

P.Sf. Bureau of the Budget (1933-1938)

Subject File

Box 118

Aug 11, 19  
1958

L.W. Douglas Memo to  
President, Dec. 30, 1933.  
made available for  
research per Douglas letter  
to Director, FDRL, May 2,  
1958.

RLS

see: O.F. 79  
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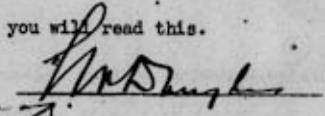
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BUREAU OF THE BUDGET

WASHINGTON

Dec. 30 - 1933

Mr. President: I earnestly hope you will read this.

*file* 

MEMORANDUM FOR THE PRESIDENT:

Permit me, with all the sincerity at my command and with great earnestness, to make this last plea against further large undertakings involving huge governmental expenditures, excepting alone whatever may be necessary for the direct relief of the destitute and the unemployed. History demonstrates, almost without exception, that huge expenditures eventually plunge governments, even though reluctant, into paper inflation. This, history again demonstrates, is one of the most destructive things a government can do to its people. Not only does it destroy in part the wealthy, but it bears with cruel violence upon the man who toils, the widow and the orphan, beneficiaries of small annuities, and the unemployed. History is an expert witness, and testifies that this, without exception, is the toll taken by paper inflation.

Moreover, in many instances, paper inflation is begun in a concealed and disguised form, and the people are lulled into a sense of false security thereby. But the destructive effects are eventually just as great.

The Budget, the matter of expenditures, is the factor which

influences the course of Government by the sheer weight of economic laws either toward and into this destructive thing, paper inflation, or away from it.

Your Administration will be called upon to borrow, according to present estimates, more than six billions of dollars during the course of the next six months, exclusive of refunding operations amounting to approximately \$4,000,000,000. This represents Government financing equal in magnitude to that undertaken by any government at any time in history. Whereas our previous undertakings of this size occurred during the war years, when we experienced full employment, a higher national income and great prosperity, to-day the national income has been materially diminished, and unfortunately we have great unemployment. But even during the war years, the undertaking of the Government to borrow a billion dollars a month was made successful only by the greatest effort and by the most sincere and earnest cooperation of the entire country. It was not then an easy task. It was a task of great difficulty. With these facts in mind, I do not believe you can now, under conditions existing as they are to-day, successfully borrow this amount of money. I do not believe the credit of the Government will stand the strain. It therefore follows that the expenditures which you are approving, and the additional ones which you propose to make, will, in my opinion, plunge you, an unwilling victim, I know, into the very thing which you recognize to be so destructive,- paper inflation. This may be commenced in a concealed

form, but it will be paper inflation, none the less. The great inflations of history, caused by excessive expenditures in the first instance, bear witness to this fact.

What I believe to be an inevitable consequence, quite irrespective of how much you may resist, of the expenditures which you have authorized for the fiscal year 1954, becomes even more inevitable and inescapable in the light of a contemplated additional deficit of at least two billions of dollars for the fiscal year 1955.

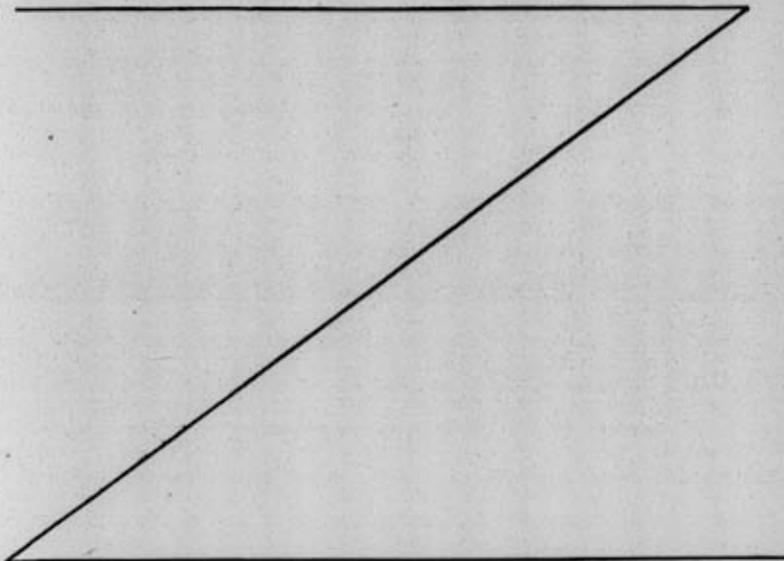
In our conversations with regard to the fiscal year 1955, you have enumerated certain items which you think to be necessary. First, may I say that the need for direct relief is unquestioned. It is one of the imperative demands upon the Government. I would be the last to deny the truth of this. But, with respect to the other proposed expenditures, I believe them to be unnecessary even though perhaps desirable. We cannot always have what we want; we must deny ourselves in the interest of the general public welfare; and so, desirable as some of these things may appear to be to you, if the consequences of undertaking them means setting in motion the destructive forces of paper inflation, then, in the public interest, they should not be undertaken.

You contemplate additional loaning powers to the Reconstruction Finance Corporation. Mr. President, on the best of authority, the only remaining function of the Reconstruction Finance Corporation is that of rehabilitating the banking system. This, it

not only can but must complete before July 1, of 1934. What, then, is the purpose of contemplating an extension of its loaning powers? I can perceive none, except that of making loans to industry. Mr. President, the implications of such an action may not have been pointed out to you. You have seen, and I have seen, many governmental agencies initiated originally as temporary ones grow and expand into permanent fungi on the Government. So it will be with the Reconstruction Finance Corporation. But more than that, in all reasonable expectancy if the Reconstruction Finance Corporation is permitted to make loans to industry, it will, as a result, soon become the sole and exclusive occupant of the field of short time, intermediate and long time credit. I do not believe you want the Government to be the complete and absolute dictator of credit and of all the human activities that flow from credit. Frankly, I do not, for this would not even resemble freedom compatible with the public interest.

