and so on, you see.

Q Mr. President, is that 13.6 large amount already tied up by the previous contract authorizations that have been voted by Congress? Is that entirely free and unencumbered?

THE PRESIDENT: No. As Harold says, most of this is for the additional men, and the things that go with them -- uniforms, etcetera, that are coming in at the present time. Very largely personnel, isn't it?

MR. HAROLD SMITH: This is an extension. In other words, that begins the end of this fiscal year on what we have now in the way of supplements and appropriations for the Army and Navy.

Q What I was trying to get at, sir, is whether all these figures in the Budget -- including the 13.6 and the deficit figure, etcetera -- are based on this premise, and include this, or whether any additional money that comes along later will go over and above these figures?

THE PRESIDENT: You will find that is all in the Summary Table at the end of the Message itself. The General Budget Summary.

Q Well, contracts are still to be let for this 24 billion?

THE PRESIDENT: Yes, yes.

Q (interposing) Mr. President ---

Q (continuing) You will find that on that General Budget page (xxi) -- about -- under Expenditures -- number Four -- 52 billion, 786 -- included in there.

MR. BLANDFORD: Mr. President, there is a Table on page A-84, which summarizes the whole national defense picture.

THE PRESIDENT: What is that page again?

MR. BLANDFORD: A-84. In the Appropriations column -- '43 -- to the extreme left.

THE PRESIDENT: Oh, down at the bottom, Yes. 13.6.

MR. BLANDFORD: The Supplemental item is an estimate of appropriations to be submitted. On the other hand, we have included on the Expenditure side -- Estimated '43, fourth column over -- 17 billion dollars worth of expenditures by ---

THE PRESIDENT: (interjecting) Marked Supplemental Items?

MR. BLANDFORD: (continuing) --- Marked Supplemental Items, that is, Estimate of Expenditures. We have arrived at that total of 52.7 as the expenditures for national defense, to which must be added about 3 billion for corporation expenditures to get the total of 56.

MR. HAROLD SMITH: (interjecting) Yes, that comes out there next.

MR. BLANDFORD: (continuing) The only question is the exact amount of the supplemental appropriations. We have the expenditure side.

Q What is it that must be added?

MR. BLANDFORD: Approximately 3 billion for corporate expenditures -- R.F.C. and its various subsidiaries that are working in the national defense picture.

Q May I ask a question? On Table A-84 you have Appropriations showing Navy Department 5 billion 9, and for the War Department 6.3. And you have Expenditures for the same year shown as 6.8 for the Navy, and 18.6 for the War Department. In other words, in one place you have Appropriations of about 12 billion, roughly, and Expenditures of about 25 billion. Now, does that mean that these -- this Appropriation of 12 billion under these two items, plus appropriations already made by Congress, produce that 25 billion in Expenditures? Is that right?

MR. HAROLD SMITH: That is right.

MR. BLANDFORD: Plus appropriations to be submitted in January and subsequently. Supplemental appropriations ---

Q (interposing) Supplemental items are down here under 17.

MR. BLANDFORD: (continuing) --- And you notice that no amount is estimated opposite the Appropriation for '43.

MR. HAROLD SMITH: (interjecting) Appropriation for that '43.

MR. BLANDFORD: (continuing) We have estimated the expenditures possible under our 56% -- 50% of our national income -- but we have not yet estimated the total amount of the Supplementals to carry out -- which may carry through another fiscal year -- such authorizations as ship construction.

Q Thank you very much.

MR. BLANDFORD: You have got a complete picture of the Expenditures, but the Supplemental figure is to be supplied later.

Q Where does this 13 billion figure -- what does that take in if the Supple-

mental items are not estimated?

MR. BLANDFORD: Well, this would total all of the figures above. 5.9 for Navy, and 6.3 for War, and the others that are listed below.

THE PRESIDENT: Well, let's go on to page 7.

(reading): "WAR EXPENDITURES

"Total war expenditures are now running at a rate of 2 billion dollars a month and may surpass 5 billion dollars a month during the fiscal year 1943. As against probable budgetary war expenditures of 24 billion dollars for the current fiscal year, our present objective calls for war expenditures of nearly 53 billion dollars for the fiscal year 1943."

That gives you the figure of 56 we were talking about.

(reading): "And in addition, net outlays of Government corporations for war purposes are estimated at about 2 and 3 billion dollars for the current and the next fiscal year, respectively."

Q What was the total war expenditure in the World War, do you happen to know, Mr. President?

Q (aside) Look in the World Almanac.

Q About 21, wasn't it?

THE PRESIDENT: More than that -- 48 -- it was about 41. And then, you remember, at the end of the World War, we sold an awful lot of stuff, and cancelled contracts for a lot of stuff that hadn't been actually completed, bringing, as I remember it, the total cost of the war, after those sales had been made, to about 29 billion. That is very rough -- something like that. And then in the -- in the Coolidge, and first year of the -- of the Hoover administration, that had been cut to about 21 billion total national debt.

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

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

I don't know whether it's the appropriate place, but I see no reason why you shouldn't know the fact that during the past two weeks, in talking to these various people -- I think I mentioned it the other day -- I was a bit appalled by the fact that so much of our production was still going into civilian use. We knew, for instance, last -- about September, that out of the total production of steel in the United States, only about 25% of it was going into war production.

And it was a large question, at that time, as to whether we shouldn't start new steel plants, to get more steel production. And we have started a few, but it takes a year and a half to build a steel plant before it starts turning things out.

So we adopted the only other possibility, besides adding a little to existing production. And that was to cut more deeply into civilian production. I can't give you the exact figures, but between last -- I think it was from September, when we talked about it -- the amount -- the percentage of defense steel has risen from about 25% first, to 30%, then to 35%, which still means that 65% is going into civilian use.

So when Lord Beaverbrook first got over here, I said, "What are your percentages?" "Well," he said, "our percentages are very nearly turned around. 75% of all the steel made in England is going into war use, and 25% to civilian use."

Now this program will not get us as high as 75% of steel production for war use, but it will be a whole lot higher than the present 35%. My own estimate is that it will run probably as high as 55%, or even

60%, meaning that the civilian use of steel has got to be cut a lot more than it has been cut already.

And the other thing I think I can bring out is that in making up these total estimates, of course I sent for the Budget people who were responsible. For example, I sent for the Maritime Commission, and I pointed out to them that one of the really vital things we have got to get is more tonnage, and while on the relative sinkings and build-ings at the present time we are holding even, we have got to make substantial gains of building over losses.

And I said to them, "What are you making now?" "Well, we are making nearly 6 million tons this year." I said, "What can you step it up to?" "Well, " they said, "We can step -- step it up another million tons." I said, "Not enough. Go back and sharpen your pencils." That is just illustrative of the method. So they went back and sharpened their pencils, and they came back, and they said, "It will hurt terribly, but we believe that if we are told to we can turn out 8 million tons of shipping this year." I said, "Now you're talking." And I said, "All right now, for '43 what can you do? Can you turn out 2 million more tons, to a total of 10 million tons of shipping?" And they scratched their heads, and came back and said, "Aye, aye, sir, we will do it." That's just an illustration.

Then it came to planes, tanks, anti-aircraft guns. And I have been at them for two weeks, sometimes telling them to go back and sharpen their pencils.

The other day I had a final conference with Knudsen and Nelson, and I gave them what I would like to see done -- I knew it would be awful hard work for them -- and outlined the 60 thousand planes this

year, of which 45 thousand would be combat planes. And I nearly took their breath away. "Can you make the 125 thousand planes next year, of which 100 thousand would be combat planes?" And they talked it over a while, and finally they came back -- to give me the green light when I go up to Congress -- and again they said, "Aye, aye, sir. We will do it, sir."