I am certain that you do not desire to see politicians or political groups or political influence prescribe the requisites for credit. As you know only too well, ninety per cent of the business of this country is done on credit. Do you want to see control of that, of the lifeblood of business, subject to constant political pressure from all sources? Of course you do not, nor do I; yet it will surely happen if the Government enters further into this field. The dangers of such a situation are simply appalling. But, more than that, exclusive occupancy of the field of credit by the Federal

Government is the last step toward complete state capitalism, and may develop into the medium by which we convert the economic system of this country into a communistic or fascistic one. I do not want to see that, and I am sure you do not.



You have referred to the necessity for additional public works. Secretary Ickes now has \$150,000,000 unallocated which he can very well allocate to projects for which he has allotted only enough to meet the requirements for this year. This was the intent of Congress. As I understand the situation, there have been approved projects the cost of which will not be completely paid for several years,

the amount necessary to complete the projects being \$172,000,000, or \$22,000,000 in excess of the unallotted funds. This is almost, if not actually, an over-obligation of appropriation, and therefore an act the legality of which is very questionable. But, quite irrespective of this, public works were undertaken for the purpose of 'priming the pump'. When they are continued over a long period of time they cease to become primers of the pump, and to the extent to which they pile up expenditures beyond the borrowing capacity of the Government to meet, they cause infinitely more harm through the consequent paper inflation than any amount of good which might flow from them.

But, in addition to all this, Mr. President, public works as reemployment mechanisms are the most costly method of relief, and the least effective. It costs approximately four thousand dollars per man employed, and the total number who will be directly employed when your public works program reaches its very maximum will not exceed three hundred and twenty-five thousand. On every score then it is my opinion that public works beyond those now authorized are unnecessary. But even if for other than reemployment reasons they seem desirable, the harm incident to the extent to which their cost exceeds the borrowing capacity of the Government, thus plunging the Government into paper inflation with its destructive consequences, convinces me that they at best are one of the things which we may want to do, but which in the public interest we cannot afford to do further.

You refer to the Civilian Conservation Corps. Desirable as

this activity may be for the purpose of building up the youth of the country and of contributing somewhat to the preservation of our natural resources, if the cost incident to its continuation contributes to paper inflation it falls naturally within the category of those things which we might like to do but which in the public interest we cannot and should not do.

With respect to the relief of home and farm mortgages, in so far as commitments have been made they must be met. I can, from emergency expenditures, save you enough money to meet those commitments.

And now, just a word on the question of so-called two budgets. By that, I mean a division of the expenditures of the Government into ordinary and extraordinary, and calling a balanced budget one in which the ordinary expenditures are in balance with receipts. This fools no one, for as long as the total expenditures are in excess of total receipts the Government has to borrow as long as its credit permits it to borrow. The second point with respect to two budgets is that the previous Administration initiated the policy when it created the Reconstruction Finance Corporation. Its deficits were never reconcilable with the increase in the public debt. This, I believe, you pointed out in your Pittsburgh speech of October 19, 1932. I appreciate that there are some who believe that if the ordinary expenditures of the Government are in balance with receipts, and if additional taxes are imposed to provide interest

an amortization on governmental borrowings, that the budget is in balance. If this theory be true, then from 1932 on, the previous Administration had accomplished more than a balanced budget, for its total deficit, including Reconstruction Finance Corporation loans, was but slightly in excess of \$3,000,000.000 during the fiscal year 1933, while in the spring of 1932 it levied more than \$600,000,000 in taxes, - clearly more than enough to bring ordinary expenditures into balance with revenues, and to provide more than enough to serve the additional debt. This is even more impressive when it is considered that a substantial part of the deficit was incident to Reconstruction Finance Corporation loans, a large part of which have already been repaid. So that if this theory of two budgets be correct, then the Government under the previous Administration had a balanced budget, and everything which we said and which I believe you said in your excellent speech delivered in Pittsburgh on October 19, of 1932, is error. In short, Mr. President, the theory of two budgets, as I have said, fools no one except the borrower; and leads, as it always has led in European countries and in South American countries, where it has been tried, to bankruptcy. We are headed in the same direction.

One final thought. The condition precedent to the establishment of a communistic/<sup>or fascistic</sup> order of society is the destruction of the middle class by paper inflation/<sup>or unbearable taxation.</sup> I see Government expenditures piled upon expenditures, so that paper inflation is inevitable, with a consequent destruction of the middle class. I see efforts to make the Government

the exclusive occupant of the field of credit. I see inferences that the Government proposes and intends to plan for <sup>each</sup> individual economic activity; and sometimes they are not mere inferences, they are very express acts, and I am not here referring to the abolition of child labor, nor to a minimum wage, of which I approve. I see all these things and more. And while I appreciate that you are not and cannot be an advocate of a complete change of our economic system,- a thorough metamorphosis, a comprehensive translation into Communism or Fascism,- and while I know that you cannot be advocating or quiescently supporting any such policy, because you clearly stood upon the Democratic platform, and said so categorically many times,- I wonder whether you thoroughly appreciate the implications of the steps which you have taken or the steps which you propose to take. I cannot believe that you do.

Your budget is the heart of your recovery program, as you yourself have so many times stated, and as you stated in Pittsburgh and in your splendid message to Congress of March 10, 1933. Great human values depend upon an impregnable credit of the Government. It is only by maintaining that credit that confidence can be restored so that men may go back to work. Roughly, forty-eight million people are employed by private enterprise during a normal economic activity in this country.

Unless our social order is changed into a <sup>or fascistic</sup> communistic/one, the Government cannot possibly supplant private enterprise as an

employer of people. The issue then, it seems to me, is clearly drawn,- either we will change our social order and deliberately abolish all private enterprise, replacing it with Government enterprise and employment, or we must maintain the credit of the Government so that confidence may be restored not only in its credit but in all of the things which rest upon its credit, such as money, so that private enterprise may proceed to perform the function of employment.

If you choose the former course, I prophesy many years of intense suffering on the part of millions -- many, many millions of American citizens. If, on the other hand, you elect to follow the latter course, then, as you have so properly said, we can look forward to the reemployment of our citizens, and to greater human happiness. If you elect to pursue this course, all of the factors are in your favor. The world is experiencing a recovery from the depression; powerful economic forces for recovery exist. They cannot be thwarted if the Administration will but give them a chance to go forward, by laying the basis for confidence and faith. This can be accomplished only by a cessation of borrowing, except as may be necessary for the direct relief of the unemployed.

May I, in this one last appeal, delivered with a deep sincerity and the most profound sense of duty both to you and to my country, ask that you read once more your Budget Speech delivered in Pittsburgh on October 19, 1932, and your Budget Message to the Congress of March 10, 1935, on the occasion of the submission of the 'Act to Maintain the Credit of the United States Government.'

*A. M. Douglas*

*Put in Budget folder*

*7-1-34*  
*7-1-34*  
Sheet 1  
*BSF*

GOVERNMENT'S CASH REQUIREMENTS FOR EMERGENCY PROGRAM FOR PERIOD ENDING JUNE 30, 1934.

*Curran of the Budget*

Responsible department heads estimate cash needs for period, at .....		\$6,503,000,000.
These estimates do not take into account -		
Hopkins additional relief	\$ 375,000,000	
X Foreign (28 x 12 )	336,000,000	
X Domestic (40 plus 25)	65,000,000	
Sinking Fund Purchases	250,000,000	
Interest on Home Loan Corporation Bonds	15,000,000	
R.F.C. Additional Preferred Stock	<u>600,000,000</u>	<u>1,641,000,000.</u>
		\$8,144,000,000.
Against this may be set off R.F.C. repayments for period, estimated at .....		<u>714,000,000.</u>
		\$7,430,000,000.
New money already raised since July 1, 1933 .....		<u>1,300,000,000.</u>
This leaves to be raised during the period ending June 30, 1934, the sum of .....		6,130,000,000.
New money estimated to be raised in the market .....		<u>2,500,000,000. *</u>
Balance to be cared for:		\$3,630,000,000.

\* See attached sheet.

NOTE: The above figures do not take into consideration any additional expenditures of any sort that may be authorized by Congress. They assume that there will be no further call on the R.F.C. or the Treasury in connection with the issue of Federal Land Bank Bonds, as these will be cared for by obtaining a guarantee, or in some other way.

Sheet 2.

NEW FINANCING

January 1, 1934 to June 30, 1934.

1. It is intended to continue to renew the maturing 90-day Treasury Bills and, in addition, to obtain approximately \$490,000,000 additional money from the market through the issuance of additional amounts of 90-day Bills.

2. It is believed that it will be possible, with conditions favorable, to obtain from the market during this period, in addition to the \$490,000,000 new money covered in paragraph 1 above, \$2,000,000,000 of new money, through the issuance of government securities having a length of longer than 90 days.

3. We are assuming, therefore, under favorable conditions, that we can obtain approximately \$2,500,000,000 of new money from the market between now and June 30, 1934. (Paragraph 1 plus paragraph 2.)

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4. During the period January 1, 1934 to June 30, 1934, there are maturing, other than 90-day Treasury Bills, a total of \$1,879,000,000, which must be refunded.

5. The total money to be obtained through the market in the period, by the issue of government securities running for a period longer than 90 days is; therefore, \$1,879,000,000 (refunding), plus \$2,000,000,000 (new money), or a total of \$3,879,000,000.

PROPOSED TREASURY FINANCING  
Dec. 1, 1933 to June 30, 1934

Basis of \$2,500

(in millions of dollars)

Months	Estimated New Financing			Refunding			Total Financing	Treasury Balance (end of month)
	90 day bills	Other than 90 day bills	Total	90 day bills	Other than 90 day bills	Total		
1933								
Dec.	-	-	-	-	-	-	-	1,046
1934								
Jan.	110	400	510	390	-	390	900	573
Feb.	90	500	590	310	-	310	900	631
Mar.	-	540	540	300	460	760	1,300	979
Apr.	-	-	-	400	1,000	1,400	1,400	465
May	-	500	500	500	244	744	1,244	600
June	-	350	350	300	175	475	825	578
	200	2,290	2,490	2,300	1,879	4,079	6,569	578

STANDARD FORM No. 14A  
APPROVED BY THE PRESIDENT  
MARCH 10, 1925

*PSF*  
*Bureau of the Budget*  
**TELEGRAM**

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM

The White House  
Washington

*Franklin D. Roosevelt*  
*Carl Vinson*

U. S. GOVERNMENT PRINTING OFFICE: 1924

September 1, 1934.

HON. LEWIS W. DOUGLAS  
HASTINGS ON HUDSON  
NEW YORK

IN VIEW OF THIS MORNING'S STORY WHICH SEEMS TO HAVE ORIGINATED  
WITH NEW YORK TIMES LATE LAST NIGHT I AM COMPELLED TO ANNOUNCE  
THE RESIGNATIONS THIS AFTERNOON TOGETHER WITH APPOINTMENT OF  
MR. DANIEL BELL AS ACTING DIRECTOR

FRANKLIN D. ROOSEVELT

*PSF: Bu of Budget*



TREASURY DEPARTMENT

WASHINGTON

August 17, 1935.

TO THE PRESIDENT:

Continuing my talks with you concerning the financial outlook of the United States Government for the next four years, I submit the following:

There is a definite swing upward in the business curve.

I feel that the strongest encouragement that you could contribute at this time to continue the acceleration of recovery would be to definitely indicate a much improved budgetary position for the fiscal year 1937 and a balanced budget by 1938.

It would seem, therefore, that the time has come for you to take an inventory of the various emergency agencies. This would indicate which ones can begin to liquidate and turn over to the Treasury the proceeds of such liquidation to retire our public debt. I further suggest that you should have reviewed the allocations of funds previously made of all emergency appropriations to see if large savings cannot be made.