Now that has been the result of the last two weeks, and it is a very magnificent thing that they are doing, because they are accepting probably the most difficult production job in all history. And it will put us, if we get them -- I think we will -- it will put us in the position to win the war.

(reading): "THE CIVIL FUNCTIONS OF GOVERNMENT

"In a true sense, there are no longer nondefense expenditures. It is a part of our war effort to maintain civilian services which are essential to the basic needs of human life. In the same way it is necessary in wartime to conserve our natural resources and keep in repair our national plant. We cannot afford waste or destruction, for we must continue to think of the good of future generations of Americans."

And then I have picked all the essentials out of here, because they are what we need.

(reading): "For example, we must maintain fire protection in our forests; and we must maintain control over destructive floods."

I don't want to have all our woods, etcetera, burn up. I don't want to have any, if we can help it, any recurrence of that Ohio flood that slowed up production terribly. As it did, it swept away whole factories.

(reading): "In the preparation of the present Budget, expenditures not directly related to the war have been reduced to a minimum or reoriented to the war program."

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

"It is estimated that expenditures for the major Federal assistance programs -- farm aid, work relief, youth aid -- can be reduced by 600 million dollars from the previous to the current fiscal year, and again by 860 million dollars from the current to the next fiscal year. These programs will require 1.4 billion dollars during the fiscal year 1943, about one-half of the expenditures for these purposes during the fiscal year 1941.

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

Harold Smith, by picking out two million here and sticking it in the cupboard, and a few million there and sticking it in the cupboard, has accumulated 415 million dollars in the current fiscal year. And he says he is not going to let any of it get out. I am quite glad to see he has still got the bulk of it.

Q Do you have any objections to covering that into the Treasury by legislation?

THE PRESIDENT: By what?

Q Do you have any objections to covering that into the Treasury by legislation as a joint economy proposition?

THE PRESIDENT: I think it is awfully far to look ahead. You can't tell what will happen. It is our best guess in January. But after all we are honestly trying to cover it into the Treasury, but there might be something we would have -- if we did cover it in by legislation and something happened -- we would have to go and get another appropriation out of Congress. It is a question of good faith. We will do the best we can.

Q What happens, sir, the end of a fiscal year?

THE PRESIDENT: Then it is converted automatically.

Q. Automatically?

THE PRESIDENT: Yes.

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

We worked awful hard to get it up over a billion. I believe there are some people who say, "Let it go as high as a billion and a half." But that is primarily the decision of the Congress. If they want to stop certain functions of Government entirely, well, of course, they can do it. They are the -- they keep the purse strings.

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

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

"WORK PROJECTS. -- The average number of W.P.A. workers was two million in the fiscal year 1940, the year before the defense program started; the average has been cut to one million this year. With increasing employment a further considerable reduction will be possible. I believe it will be necessary to make some provision for work relief during the next year. I estimate tentatively that 465 million dollars will be needed for W.P.A., but I shall submit a specific request later in the year. Workers

of certain types and in certain regions of the country probably will not all be absorbed by war industries."

You know the human side of that. All you have to do is go to your own home town, where you meet friends and where you know everybody and find a certain type of person who couldn't possibly be useful on war work, and who probably, as long as he lives, will be a charge on the -- on the Home Relief, or on W.P.A. I have quite a number of people in mind.

(reading): "It is better to provide useful work for the unemployed on public projects than to lose their productive power through idleness. Wherever feasible they will be employed on war projects.

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

"Rather than rely on relief a determined effort should be made to speed up reemployment in defense plants. I have, therefore, instructed the Office of Production Management to join the procurement agencies in an effort to place contracts with those industries forced to cut their peacetime production. The ingenuity of American management has already adapted some industries to war production. Standardization and substitution are doing their part in maintaining production. Ever-increasing use of sub-contracts, pooling of industrial resources, and wider distribution of contracts are of paramount importance for making the fullest use of our resources. The newly nationalized Employment Service will greatly help unemployed workers in obtaining employment."

Right in there -- neither here nor there -- but it is one of those specific cases that sometimes crop up. It's a good illustration.

I was home -- oh -- about four months ago, and a fellow named -- well, never mind the name -- from Poughkeepsie came to see me. He, and his father, and grandfather, ran a sash and blind works -- made window sashes and blinds. The firm is a little over a hundred years old. And he came to me, and he said, "I am all out of orders. There

is no more private building in Dutchess County. What will I do? We have got 30 first-class carpenters and cabinet makers that have been with me for years and years." "Well," I said, "can't you do some war work?" He said, "I don't know." "Are they ordering any wood cabinet work for this war?" "I don't think so. We don't do steel."

I brought him down here to Odlum's office and explained the situation. And I got busy on this thing. I said, -- when I was getting my nose done -- to Ross McIntire, "You are just a little tiny cog in the Navy Department, are you still buying steel medicine cabinets to put up on the wall?"

And he said, "Yes."

"Couldn't you use a wooden medicine cabinet?"

He said, "Sure."

"Are you still buying steel bookcases, and steel desks, for your hospitals?"

He said, "Yes."

"Couldn't you use wooden ones just as well?"

"Sure."

Well, that's one -- just one illustration.

Then I sent for the Maritime Commission. I said, "On your ships, do you, in the Officers' quarters or the Mess's or the First Mate's, use -- don't you have a certain amount of wooden wainscoting?"

They said, "Yes."

"And where are you getting it?"

"I don't know."

The net result was that this man in Poughkeepsie came down here, and he was handed a list of wooden cabinet work that could be used for the

Government -- substitutes mostly. And he was asked, "Aren't there any other woodworking companies like yours in Hudson Valley that are going out of business for lack of work?"

And he said, "Yes. One in Newburgh, one in Kingston, one in Hudson, and I think one in Peekskill that I know of. They are all in the same fix I am in."

So they said to him, "All right. How much can the five companies in the Hudson River Valley take?" Just to employ the actual men now in their employ -- in Poughkeepsie there were 30 carpenters.

And he went back there, and they have got enough Government orders to keep 150 men steadily at work for at least a year on building wooden substitutes for the Government. And then, the 150 skilled workers that are employed by the use of a little ingenuity.

Now that sort of thing we are beginning to get into our stride, but it means, as you know, -- it means going and searching out the places where that kind of a solution of the problem is needed. And, well, we are doing it as fast as we can.

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

I don't know anything about it yet.

Q Mr. President, at that point, that 100 million dollars is contained in the Budget, however?

THE PRESIDENT: Yes, that is in. And I am expressing the pious hope it won't all have to be used.

(reading): "Although I am estimating 100 million dollars for these two agencies, excluding 50 million dollars for defense training, it is probable that the total amount will not be needed. I am

postponing until next spring presentation to the Congress of specific recommendations as to youth aid.

"PUBLIC WORKS PROGRAM. -- The public works program is being fully adjusted to the war effort. The general program of 578 million dollars includes those projects necessary for increasing production of hydroelectric power, for flood control, and for river and harbor work related to military needs. Federal aid for highways will be expended only for construction essential for strategic purposes. Other highway projects will be deferred until the post-war period. For all other Federal construction I am restricting expenditures to those active projects which cannot be discontinued without endangering the structural work now in progress."

Q Mr. President, in connection with the hydroelectric -- is there in the Budget -- have you included an estimate for the first year's work on the Saint Lawrence power?

THE PRESIDENT: I don't think we do. No. Off -- I think -- I don't think we included it for any of the essential defense projects that are in the bill that is now up in the House.

Q In '43, on the highways, there will be no lump sum allocations for the States other than for actual defense?