In making this study, the Treasury has had five objectives in mind, viz., (1) that the peak of unemployment expenditures this year should be reached in January, February and March, 1936, when winter unemployment will be at its seasonal high; (2) eliminate every project which will not be entirely completed by July 1, 1936, except such

projects as are now actually under contract; (3) that the unallocated balances of all emergency funds, including the \$3,300,000,000 appropriation, should flow through the Allotment Committee, the same as the \$4,880,000,000 fund; (4) a date and yardstick on which to stop allotments for public works projects, including loans and grants and housing; and (5) to carry out your suggestion and to have an unallocated balance of \$1,200,000,000 of the \$4,880,000,000 appropriation left on July 1, 1936.

The following shows the total funds which were available under the Emergency Relief Appropriation Act of 1935 appropriating \$4,880,000,000, and the unallocated balance as of the close of business August 16, 1935:

Unobligated balances available for transfer (impounded) . . . . .	\$ 925,000,000	
Appropriated by the Act . . . . .	4,000,000,000	
		<u>\$4,925,000,000</u>
Appropriated by Congress for highways . . . . .	\$100,000,000	
Appropriated by Congress for crop loans . . . . .	60,000,000	
Allotted for direct re- lief prior to passage of Act . . . . .	282,000,000	
Impounded funds re- leased . . . . .	9,600,000	
		<u>481,600,000</u>
Total funds available for allocation:		<u>\$4,463,400,000</u>

3.

		(\$4,463,400,000
Allocations approved by the President . . . . .	\$2,610,900,000	
Allocations recommended but not yet approved by the President . . . . .	277,900,000	
	-----	\$2,888,800,000
Balance available for further allocation, including \$500M of R. F. C. funds:		----- \$1,574,600,000

It will be noted that you have approved allocations aggregating \$2,610,900,000, and that allocations aggregating \$277,900,000 have passed the Allotment Committee and are now being prepared for your approval. This will leave an unallocated balance of \$1,574,600,000. The best estimates that we can get at this time indicate that an additional \$150,000,000 minimum will be required to carry on direct relief until November 1, \$150,000,000 for Civilian Conservation Corps, \$147,800,000 for Rural Electrification Administration and National Youth Administration, \$1,510,800,000 for the program outlined by the Works Progress Administration, and \$50,000,000 reserve for contingencies, or a total of \$2,008,600,000, leaving a deficit of about \$434,000,000.

During one of our recent conferences you indicated that you intended saving \$1,200,000,000 of this appropriation. From the proposed programs indicated above, you will readily see it is quite obvious that this can not be done. If the amount of \$1,200,000,000 is to be saved, it would seem necessary not only to confine all future allocations to the Works Progress Administration, direct relief, Civilian Conservation Corps, Rural Electrification

Administration and the National Youth Administration, but to review and cancel a large amount of previous allocations. Any study to be made of previous allocations for the purpose of ascertaining those which may be cancelled should include all allocations made under emergency funds appropriated prior to the \$4,880,000,000 Act.

There are attached statements marked Exhibits A and B. The statement marked Exhibit A shows the estimates of expenditures submitted by the various departments and agencies concerned, to be made from all emergency funds for each of the fiscal years 1936, 1937, 1938 and 1939. A glance at this statement will indicate those agencies which contemplate obligating future budgets heavily. The statement marked Exhibit B shows with respect to the appropriation of \$4,880,000,000 the amount of the allocations approved by you or the amounts in process of approval; estimated additional requirements on programs in contemplation, together with the estimated expenditures for the fiscal year 1936 and for the period following 1936.

The following comments and suggestions are made with respect to the principal projects to be financed during the fiscal years 1936-1939, both inclusive, out of all emergency funds made available to the organizations concerned and such additional funds as they have indicated will be required to complete.

#### I. Agriculture - Good Roads

This Bureau estimates that the sum of \$355,000,000 will be spent in 1936, and \$145,000,000 in 1937. The Treasury feels that the estimate for 1936 is too high by \$100,000,000, and that the estimate for 1937 is too low by that amount. To be consistent with other recom-

mendations herein, the approval of definite projects should be limited to those which can be entirely completed by July 1, 1936, and that thereafter the total amount of the approved projects should not exceed the annual amount made available for the regular Federal Aid highway program.

#### II. Interior - Reclamation Projects

The Bureau of Reclamation has estimated that it will spend in

1936	-	\$93,000,000
1937	-	78,000,000
1938	-	30,000,000
1939	-	11,000,000
		<u>                    </u>
		\$212,000,000

The Treasury feels that the estimate for 1936 is too high and estimates for subsequent years too low. In other words, a much heavier burden than that shown will be thrown upon the budgets following the fiscal year 1936. Expenditures for all reclamation projects for the next few years should be confined to an amount equal to an average annual expenditure made for this purpose for a ten-year period ended June 30, 1930, which amounted to \$71,000,000.

#### III. Treasury - Public Buildings

The Treasury estimates an expenditure on this account of \$35,000,000 for 1936 and \$20,000,000 for 1937, which completes the program started under the National Industrial Recovery Act.

IV. (a) Public Works Administration-  
Loans, Grants, etc.

The public works program calls for an estimated expenditure in

1936	-	\$370,000,000
1937	-	68,000,000
1938	-	7,000,000

There was expended on this account the sum of \$149,000,000 in 1934 and \$204,000,000 in 1935, of which \$71,000,000 was spent in 1934 and \$66,000,000 in 1935 for loans to railroads.

Our investigation of 422 allocations for projects averaging about \$106,000 each, shows that it requires an average of about five months from the time the allocation is made to the date of the contract for construction, and about an average of six months from the date of the contract to completion, or a total of eleven months. If it is your intention to have all approved projects completed within the fiscal year 1936, then it will be absolutely necessary to radically curtail allocations for this purpose.

The Public Works Administration now holds State, municipal, and other securities amounting to \$239,000,000, and if permitted to continue will no doubt acquire an additional substantial amount before its program is completed. Under the National Industrial Recovery Act, the President is authorized, through the Administrator of the Public Works Administration, to sell any security acquired or any property constructed or acquired or to lease any such property, provided that all moneys received from any such sale or lease or the repayment of any loan shall be used to retire public debt obligations issued for the purpose of provid-

ing funds to the Public Works Administration. Under the Emergency Appropriation Act approved June 19, 1934, the Reconstruction Finance Corporation is authorized to purchase marketable securities from the Public Works Administration, and any sums paid to the P. W. A. for such securities are available to it for making further loans. The amount which the R. F. C. can hold at one time is \$250,000,000. In other words, if the P. W. A. sells its securities in the market or receives repayments of principal, the proceeds come into the Treasury for debt retirement; whereas if its securities are sold to the R. F. C., the proceeds go back to P. W. A. for further loans.

In my opinion, no further funds should be allocated to P. W. A. for loans and grants to States, etc., until you have had an opportunity to review all of the allocations previously made and to advise the organization to which funds have been allocated that if a construction contract is not in force by December 1, 1935, then the allocation is forthwith cancelled. P. W. A. should then be directed to liquidate its activity, except for administration of contracts in force.

#### IV. (b) Housing

The Housing Division of P. W. A. estimates that it will spend in

1936 - \$60,000,000

1937 - 108,000,000

1938 - 47,000,000

There was expended on this account about \$400,000 in 1934 and \$6,500,000 in 1935.

If \$60,000,000 can not be spent in 1936, it will throw a larger amount on future budgets. When the Housing Division was established, residential construction in the United States was at its lowest level for many years and seemed to be stagnant for some time to come. Residential construction today, however, presents a hopeful picture as is indicated by the attached table marked Exhibit C. In a word, this display in contracts awarded shows an increase of 70 per cent in residential construction during the first seven months of 1935, in comparison with 1934. Building permits during the six months comparable period indicate an increase of 140 per cent.

It seems to me that our housing policy should be concentrated under the Federal Housing Administration, where efforts are being made successfully to get private capital to carry the burden. I believe that the Housing Division of P. W. A. should be limited to the projects now actually under construction and this it should be directed to liquidate, because the same emergency does not exist today as it did two years ago when this Division was created.

V. War Department - Corps of  
Engineers

This organization estimates that it will spend \$212,000,000 in the fiscal year 1936, \$185,000,000 in 1937, \$42,000,000 in 1938, and \$16,000,000 in 1939. It seems to me that this program might be substantially reduced. It could be confined to projects previously author-

ized by Congress including all projects now actually under construction or reduced so that it will not exceed an average annual amount over the ten-year period ending June 30, 1930, which amounted to \$71,000,000. Even in the depression years of 1920, 1921 and 1922 the Government spent considerably less than \$50,000,000 per annum on river and harbor projects.

VI. Reconstruction Finance Corporation

The Reconstruction Finance Corporation estimates that it will make a net expenditure of \$730,000,000 in 1936, \$525,000,000 in 1937, and \$434,000,000 in 1938; and only in 1939 does the Treasury begin to receive the benefit of repayments. In my opinion, the R. F. C. should be instructed to begin liquidation of its organization and that no new commitments should be made without your prior authorization. If the expenditures of the R. F. C. could be stopped at the present time, our best estimate indicates that we would get \$500,000,000 in receipts in 1936, \$300,000,000 in 1937, \$250,000,000 in 1938, and \$150,000,000 in 1939, or a total of \$1,200,000,000 over this period of four years instead of a contemplated net expenditure of \$1,563,000,000. This alone would represent a material factor in our debt program.

VII. Home Owners Loan Corporation  
Federal Farm Mortgage Corporation

These two corporations have not operated on Government funds in the sense that they affect the Budget. They have, how-

ever, sold and issued bonds aggregating about \$4,000,000,000 which carry the guarantee of the United States Government. Any losses sustained on any of these obligations will, therefore, have to come from the General Fund of the Treasury, and to that extent will be a charge upon future budgets. These organizations will soon complete the program for which they were created. I feel that they should be directed to liquidate their activities as far as possible, and that the organizations remaining should only be sufficient to collect the amounts due to the corporations on the mortgages that they hold and to service the bonds outstanding. It may be necessary later on to give consideration to the matter of consolidating these agencies into one organization for the purpose of collecting unpaid obligations or transferring their collection functions to the Treasury Department, which would certainly mean a substantial reduction in administrative expenses.

#### VIII. Recommendations

I am of the opinion that an announcement at this time by you to the country to the effect that you intend to save \$1,200,000,000 out of the \$4,880,000,000 and that the total deficit for the fiscal year 1937 will not exceed \$1,000,000,000 as indicated by you at our last conference on this subject, and that in 1938, barring major disasters, the budget will be balanced, would have a tremendously beneficial effect on recovery.

I make the following specific recommendations:

11.

(1) That no further funds from any source be allocated for work relief projects except through the Works Progress Administration, and for account of direct relief, Civilian Conservation Corps, Rural Electrification and National Youth Administration;

(2) That all previous allocations of funds from all emergency appropriations be reviewed; that wherever the funds cannot be spent during the fiscal year 1936 the allocation be cancelled if practicable and the funds returned to the main appropriation account;

(3) That the Reconstruction Finance Corporation, Public Works Administration including the Housing Division, and any other organization which will complete its program within the fiscal year, be directed to begin liquidation of its activities and that any funds derived through such liquidation be covered into the Treasury for retirement of the public debt.

EXHIBIT "C"

Volume of Contracts Awarded and Building Permits.

Dodge Contracts Awarded - Residential  
(37 Eastern States)

Building Permits - Residential  
Bureau of Labor Statistics.