THE PRESIDENT: I hope not.

Q That's fine.

THE PRESIDENT: It depends a little on Congress. It is going to be awfully hard for the Congress to cut things like State highways.

Q In that connection, have you mentioned the possibility of using S.P.A.B. allocations to prevent the use of strategic materials among ---

THE PRESIDENT: (interposing) In among what?

Q The possibility of using S.P.A.B. authority to prevent the use of strategic materials in public construction, even though the money has been appropriated? Is it all right talking about that?

THE PRESIDENT: I think so. I think that is part of it. It all fits in on the allocation thing. And of course, as you know, we are being sometimes

a little bit high-handed. Some fellow has a beautiful idea for putting up a better apartment house, and so forth and so on. He has a perfectly legal right to do it. But it does not fit in, so somehow or other the materials don't get to him.

Q Couldn't the same thing be done when it comes down to improving towns, as regards certain appropriations? (laughter)

THE PRESIDENT: Well, I don't know. That is -- what's the word? -- clubbing?

MR. HAROLD SMITH: As a big stick, Mr. President.

THE PRESIDENT: What?

MR. HAROLD SMITH: As a big stick. We are not going to have steel, and build reinforced concrete roads, so that Congress might very well appropriate the roads, but they might not be built for the lack of steel.

THE PRESIDENT: And remember that came from the Director of the Budget!
(laughter)

Page Ten. (reading): "CIVIL DEPARTMENTS AND AGENCIES. -- The work of the civil departments and agencies is undergoing thorough reorientation. Established agencies will be used to the greatest possible extent for defense services. Many agencies have already made such readjustment. All civil activities of the Government are being focussed on the war program."

Q Mr. President, in that connection -- from people like us who don't know anything about it -- I have heard it from friends who ask -- as long as we are spending all this money for war, why do we need all these bureaus in the Commerce Department and the Agriculture Department, and so forth? Does this paragraph mean that?

THE PRESIDENT: It means that -- the answer is that it is awfully easy to say a broad, general thing like that, but when you come down to actual cases -- well, for instance, we know that the Department of Agriculture has all kinds of bureaus in it. The Bureau of Animal Inspection -- My Lord, can't we let that go until the end of the war? When you come

down to it, ought we to let that stop during the period of the war? Oughtn't we to protect the health of the people? Oughtn't we to see to it? Look at the bureaus -- the Bureau to Eliminate Ticks on Cattle, to eliminate the Boll Weevil, to eliminate the Peach Moth, and so forth and so on.

The answer is that we are fighting nature all the time along those lines. The pine blister rust -- they are fighting nature, in order to keep from getting overwhelmed by nature.

And if we once let up on the fight, it means that the work will be just twice as hard. There will be an awful lot of ultimate damage caused by nature -- the pests of nature. We are cutting them. We are cutting all those bureaus, but we are still keeping the service going on.

MR. HAROLD SMITH: Mr. President, may I implement that just a little bit with a specific illustration in connection with economic defense. For example, arrangement has been made for a large part of the staff of the Tariff Commission to be working on the program on economic defense. A considerable part of the staff of the Bureau of Foreign and Domestic Commerce -- of the Commerce Department -- also works in that field. And you get the situation where the Federal Power Commission, for example, -- while that has been modified since then -- the Federal Power Commission has been devoting hours of its time to -- to ferreting out bottlenecks, and planning power programs and inter-connections, etc. A great deal, much more than anyone thinks -- until you get down to these departments and bureaus, one after the other -- is being orientated to the war effort.

Q Mr. President, before you leave this section dealing with reductions,

what happens to the Food Stamp program?

THE PRESIDENT: I haven't heard of it for six months. What's happened to the Food Stamp program? (turning around)

Q There is elimination of -- of an appropriation for 25 million dollars for the disposal of surplus commodities. I wondered how that affects the Food Stamp program?

THE PRESIDENT: You have got me cold on that. I don't know.

MR. BLANDFORD: Mr. President, that particular activity comes under the export-domestic consumption. And while in '42 we had a total appropriation of 222 million dollars, we are including 132 million dollars in '43, which is the 30% of customs not supplemented by any additional appropriation.

THE PRESIDENT: Why as much as that, Jack?

MR. BLANDFORD: Well, curiously, our customs receipts, as I recall it, have gone up. In any event, with the 30%, sir, you do get corresponding reductions in all of the programs financed out of that appropriation, which includes the Food Stamp Plan, the Cotton Stamp program, etcetera. They are all in on that 132 million dollars, and items for reduction. We have, I think, a figure of 26 million dollars as the reduction in the Food Stamp Plan.

Q 26, did you say?

MR. BLANDFORD: 26.

THE PRESIDENT: --Well, somebody will have to justify it before Congress. I won't attempt to. (laughter) I should think the reduction should be larger, but it's all right.

(reading): "FEDERAL GRANTS AND DEBT SERVICE. -- A few categories of civil expenditures show an increase. Under existing legislation Federal grants to match the appropriations for public assistance made by the individual States will increase by 73 million dollars."

That is in accordance with existing law, and of course the bulk of it is on -- it might be called health items. There is more money for the blind, there is more money for widows, and orphans, all in accordance with the existing law that I have to follow in this Budget.

Q Is that the matching, Mr. President?

THE PRESIDENT: What?

Q Is that the ---

THE PRESIDENT: (interposing) That is the matching.

Q Matching provision of Social Security.

(reading): "I favor an amendment to the Social Security Act which would modify matching grants to accord with the needs of the various States. Such legislation would probably not affect expenditures substantially during the next fiscal year."

Well, you know what we have been trying to do on that. It is going to be a hard thing to get through a -- oh, what? -- a State like Georgia, which hasn't got the taxable values in the State. And therefore, when they come to a matching program with the Federal Government, their total is very, very low, if judged on a per capita basis. That does not take care of their sick, and blind, and unemployed, and relief people, and so forth and so on, because the State hasn't got the taxable value.

In a State like New York, on the other hand, they have got the taxable values. They can put up much larger funds, again on a per capita basis, than the State of Georgia.

Now the objective is that the Federal grants will be so distributed as to help the poorer States more greatly than the richer States. And that would not be left to the discretion of the State legislature -- because a lot of them might try to save money on that basis -- but would be based on some kind of an index figure, which in turn would be

based on the per capita income of the individuals in all of the States. The individual -- the States that have the highest per capita income would get the least, and the States that have the lowest income would get the most. Well, that is something we are shooting for, and have been for the last year.

Q Well, Mr. President, isn't that provided in the Connally bill? I saw Senator Connally introduced a bill providing that system of matching.

THE PRESIDENT: I don't know. Has he?

MR. HAROLD SMITH: I don't know.

THE PRESIDENT: I don't know.

Q It grades the richer States by rates, Mr. President.

THE PRESIDENT: Yes, depending on the per capita income in each State.

Q I mean the present grades.

THE PRESIDENT: What?

Q The present rate of ---

THE PRESIDENT: (interposing) That is entirely up to -- I have to follow the present law. There is nothing I can do about it. I have to put in an estimate in accordance with what those States are putting up themselves. If they increase the amount to spend under the present law, I have got to do it too.

Q Well, Mr. President, do you think under present circumstances there is some chiseling on the part of some backward States that are trying to dump it on the Federal Government?

THE PRESIDENT: No, because we don't -- as a general rule it's on a matching basis, so if they put up less we put up less.

Q Is there any possibility some of these alleged backward States hope the Federal Government would come along and carry more of the load for them

in the future?

THE PRESIDENT: It depends largely on what kind of administration they have got.

Q Do you hope to get that through this year?

THE PRESIDENT: What?

Q Do you hope to get that through this year?

THE PRESIDENT: I hope to, Yes. Congress will be here for 359 more days.

Q Isn't this a reversal on the part of the Administration? Congressman -- Mississippi's Congressman, and several of them, tried to get this shelved in the House, and it also came up in the Senate; and in both Houses Administration leaders fought and defeated it.

THE PRESIDENT: I didn't know that.

Q At that time arose the question of so-called poorer States.

Q That was on Federal Education, wasn't it?

Q No, sir.

Q No, no. Connally amended some bill in the Senate a year or so ago. That was finally thrown overboard.

THE PRESIDENT: Oh, Yes. That was too much "rule of thumb."

(reading): "Because of heavy Federal borrowing, interest charges are expected to increase by 139 million dollars in the current fiscal year, and by another 500 million dollars in the fiscal year 1943. Debt service is, of course, affected by war spending.

"COORDINATION OF FISCAL POLICIES

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

more important it becomes to provide a reservoir of post-war work by business and by Federal, State, and local governments.

"FINANCING THE WAR

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

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

"RECEIPTS UNDER PRESENT LEGISLATION

"Total receipts from existing tax legislation will triple under the defense and war programs. They are expected to increase from 6 billion dollars in the fiscal year 1940 to 18 billion dollars in the fiscal year 1943. This increase is due partly to the expansion of economic activities and partly to tax legislation enacted during the last 2 years. As we approach full use of our resources, further increases in revenue next year must come predominantly from new tax measures rather than from a greater tempo of economic activity. Taxes on incomes, estates, and corporate profits are showing the greatest increase. Yields from employment taxes are increasing half as fast; and the yields from excise taxes are increasing more slowly; customs are falling off."

Of course that is obvious.

(reading): "On the whole, our tax system has become more progressive since the defense effort started."

Then you have got a table.

Q Mr. President, on the employment taxes, does this imply a recommendation either by the Treasury or Social Security Bureau for an increase in payroll taxes?

THE PRESIDENT: Yes, employment taxes.

Q That has been suggested, but it hasn't been proposed officially?

THE PRESIDENT: Yes, that is one of the things.

(See Table on Page XI of Budget Message appended)

Q Mr. President, could you tell us what Table would have that most graphically in dollars?

MR. HAROLD SMITH: That is -- Receipts, Schedule 1.

Q What page?

MR. BLANDFORD: Page xxii. And then there is a statement, number one, which goes over and starting new series D-4 in more detail, on page A3.

Q Thank you.

(reading): "DEFICITS UNDER PRESENT LAWS

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

Then follows a Table which I never saw before, but it's all right.

(See Table on Page XII of Budget Message appended hereto)

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

Q Mr. President, would you have that assumption confirmed if the Congress moves pretty fast?

THE PRESIDENT: What?

Q Would you have that assumption confirmed if the Congress moves pretty fast?

THE PRESIDENT: Yes, yes. The quicker the better.

(reading): "THE NEED FOR ADDITIONAL TAXES

"In view of the tremendous deficits, I reemphasize my re-

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

"I believe that 7 billion dollars in additional taxes should be collected during the fiscal year 1943. Under new legislation proposed later in this Message, social security trust funds will increase by 2 billion dollars. Thus new means of financing would provide a total of 9 billion dollars in the fiscal year 1943."

It's the objective.

(reading): "Specific proposals to accomplish this end will be transmitted in the near future."

Of course I suppose the Treasury will do that.

(reading): "In this Message I shall limit my recommendations on war finance to the broad outline of a program."

Q Mr. President, may I interrupt a moment? Could you tell us how you happen to arrive at 7 billion dollars, rather than six or eight or some other figure?

THE PRESIDENT: Two ways, by asking what the maximum was that we could raise, and then asking the converse of it, "Will the country stand that amount?"

Q Mr. President, this contemplates almost a 50% payment of 56 billion dollars out of taxes then, doesn't it, or out of taxes borrowed from trust funds for the 18 billions estimated from present taxes in '43?

THE PRESIDENT: No. The 18 includes, doesn't it, Harold?

MR. HAROLD SMITH: No.

Q It says "exclusive," I think, sir.

THE PRESIDENT: Wait a minute. (reading): "Total receipts from existing tax legislation are expected to increase to 18 billion dollars."

Q Total 27 billion dollars?

Q Almost half of the 56 to be spent.

THE PRESIDENT: Well, on the General Budget Summary, column one, item four Roman, you have got "receipts from proposed tax legislation of 7 billion."

Q Where is that, sir?

Q Page 21.

THE PRESIDENT: Page 21 -- Roman.

Q You have 16.48 up above.

THE PRESIDENT: That is in. In other words that gives you the actual budgetary figures of 42 billion, minus receipts from proposed tax legislation, or budget deficit under proposed tax legislation, 35 billion.

Q About 23-1/2?

THE PRESIDENT: Yes. 16 plus 7 equals 23-1/2.

Q (interposing) Mr. President, are the new Social Security taxes in that Table?

THE PRESIDENT: (continuing) 2 billion makes it 9.

Q (interposing) In that ---

MR. BLANDFORD: (interjecting) On page 12.

Q (continuing) --- Table on page 21?

MR. BLANDFORD: In that table on page 12.

MR. HAROLD SMITH: Item 3.

Q Mr. President, is it correct then to say that the total amount of taxes is approximately 27 billion, as against the 17.8, plus the ---

THE PRESIDENT: (interposing) 25-1/2 isn't it?

Q (interposing) Does that 25-1/2 ---

THE PRESIDENT: (Continuing) About 25-1/2.

Q Does that 25-1/2 include deductions you are deducting from any -- deducting from the Old Age insurance, which has to be collected?

THE PRESIDENT: Yes.

Q So the actual collections from the people would be 27?

MR. BLANDFORD: 18 and 9 total collections.

MR. HAROLD SMITH: You have got Social Security taxes in there. 18 and 9 in that total, which are not applicable to the general budget but are applicable to finance.

Q It would be 25 then, without the Social Security?

MR. BLANDFORD: 1.3 plus 3.3. 3.3 would be the Social Security part of it.

Q It is 27 billion, although 3.3 is Social Security, is that right?

Q There is no telling, is there, sir, what is earmarked, what is Social Security and general taxes? It goes into the general fund, does it not?

Q It's a question of how much of it goes into ---

MR. HAROLD SMITH: (interposing) For financing, that's all.

Q Yes.

Q How much is to be collected, then, in the '43 fiscal year?

THE PRESIDENT: You can handle it three different ways. You can handle the 16 plus 7, or handle the 23, or you can add Social Security to make it 25, and -- what? -- 2 billion more for new Social Security -- 27.

Q 18 plus 9 then?

THE PRESIDENT: Yes.

Q (interposing) Mr. President ---

THE PRESIDENT: (continuing) As I see it, you can write the story truthfully any one of those three ways.

Q (interposing) The General Budget Summary carries the figure 52 billion 786 million. Have you ---

THE PRESIDENT: (continuing) Then you add to that Jesse Jones' items for the balance of this year and next year, about another 4.

MR. BLANDFORD: 3 billion 43.

THE PRESIDENT: Yes.

Q Mr. President, there is this difference, isn't there, between ordinary taxation and Social Security taxes? When you get the Social Security taxes in, you still have to borrow the money? Isn't that right? Don't you have to borrow it from the Social Security?

THE PRESIDENT: Yes, from Social Security, that's right.

Q So it is really borrowed tax money?

THE PRESIDENT: Yes, that's right. Instead of going to the bank or the public, you go to your own Social Security trust fund and borrow from that.