	<u>1934</u>	<u>1935</u>	<u>Increase</u>		<u>1934</u>	<u>1935</u>	<u>Increase</u>
Jan.	\$15,110,400	\$22,405,200	\$7,294,800		\$4,380,956	\$9,108,975	\$4,728,019
Feb.	14,520,300	16,616,800	2,096,500		4,974,151	9,900,077	4,925,926
Mar.	28,076,100	32,207,400	4,131,300		8,854,322	20,350,706	11,496,384
Apr.	22,770,000	42,280,800	19,510,800		10,328,745	23,402,225	13,073,480
May	24,847,200	44,916,500	20,069,300		11,451,559	25,418,766	13,967,207
June	26,580,200	49,832,600	23,252,400		8,682,068	28,949,365	20,267,297
July	19,879,100	48,371,800	28,492,700				
	\$151,783,300	\$256,631,100	\$104,847,800 70%		\$48,671,801	\$117,130,114	\$68,458,313 140%
July					8,679,693		
Aug.	18,641,000				8,926,540		
Sep.	17,871,600				9,660,143		
Oct.	26,299,800				11,636,823		
Nov.	19,924,700				9,930,353		
Dec.	14,550,500				7,134,837		
Total	\$249,070,900				\$104,640,190		

Page 6

PSF

TREASURY DEPARTMENT

*Bureau of the Budget*

INTER OFFICE COMMUNICATION

DATE December 23, 1935

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: The Business Situation

I. SUMMARY: FOURTH QUARTER INDUSTRIAL ACTIVITY AND EARLY 1936 OUTLOOK

Industrial activity in the last three months of 1935 promises to exceed that of any three months' period since the second quarter of 1930. A 5 point rise in the FRB index of industrial production from 90 to 95 between September and October was followed by a 2 point gain to a preliminary index of 97 for November (see Chart 2). The continued high rate of manufacturing output in the first two weeks of the present month indicates that the December adjusted index will equal or exceed that of November.

Improvement during the late fall was general. Consumption goods industries in particular led the advance in October: automobiles, tobacco products, food products, and textiles scoring large gains. Preliminary reports for November indicate that textiles and food products will decline more than seasonally, but that tobacco and automobiles will show further increases. Accompanying the rise in automobile output, the production of iron and steel has shown a steady upward trend in the last two months. Electric power production, freight car loadings, and total value of construction contracts also moved ahead in both October and November, on a seasonally adjusted basis.

October indexes of factory employment and payrolls were at the highest levels since November 1930 and March 1931, respectively. Although employment declined 0.5 percent and payrolls 0.7 percent in November, it is notable that these declines are the smallest which have occurred in either series between October and November since 1925. Employment in the durable goods groups actually increased in November, reflecting the high rate of automobile output; but in the Eastern Seaboard States, where the automobile industry is relatively unimportant, as well as in the Cleveland district, fewer workers were employed last month than in October.

Despite this generally favorable record, there are indications that the fall upturn in industrial activity, uninterrupted so far, may be temporarily halted in the early months of 1936. Current operations are

dependent to a fairly large degree on the unseasonable increase in automobile production occasioned by the introduction of new models in November instead of in January. However, no substantial set-back to further recovery is anticipated for these months, since generally low inventories and sustained activity in important basic industries other than automobiles may well hold output at its current level throughout the late winter.

## II. THE RECENT BUSINESS RECORD

### 1. Fourth Quarter Automobile Production Exceeds All Expectations (Chart 2)

Automobile production in the United States and Canada in the fourth quarter of 1935 will be over one million cars and trucks. The heights reached in the last seven weeks have exceeded the most optimistic expectations of the industry; 1935 output is now estimated at 4,150,000 cars and trucks, far ahead of the 1930 total of 3,610,000 which the manufacturers had previously hoped to reach this year.

Total output in November, estimated at 410,000 cars and trucks compared with 283,000 in October, surpassed that of any other month immediately subsequent to the introduction of new models, with the exception of January 1929. Production in the first three weeks of December bettered the November average.

The retail demand for cars has been highly satisfactory since the November shows. New car sales have had one unfavorable aspect, however: stocks of used cars accepted in partial payment have been piling up rapidly, with little possibility of their reduction before spring. This situation slows up new car sales and offers some threat to a continued high rate of automobile output during the late winter and early spring.

### 2. Related Industries Up Sharply

Trailing in the wake of the spectacular automobile output, new high records for 1935 have recently been registered by several important indicators of business activity:

(1) Average daily steel ingot production reached the high mark of the year in November, enjoying its fourth consecutive monthly rise, and has held up well in succeeding weeks (Chart 2). Recent gains may be largely attributed to increased demand from the motor manufacturers, although support afforded by the miscellaneous group of consumers has also been important.

(2) Electric power production continues to set new high records; actual output in the week ending December 14 was the highest ever recorded, due in part to the rise in automobile output (Chart 2).

(3) The average weekly volume of freight cars loaded in October was the best for any month since October 1931 (Chart 2). A seasonal recession was felt in November and early December, due largely to the falling off in shipments of farm products. On an adjusted basis, however, railroad freight traffic has made an excellent showing since early fall, a record which has had an encouraging effect on the railroads' depressed traffic receipts.

(4) October textile output was the best recorded in any month since the pre-NRA boom; November production, allowing for seasonal influences is expected to be close to that of October. During November, cotton consumption reached the highest level prevailing in any similar month since 1928. Silk consumption declined slightly. Wool consumption is expected to show little change in November from the October figure, which was the highest for any month since May 1923. Although retail textile sales have held up well, a major influence in recent markets has been the demand for upholstery fabrics from the automobile and furniture industries.

### 3. Construction Contracts Off Seasonally in November (Chart 3)

The total value of construction contracts awarded in 37 Eastern States decreased from \$201 millions in October to \$188 millions in November, due to a fall in the volume of residential building from \$55 millions to \$40 millions. The decline in residential building is, however, relatively unimportant when due allowance is made for seasonal influence and for the fact that the October record contained several unusually large multi-family projects; furthermore, the volume this month was double that of November 1934. Prospects for increased residential construction next year are enhanced by the continued upswing in rents, by the growing availability of funds for mortgage loans, and by the stable level of building costs, which have remained virtually unchanged since late in 1933.

Publicly financed construction exceeded the total of the previous month for the sixth consecutive period. The November total was \$118 millions compared with \$114 millions in October and \$74 millions in November 1934.