MR. HAROLD SMITH: It doesn't help the Budget, but it helps the Treasury.

THE PRESIDENT: (reading):

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

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

"PROGRESSIVE TAXES

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

Q Mr. President, do you mean cooperative and mutual and such businesses --

non-profit organizations?

THE PRESIDENT: No. Not non-profit organizations like churches.

Q I beg your pardon?

THE PRESIDENT: Not organizations like charities and things of that kind.

Q Could you give us a little better idea?

Q (interposing) You mean mutual life insurance companies, Mr. President?

THE PRESIDENT: If they are truly mutual, but you know there are some of them that are called mutual that "ain't."

Q What about labor organizations, Mr. President?

THE PRESIDENT: What?

Q What about labor organizations?

Q (interposing) Allowance for mining companies, iron and gas?

THE PRESIDENT: Yes. Some of those oil things are a scandal.

Q What about farm cooperatives?

THE PRESIDENT: What?

Q What about farm cooperatives?

THE PRESIDENT: If they are cooperatives.

Q Did you have in mind the average annual income?

THE PRESIDENT: No. I tell you what I have in mind. I don't know whether it's this clause, or one further on. You take a corporation. Well -- what? -- don't use the name in your stories -- call it corporation "X." I am thinking of Coca Cola. Now, what is the total amount of money -- I don't happen to own any of the stock, but most people do -- what is the total amount -- not confined to any rich people -- widows and orphans -- that ever went into Coca Cola? Well, it is probably -- what? -- 10% of the capitalization of Coca Cola. Now they ploughed back profits, that is perfectly true, but nothing like to an amount equal to the total of their capitalization.

Now, how do you value Coca Cola? Do you value it on the profit they make every year? While on the original stock the payments that went in there were -- I don't know, what? -- 100% -- they are making this year the same amount that they made on the average of the past 4 years. So they escape under the present law -- very largely escape any additional taxes.

Now the question is: Should an original investor be entitled to 100% without any further penalty? There are any number of corporations of that kind. It was one of the well recognized -- it was not dishonest -- everybody did it in the Golden Age of the Twenties. And it is a question as to whether people should get 100% on their money year in and year out, or whether they should pay somewhat higher taxes on that enormous yield. And of course ---

Q (interposing) Mr. President ---

THE PRESIDENT: (continuing) --- I failed, as you know, in the last tax bill to have anything done about it. I am still at it.

Q You mean a corporation, Mr. President, with a large fixed capitalization should not be penalized the same way, as far as taxes are concerned, as a company with smaller capitalization and larger earnings?

THE PRESIDENT: That's right too. Now of course there are a lot of very small companies and individual businesses today that we all feel terribly sorry for, because they have certain debts, which under the present tax law they are absolutely unable to cut down. At the present time, under the present law, they can't spend any of their money for reduction of debt, and these companies are companies of very small capitalization. It is really hardship on them.

Q You speak, Mr. President, of loopholes, here again, in the tax law.

Would that include tax laws on community property that they tried to correct last year? Would you happen to have that in mind?

THE PRESIDENT: No. I haven't had it in mind, but I have always thought that we should have exactly the same basis in all the States, instead of having four or five States with a separate kind of law.

Q May I interrupt, Mr. President? In that statement you mean to imply that you advocate one method of computing excess profits taxes, rather than in existing law?

THE PRESIDENT: No. Have some kind of provision that will help some of the smaller companies, providing some method by which they can pay down a little on their debts. Remember that smaller companies' debts are in most cases loans/^{to banks}-- from banks, callable at any time. Well, the bank is all right if it will renew the loan when it comes due -- short term -- one-year note -- three-year note -- they will be glad to renew the note if something has been paid down on the note towards its reduction. Whereas the larger companies, their debt is largely to their stockholders, and in very long term bonds. They are not frightfully concerned about paying down on their debt.

My family still has some bonds of the New York Central that are the direct lineal descendants of some bonds that my great-grandfather bought in 1841 to help build the railroad up the Hudson River. And we have still got them, and they have never paid off one cent of that capitalization in a hundred years, because it was the financial policies of railroads always to refund the debt, and never pay it off. Now that's an advantage that a big corporation has, but the little firm can't do that. The bank says, "No, no."

Q How would you attack that problem?

THE PRESIDENT: What?

Q How would you attack that problem in new legislation?

THE PRESIDENT: I don't know.

Q Mr. President, would that apply also to business firms that have a fixed obligation that has to be paid off in installments over a period of, say, five years?

THE PRESIDENT: Yes, yes.

(reading): "It seems right and just"

Oh, yes. This is one of my pets. (rubbing his hands)

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

Q Mr. President, do you propose that mutual associations of Federal Security should be taxable by the States?

THE PRESIDENT: I think it goes hand in hand.

(reading): "Excessive profits undermine unity and should be recaptured."

This is my thought.

(continuing reading): "The fact that a corporation had large profits before the defense program started is no reason to exempt them now. Unreasonable profits are not necessary to obtain maximum production and economical management. Under war conditions the country cannot tolerate undue profits.

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

Then you come to the anti-inflationary policy.

(reading): "I stated last year in the Budget Message that extraordinary tax measures may be needed to 'aid in avoiding inflationary price rises which may occur when full capacity is approached.' The time for such measures has come. A well-balanced tax program must include measures which combat inflation. Such measures

should absorb some of the additional purchasing power of consumers and some of the additional funds which accrue to business from increased consumer spending.

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

Q There, Mr. President, does that take in sales tax?

THE PRESIDENT: Wait a minute. We haven't come to it yet.

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

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

"EXCISE TAXES. -- All through the years of the depression I opposed general excise and sales taxes and I am as convinced as ever that they have no permanent place in the Federal tax system. In the face of the present financial and economic situation, however, we may later be compelled to reconsider the temporary necessity of such measures.

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

Now don't go out and say that I am coming out for a sales tax.

Oh no. I am talking about a selective excise tax, which is in a sense like the tax on your cigarettes. It is a selective excise tax. And I believe that we will have to go into that field more largely on a selective excise tax and sales tax on certain carefully selected things which now don't bear that burden.

For two reasons, the first is to raise revenue -- three reasons -- the first to raise revenue, the second is to put a governor -- a brake -- on inflation problems, and the third goes right with the --

at the end of this war -- the ability to take that brake off if we run into a period of deflation. So that -- that is perfectly clear.

Q Mr. President, is it your plan to put more taxes on things already bearing selective excise taxes, or reach out and take in new?

THE PRESIDENT: Oh, new things.

Q New things?

THE PRESIDENT: Yes.

Q Not higher taxes on those already having ---

THE PRESIDENT: (interposing) Not necessarily. It depends entirely on the individual thing. They all have different considerations.

Q Mr. President ---

Q (interposing) Mr. President, you say, "we may later be compelled to reconsider the temporary necessity of such measures." Could you give a definition of the latter?

THE PRESIDENT: Tomorrow. Any time.

Q Mr. President, you say you are not discussing a general sales tax, but the next to the last paragraph sounds like it is a general excise and sales tax that you are talking about?

Q (interposing) We may consider it later.

THE PRESIDENT: Well, (reading, not literally): "I am absolutely opposed to any general excise and sales tax," you see, but, (reading, not literally): "In the face of the present financial and economic system, we may later be compelled to reconsider the temporary necessity of such measures." That should be all the same paragraph. It is meant to be in the form of selective excise taxes. I don't think we ought to have a general sales tax.

Q Are you changing it to read that way?

THE PRESIDENT: What?

Q Are you changing it to read that way?

THE PRESIDENT: No, but that is the amendment.