### 4. Real Estate Investments Increasing

Investment funds are now flowing into construction and real estate in much greater volume than in either of the last two years. Mortgage investments made by 45 life insurance companies during the first 11 months of 1935 are four times as great as those in the same period of 1934, although they constitute less than 8 percent of the total volume of new investments of life insurance companies in this period as compared with about 50 percent in the last half of 1928 (Chart 5).

Stimulated by Government loan activities, the volume of mortgage loans made by building and loan associations during the first ten months of this year is double the very low volume for the same period in either 1933 or 1934. More than 1,000 Federal type of savings and loan associations, with resources exceeding \$450 millions, and situated in 763 cities and towns in 44 States, have been chartered by the Federal Home Loan Bank Board since Congress provided for Federally-supervised associations in June 1933. In nine States, the number of investors in Federal associations already exceeds 10 percent of all investors in all associations of the building-and-loan type in those States.

#### 5. Equipment Orders Expanding

The recent large orders for business and household equipment afford further evidence of the means and disposition to invest in the future. Third quarter orders for electrical goods, as reported to the Department of Commerce, exceeded those of the third quarter in each year since 1930. In the three months from September to November, machine tool orders surpassed those of the corresponding period in each year since 1929.

Sales of electric refrigerators in the first nine months of 1935 were larger than in any full year heretofore recorded. Washing machine sales continue to set new high records, with shipments for September 47 percent above September 1934, and the 9 months' total 12 percent above the like 1934 period. Shipments of radiators during the first nine months of 1935 showed an advance of 17 percent over the corresponding months in 1934. The rate of operations in furniture plants has also showed a steady rise during the summer and early fall.

#### 6. Farm Income Up in October

Reports just received on cash receipts from the sale of principal farm products in October show gains of more than seasonal proportions in all regions. Farm income including Government payments during the first ten months of 1935 totaled \$5.6 billions, (of which \$464 millions were in rentals and benefits), compared with \$5.2 billions in the corresponding period last year and \$4.1 billions in 1933. The largest increases occurred in the Far Western and West North Central States, whereas in 1934 the most spectacular gains over the preceding year occurred in the Southern area.

Although the Pacific Coast and drought areas are making the best showing this year as compared with last, other regions are not far behind. In the North Atlantic States, farm income in October, excluding Government payments, was 12 percent larger than a year ago and the largest for any October in five years. In the East North Central region, receipts from marketings in October made a new high for this year, whereas the seasonal peak is usually reached in July and August. Substantial

gains were recorded in the South Atlantic States in income from livestock; increased marketings of cotton, cottonseed, and tobacco, on the other hand, fell just short of offsetting lower prices for these crops in this area. In the South Central States, which had been affected west of the Mississippi by the 1934 drought, receipts from marketings in October were 13 percent above the year previous.

7. Retail Trade in Farm and City Areas Showing Improvement. (Chart 4)

From mid-October to mid-November, urban retail sales were depressed, due to the unseasonably warm and wet weather, but in the last half of November they more than overcame their early slackness. Preliminary reports indicate that the Christmas trade will be the best since 1930, possibly the best since 1929. Both urban and rural retail sales were higher last month than in November 1934, with increases ranging from 6 to 13 percent for the former as against an increase of 15 percent for the latter.

III. FINANCE

1. Corporation Profits and Security Prices (Chart 6)

Reflecting improved business activity, profits of 259 industrial and mercantile concerns in the third quarter of 1935 were above those of any quarter since the third quarter of 1930, according to a survey made by the Federal Reserve Bank of New York; other profits studies reached the same conclusion. As compared with earnings a year ago, the capital goods producers made the best record this year, in particular the manufacturers of machinery and tools, building supplies, and electrical equipment.

Moving in sympathy with earnings reports, stock and bond prices also reached higher levels during the fall, although a brisk rise in stock prices in the first half of November has been followed by a reaction in the past four weeks. The spread between the yields of long-term Treasury bonds and our index of high-grade corporate issues has been virtually unchanged for the past two months (Chart 7). A small rise in the price of long-term Treasury's took place during late September and October, following the considerable decline of the previous two months. Corporate bond prices tardily followed the upturn in Governments, partially restoring the differential to .68 points on October 19, since which date variations have been minor. The yield on long-term Treasury's amounted to 2.75 percent on December 19, as against 3.38 on corporates -- a differential of .65 on that date.

The market is as yet on a cash basis (Chart 6). Following three consecutive increases in brokers' loans reported by New York City member banks, there was a decline in the week ending December 18. On that date such loans amounted to only \$945 millions as compared with a total of over a billion dollars in the summer of 1934. Other evidence confirms

this indication that stock buying on margin is not extensive as yet. However, the constant increase in excess reserves, recently augmented by a gold inflow which carried the monetary gold stock above the \$10 billions mark, the lack of margin regulations in the case of bank loans on securities, and the failure of margin regulations effective on brokers' loans to prevent pyramiding of profits after stocks have risen sharply, provide the basis for an increased flow of credit into the stock market in the future.

## 2. New Security Offerings

While the improvement in business activity has been great enough to prompt considerable replacement of old and obsolete industrial equipment, the gains have not yet reached the point where existing plant capacity is insufficient to supply the existing demand. According to a recent study made by the SEC, only \$40 millions of new corporate securities offered for cash in the first ten months of 1935 were designed for acquisition and enlargement of plant and equipment; \$1676 millions of the total of \$1816 millions were used for the repayment of indebtedness. The volume of corporate offerings is gradually increasing, however, and the total in November reached \$250.5 millions, smaller than September and only half as great as in July, but over eight times the figure for November 1934.