MISS MAY CRAIG: Mr. President, are you considering retail excise taxes, or manufacturers taxes there -- sales taxes?

THE PRESIDENT: May, you will get into all sorts of problems. What is the cigarette tax? You pay it at retail, and the manufacturers pay it at the factory. You see what I mean? It's your pennies that actually go to the cigarette stand, and you pay the thing. But actually the stamp is put on, and the Government is paid, in the cigarette factory.

Q In Ohio the retailer pays it, Mr. President.

THE PRESIDENT: Do they really?

Q State only.

MR. HAROLD SMITH: State only.

Q There are reports that you might ask State governments to relinquish their source of income, such as cigarette or gas taxes, at least some of them? Are you contemplating that?

THE PRESIDENT: No. Sometime some of the State departments will get their excise taxes so high that they will begin to lose the population. Some of those gasoline taxes in the South, in the past, have been way out of line. Probably now they won't be so much out of line.

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

"I recommend an increase in the coverage of old-age and

survivors' insurance, addition of permanent and temporary disability payments and hospitalization payments beyond the present benefit programs, and liberalization and expansion of unemployment compensation in a uniform national system. I suggest that collection of additional contributions be started as soon as possible, to be followed 1 year later by the operation of the new benefit plans.

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

That was the thing that you were talking about before. We -- the Government, in order to pay the cost of war, borrows from that fund.

Q Mr. President, at present on the Old Age tax, the employer pays one percent, and employee one percent. Is it correct that the Budget is making each one 2% instead of 1%?

THE PRESIDENT: I don't know. I haven't got any details.

MR. BLANDFORD: Those rates go up to 2% after January 1, 1943.

THE PRESIDENT: Yes, '43. They postponed it one year, didn't they?

Q Mr. President, is any additional increase in the tax rates planned beyond that automatic increase, regarding the Social Security?

THE PRESIDENT: That I don't know.

Q There has been some talk about it going up to 5%.

THE PRESIDENT: Eventually, Yes.

Q I mean as an immediate anti-inflationary measure, you don't contemplate that?

THE PRESIDENT: Oh No. I think that by next January, unless there is a change in the law -- I mean January, 1943 -- it will go up 1%. That is a half -- a half.

(reading): "The existing administrative machinery for collecting

pay-roll taxes can function immediately. For this reason congressional consideration might be given to immediate enactment of this proposal, while other necessary measures are being perfected.

"I estimate that the social security trust funds would be increased through the proposed legislation by 2 billion dollars during the fiscal year 1943."

Q Mr. President, would that be purely through supplementing the act?

THE PRESIDENT: What?

Q Would that be through bringing in these additional persons, you refer to up there in the first paragraph, rather than any increase in rates beyond that 1%?

THE PRESIDENT: The increase in rates we have got provided by law already, and if you broaden the base the number of people would be that much more.

Q The increase in rates does not occur until next year?

THE PRESIDENT: I think so.

Q No increase in the meantime?

THE PRESIDENT: I don't know.

MR. HAROLD SMITH: There would be some increase, Mr. President, to bring it up to the total.

THE PRESIDENT: To the total.

MR. HAROLD SMITH: That is being held out for your approval by the Social Security Board.

THE PRESIDENT: You might anticipate the present program by a year.

Now the fiscal year situation.

(reading): "FLEXIBILITY IN THE TAX SYSTEM

"Our fiscal situation makes imperative the greatest possible flexibility in our tax system. The Congress should consider the desirability of tax legislation which makes possible quick adjustment in the timing of tax rates and collections during an emergency period."

Q Just what was that?

THE PRESIDENT: What?

Q What does that mean?

Q "Timing of tax rates and planning of collections," -- what does that mean?

THE PRESIDENT: Now that's a thing I will have to ask an expert. (turning to Mr. Harold Smith)

MR. HAROLD SMITH: Mr. President, I am not an expert, but the two things that were in mind there about these -- that is, the Congress might, we will say, devise a relatively perfect tax bill -- if there were such -- that fits the problems of the immediate needs of revenue, and so forth and so on. And then, when -- in connection with it, set a series of rates in that bill. One of them we will say would be in effect now. The Congress later, without a whole series of hearings, might by simple resolution put the next rate into effect, as the case demands. And furthermore, that is the sort of thing that is thought of in connection with this one point. The last point has to do with giving, perhaps, the Treasury some authority to move ahead collections, or adopt a monthly system of collections.

Q That means withholding payroll taxes?

MR. HAROLD SMITH: No. That is not -- that is not the thought. It is just a question of maybe paying income taxes on a monthly basis.

Q We might pay our '42 taxes, or '41, monthly instead of quarterly?

MR. HAROLD SMITH: Yes. Those two points are involved there.

THE PRESIDENT: (reading): "BORROWING AND THE MENACE OF INFLATION

"The war program requires not only substantially increased taxes but also greatly increased borrowing. After adjusting for additional tax collections and additional accumulation in social security trust funds, borrowing from the public in the current and the next fiscal year would be nearly 19 billion dollars and

34 billion dollars, respectively. The adjustments are indicated in the preceding table.

"Much smaller deficits during the fiscal year 1941 were associated with a considerable increase in prices. Part of this increase was a recovery from depression lows. A moderate price rise, accompanied by an adjustment of wage rates, probably facilitated the increase in production and the defense effort. Another part of the price rise, however, was undesirable and must be attributed to the delays in enacting adequate measures of price control.

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

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

In other words, buy bonds instead of building -- redecorating your own house.

(reading): "This factor will contribute substantially to financing the tremendous war effort without disruptive price rises and without necessitating a departure from our low-interest-rate policy. The remaining inflationary pressure will be large but manageable. It will be within our power to control it if we adopt a comprehensive program of additional anti-inflationary measures.

"A COMPREHENSIVE ANTI-INFLATIONARY PROGRAM

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

"The system of allocations -- rationing on the business

level -- should be extended and made fully effective, especially with relation to inventory control.

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

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

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

Q Mr. President, there is no plan for enforced savings on this, is there?

THE PRESIDENT: No. No general plan, but there are all kinds of items that come up any old time -- like automobile tires. Well, that is enforced. We may have to do it with something else -- pigs knuckles! (laughter)

(reading): "THE INCREASE IN THE FEDERAL DEBT

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

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

Q Mr. President, one paragraph back there -- "2 billion dollars of this

increase will result from the redemption of Government corporations."

That is not by any chance losses of Government corporations is it, that have to be made up?

THE PRESIDENT: I don't know. How about that? (turning to Mr. Blandford)

MR. BLANDFORD: No, Mr. President, it is just including. It would be simpler to have single financing of the Treasury and corporate needs so the Treasury is going to take up these notes.

Q That means that some contingent liabilities will then be translated into the public debt? Is that the effect of it?

THE PRESIDENT: Yes.

MR. BLANDFORD: Yes.

THE PRESIDENT: So that we will get a better over-all picture.

(reading): "Paying 2.5 billion dollars out of an extremely low national income would impose an excessive burden on taxpayers while the same payment out of a 100-billion-dollar national income, after reduction of armament expenditures, may still permit substantial tax reductions in the post-war period.

"If we contract a heavy debt at relatively high prices and must pay service charges in a period of deflated prices, we shall be forced to impose excessive taxes. Our capacity to carry a large debt in a post-war period without undue hardship depends mainly on our ability to maintain a high level of employment and income.

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

I may say on this (the Budget Message) that there are two outstanding things that I am very, very much encouraged at, when I draw comparison with '17 and '18, and '19 and '20.

As some of you remember, we were paying -- getting out our bonds at 4-1/4% rate. Today we are getting out our bonds, and notes, and bills, at an average of about 2-1/2% for the entire national debt.

That is a very, very big saving over the conditions at that time.

Furthermore, the reason I stress price control is that -- also, as some of us remember -- the prices of certain things went clear out of line, both during the first World War and after it. 2 dollars for wheat. 33¢ -- 35¢ for cotton, and so forth and so on. Well, as a result of things getting out of line, through the failure of price control at that period, which, however -- was based, however, on things that happened before '17, the whole -- a whole lot of other things were thrown out of line, to the ruination of millions of people. Some of those agricultural prices that went up in '14 and '15 and '16, before we got into the war. Wheat got up -- I don't know, what? -- 2-1/2 dollars a bushel, and the price of any land that grew these things went up to a perfectly fantastic figure. 50-dollar land was selling at 200 dollars. And of course the financing of it had been by -- mostly by mortgage -- some kind of an obligation. And at the end of the period when, say, wheat dropped down from 2 dollars to 40 or 50 cents a bushel, that land reverted to its original value. And the fellow that had bought it lost it, and then a whole chain of things.

I remember in the 1920 campaign, when I started out West on my first trip, I realized that there was quite a lot of trouble among the cattle growers of the West. They had been encouraged to add to their herds, to get all the new calves that they possibly could. And the whole West was flooded with calves and cows.

And I knew that I would run into trouble, and the reason was that the people who had lent them the money -- the banks, which had been encouraged by the Treasury Department -- they were calling loans.

So I wrote a letter to the Secretary of the Treasury, Mr. Houston,

and said, "Now, what will I say in my speeches to these cattle growers?" And I got back a letter -- imagine my using it in the campaign -- saying, "Dear Mr. Secretary, tell them the truth. Tell them that they have to be the vicarious sacrifice for a restoration of the country to normal financial positions."

Well, I didn't use it. (laughter)

Now we want to avoid having cattle growers, and lots of other people, put in the same bad fix they were in at the end of the first World War. And we are thinking ahead. And I am perfectly convinced that even if the debt does go to 110 billion dollars, we will be able to pay it; partly because of the very much lowered cost of interest to the people of the country, and secondly by a scheme of taxation, a scheme of price control that will keep up the national income and enable us to reduce that debt in a relatively short time, just as we were reducing it up to -- what? -- '26 -- somewhere along there, where we rescinded a whole lot of taxes and left the country burdened with a debt of somewhere around 21 or 22 billion dollars.

Q Do you mind, sir, repeating those figures, sir?

THE PRESIDENT: What?

Q Do you mind repeating those figures which left you unworried about the size of the debt?

THE PRESIDENT: First the -- first the very much lower and more reasonable interest rates, and secondly the keeping up -- I think I said -- of the -- of the taxes and the national -- the national income. And third, through the price control method -- preventing normal values from going completely out of line.

Q This would anticipate the end of war in '43 then, with a 110-billion-dollar debt? (laughter)

Q Mr. President, what are the rules on what to say in this conference?

THE PRESIDENT: Oh, I suppose the same old thing. No direct quotes.

MR. EARLY: That's right.

THE PRESIDENT: Yes.

Q There can be attributions?

THE PRESIDENT: What?

Q There can be attributions?

THE PRESIDENT: Yes, I think so.

MR. EARLY: Not until after the Budget is released.

THE PRESIDENT: That's right.

Q Thank you, Mr. President.

Q Thank you, Mr. President.

THE PRESIDENT: All right.

CONFIDENTIAL! To be held in STRICT CONFIDENCE and no portion, synopsis, or intimation to be published or given out until the READING of the President's Budget Message has been begun in the Senate or House of Representatives. While the Message and the Budget of the United States are dated JANUARY 5, 1942, some contingency may arise to prevent its delivery to the Houses of Congress on that date, and extreme care must therefore be exercised to avoid premature publication.

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

STEPHEN EARLY,
Secretary to the President.

MESSAGE TRANSMITTING THE BUDGET FOR 1943

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

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

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

Powerful enemies must be outfought and outproduced. Victory depends on the courage, skill, and devotion of the men in the American, British, Russian, Chinese, and Dutch forces, and of the others who join hands with us in the fight for freedom. But victory also depends upon efforts behind the lines—in the mines, in the shops, on the farms.

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

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

THE WAR PROGRAM

Our present war program was preceded by a defense effort which began as we emerged from the long depression. During the past 18 months we laid the foundation for a huge armament program. At the same time industry provided ample consumers' goods for a rapidly growing number of workers. Hundreds of thousands of new homes were constructed; the production of consumers' durable goods broke all records. The industrial plant and equipment of the country were overhauled and expanded.

Adjustment to a war program can now be made with greater speed and less hardship. The country is better stocked with durable goods. Our factories are better equipped to carry the new production load. The larger national income facilitates financing the war effort.

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

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

WAR APPROPRIATIONS

This is a war budget. The details of a war program are, of course, in constant flux. Its magnitude and composition depend on events at the battlefronts of the world, on naval engagements at sea, and on new developments in mechanized warfare. Moreover, war plans are military secrets.

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

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

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

WAR EXPENDITURES

Total war expenditures are now running at a rate of 2 billion dollars a month and may surpass 5 billion dollars a month during the fiscal year 1943. As against probable budgetary war expenditures of 24 billion dollars for the current fiscal year, our present objective calls for war expenditures of nearly 53 billion dollars for the fiscal year 1943. And in addition, net outlays of Government corporations for war purposes are estimated at about 2 and 3 billion dollars for the current and the next fiscal year, respectively.

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

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

THE CIVIL FUNCTIONS OF GOVERNMENT

In a true sense, there are no longer nondefense expenditures. It is a part of our war effort to maintain civilian services which are essential to the basic needs of human life. In the same way it is necessary in wartime to conserve our natural resources and keep in repair our national plant. We cannot afford waste or destruction, for we must continue to think of the good of future generations of Americans. For example, we must maintain fire protection in our forests; and we must maintain control over destructive floods. In the preparation of the present Budget, expenditures not directly related to the war have been reduced to a minimum or reoriented to the war program.

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

It is estimated that expenditures for the major Federal assistance programs—farm aid, work relief, youth aid—can be reduced by 600 million dollars from the previous to the current fiscal year, and again by 860 million dollars from the current to the next fiscal year. These programs will require 1.4 billion dollars during the fiscal year 1943,

about one-half of the expenditures for these purposes during the fiscal year 1941.

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

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

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

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

Work projects.—The average number of W. P. A. workers was two million in the fiscal year 1940, the year before the defense program started; the average has been cut to one million this year. With increasing employment a further considerable reduction will be possible. I believe it will be necessary to make some provision for work relief during the next year. I estimate tentatively that 465 million dollars will be needed for W. P. A., but I shall submit a specific request later in the year. Workers of certain types and in certain regions of the country probably will not all be absorbed by war industries. It is better to provide useful work for the unemployed on public projects

than to lose their productive power through idleness. Wherever feasible they will be employed on war projects.

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

Rather than rely on relief a determined effort should be made to speed up reemployment in defense plants. I have, therefore, instructed the Office of Production Management to join the procurement agencies in an effort to place contracts with those industries forced to cut their peacetime production. The ingenuity of American management has already adapted some industries to war production. Standardization and substitution are doing their part in maintaining production. Ever-increasing use of subcontracts, pooling of industrial resources, and wider distribution of contracts are of paramount importance for making the fullest use of our resources. The newly nationalized Employment Service will greatly help unemployed workers in obtaining employment.

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

Although I am estimating 100 million dollars for these two agencies, excluding 50 million dollars for defense training, it is probable that the total amount will not be needed. I am postponing until next spring presentation to the Congress of specific recommendations as to youth aid.

Public works program.—The public works program is being fully adjusted to the war effort. The general program of 578 million dollars includes those projects necessary for increasing production of hydroelectric power, for flood control, and for river and harbor work related to military needs. Federal aid for highways will be expended only for construction essential for strategic purposes. Other highway projects will be deferred until the post-war period. For all other Federal construction I am restricting expenditures to those active projects which cannot be discontinued without endangering the structural work now in progress.

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

Federal grants and debt service.—A few categories of civil expenditures show an increase. Under existing legislation Federal grants to match the appropriations for public assistance made by the individual States will increase by 73 million dollars. I favor an amendment to the Social Security Act which would modify matching grants to accord with the needs of the various States. Such legislation would probably not affect expenditures substantially during the next fiscal year.

Because of heavy Federal borrowing, interest charges are expected to increase by 139 million dollars in the current fiscal year, and by another 500 million dollars in the fiscal year 1943. Debt service is, of course, affected by war spending.

COORDINATION OF FISCAL POLICIES

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

FINANCING THE WAR

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

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

RECEIPTS UNDER PRESENT LEGISLATION

Total receipts from existing tax legislation will triple under the defense and war programs. They are expected to increase from 6 billion dollars in the fiscal year 1940 to 18 billion dollars in the fiscal year 1943. This increase is due partly to the expansion of economic activities and partly to tax legislation enacted during the last 2 years. As we approach full use of our resources, further increases in revenue next year must come predominantly from new tax measures rather than from a greater tempo of economic activity. Taxes on incomes, estates, and corporate profits are showing the greatest increase. Yields from employment taxes are increasing half as fast; and the yields from excise taxes are increasing more slowly; customs are falling off. On the whole, our tax system has become more progressive since the defense effort started.

Development of major sources of Federal receipts compared with fiscal year 1940
[Indexes, 1940=100]

Source	1940 (actual)	1941 (actual)	1942 (estimated)	1943 (estimated)
Corporate taxes.....	100	173	328	519
Individual income and estate taxes.....	100	136	275	405
All employment taxes.....	100	111	143	209
Excise taxes.....	100	128	167	184
Miscellaneous receipts.....	100	70	90	106
Customs duties.....	100	112	108	85
Gross receipts.....	100	134	216	300

¹ Excludes return of surplus funds by Government corporations.

DEFICITS UNDER PRESENT LAWS

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

about 2 billion dollars in the fiscal year 1942 and 2.8 billion dollars in the fiscal year 1943.

Financing of Federal operations, fiscal years 1940-1943

[In millions]

Classification	1943 (estimated)	1942 (estimated)	1941 (actual)	1940 (actual)
A. SUMMARY OF FEDERAL OPERATIONS:				
I. Budget deficit under present tax legislation (see p. XXI).....	\$42,440.8	\$18,631.8	\$5,103.4	\$3,611.1
II. Government corporations (net outlays).....	2,941.0	2,220.0	1,148.8	200.1
Net outlays of Budget and Government corporations (I+II).....	45,381.8	20,851.8	6,252.2	3,811.2
III. Trust funds:				
Deduct excess of receipts over disbursements under present legislation ¹	2,763.9	2,018.3	1,385.3	1,159.3
Combined net cash requirements (I+II-III) ²	42,617.9	18,833.5	4,866.9	2,651.9
B. FINANCING COMBINED NET CASH REQUIREMENTS:				
By borrowing from the public (net):				
Government issues.....	34,913.1	19,528.1	4,602.3	1,380.4
Government corporation issues.....	+ 1,297.8	+ 710.1	972.8	318.7
Subtotal.....	33,615.3	18,818.0	5,575.1	1,699.1
Under proposed legislation:				
Taxes.....	7,000.0			
Increase in social security trust funds ⁴	2,000.0			
Total.....	42,615.3	18,818.0	5,575.1	1,699.1
Adjustment for changes in cash balances during year.....	2.6	15.5	+ 708.2	952.8
Total, financing.....	42,617.9	18,833.5	4,866.9	2,651.9

² Deduct.

¹ Includes return of surplus funds to the Budget.

³ Almost all of this excess is invested in Government bonds.

⁴ Includes interest accrued on U. S. savings bonds.

⁵ This increase to be invested in Government bonds.

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

THE NEED FOR ADDITIONAL TAXES

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

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

I believe that 7 billion dollars in additional taxes should be collected during the fiscal year 1943. Under new legislation proposed later in this Message, social security trust funds will increase by 2 billion dollars. Thus new means of financing would provide a total of 9 billion dollars in the fiscal year 1943.

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

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

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

PROGRESSIVE TAXES

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

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

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

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

ANTI-INFLATIONARY TAXES

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

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

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

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

Excise taxes.—All through the years of the depression I opposed general excise and sales taxes and I am as convinced as ever that they have no permanent place in the Federal tax system. In the face of the present financial and economic situation, however, we may later be compelled to reconsider the temporary necessity of such measures.

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

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

I recommend an increase in the coverage of old-age and survivors' insurance, addition of permanent and temporary disability payments and hospitalization payments beyond the present benefit programs, and liberalization and expansion of unemployment compensation in a uniform national system. I suggest that collection of additional contributions be started as soon as possible, to be followed 1 year later by the operation of the new benefit plans.

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

The existing administrative machinery for collecting pay-roll taxes can function immediately. For this reason congressional consideration might be given to immediate enactment of this proposal, while other necessary measures are being perfected.

I estimate that the social security trust funds would be increased through the proposed legislation by 2 billion dollars during the fiscal year 1943.

FLEXIBILITY IN THE TAX SYSTEM

Our fiscal situation makes imperative the greatest possible flexibility in our tax system. The Congress should consider the desirability of tax legislation which makes possible quick adjustment in the timing of tax rates and collections during an emergency period.

BORROWING AND THE MENACE OF INFLATION

The war program requires not only substantially increased taxes but also greatly increased borrowing. After adjusting for additional tax collections and additional accumulation in social security trust

funds, borrowing from the public in the current and the next fiscal year would be nearly 19 billion dollars and 34 billion dollars, respectively. The adjustments are indicated in the preceding table.

Much smaller deficits during the fiscal year 1941 were associated with a considerable increase in prices. Part of this increase was a recovery from depression lows. A moderate price rise, accompanied by an adjustment of wage rates, probably facilitated the increase in production and the defense effort. Another part of the price rise, however, was undesirable and must be attributed to the delays in enacting adequate measures of price control.

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

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

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

A COMPREHENSIVE ANTI-INFLATIONARY PROGRAM

A great variety of measures is necessary in order to shift labor, materials, and facilities from the production of civilian articles to the production of weapons and other war supplies. Taxes can aid in speeding these shifts by cutting nonessential civilian spending. Our resources are such that even with the projected huge war expenditures

we can maintain a standard of living more than adequate to support the health and productivity of our people. But we must forego many conveniences and luxuries.

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

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

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

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

THE INCREASE IN THE FEDERAL DEBT

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

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

Paying 2.5 billion dollars out of an extremely low national income would impose an excessive burden on taxpayers while the same payment out of a 100-billion-dollar national income, after reduction of armament expenditures, may still permit substantial tax reductions in the post-war period.

If we contract a heavy debt at relatively high prices and must pay service charges in a period of deflated prices, we shall be forced to impose excessive taxes. Our capacity to carry a large debt in a post-war period without undue hardship depends mainly on our ability to maintain a high level of employment and income.

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

FRANKLIN D. ROOSEVELT.

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