## IV. REVIEW OF PROGRESS SINCE 1930 (Chart 1)

In Chart 1, the first depression year, rather than any one of the years generally termed "normal", has been chosen as the point of comparison with current conditions. During 1935, a very few industries have stood out as bettering all post-war business records, including those of 1929. A larger group of series reflecting changes in economic activity has recently approached 1930 levels. Observers of this situation have in some cases been led to conclude that we are but one year away from a restoration of the business volume of 1929. There is no necessary correspondence between the rate of decline and the rate of increase during various phases of the business cycle. With this caution in mind, however, it becomes of interest to compare third quarter records this year with corresponding conditions five years ago.

Industry: The chart shows that by the third quarter of this year factory output and factory employment had both regained all but about 10 percent of the ground lost since 1930. Electric power production in 1935 has surpassed all previous records, responding to increased electrification of homes, offices, and factories, as well as to the normal increase in demand which has accompanied recovery. Car loadings and new construction in the third quarter of this year were still sharply depressed as compared with the first full depression year, although recently railroad freight traffic has shown considerable improvement, and

new construction has held its own during a period when outdoor work is generally curtailed.

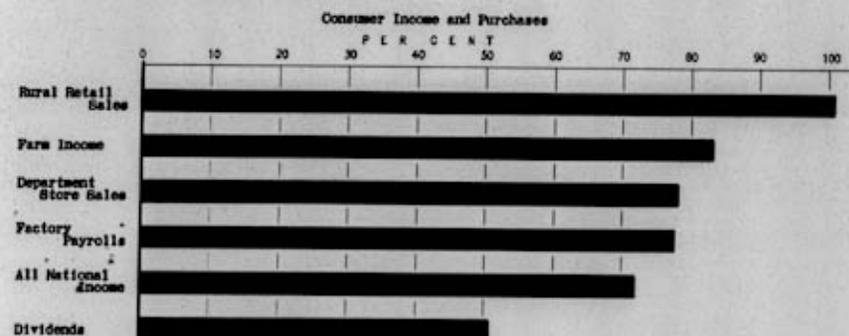
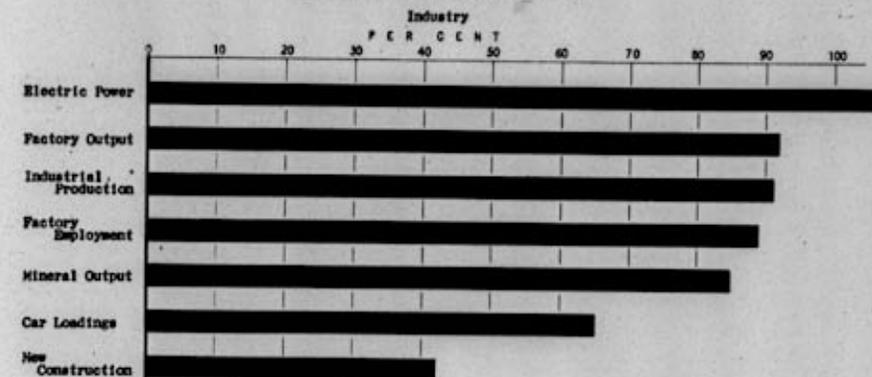
Consumer Income and Purchases: While national income is expected to increase \$3 to \$4 billions this year from the total of \$80.2 billions in 1934, the wide gap between its third quarter level and that of 1930 reflects the continuance of severe unemployment over wide sectors of industry and trade. The greatly improved condition this year of our farming population, however, is reflected in the recent gains in farm income, only 17 percent below that of 1930 during the third quarter of this year. Increased farm income has stimulated purchases in farm areas, where retail sales have actually surpassed the volume of five years ago. In comparison, department store sales make a poor showing, although reports of late fall and holiday business coming in from all parts of the country indicate that department store sales this season are equalling and in some cases exceeding 1930 levels. Factory payrolls, as shown on the chart, are considerably closer to their 1930 volume than are dividends, although it is likely that the addition of interest payments to dividends would place current labor income and current property income at about the same distance from comparable 1930 figures.

Prices: Wholesale prices fell much more rapidly during the depression than did the cost of living, but they have since increased more than living costs, so that by the third quarter of this year the combined index of wholesale prices averaged over 90 percent of 1930, as against a third quarter average of 86 percent for living costs. The 1930 relationship between wholesale prices of agricultural and industrial products has been largely restored. Prices received at the farm have lagged somewhat behind wholesale prices in the recovery of ground lost since 1930, although Government payments have been a significant additional source of income to farmers during the past three years.

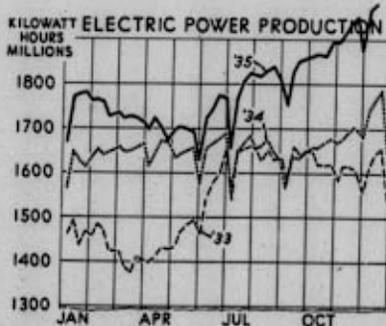
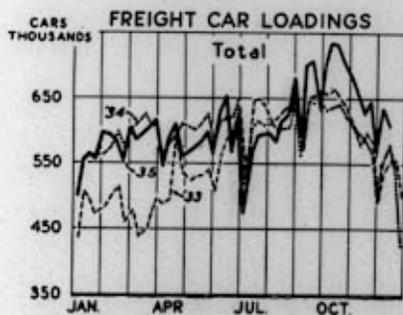
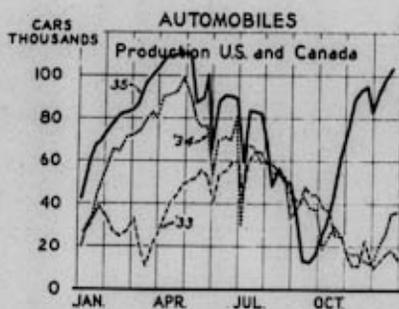
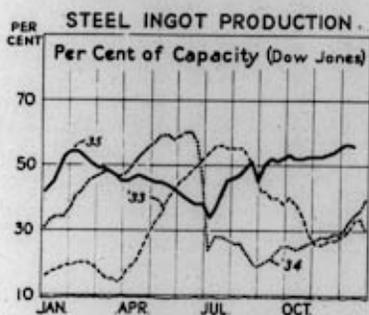
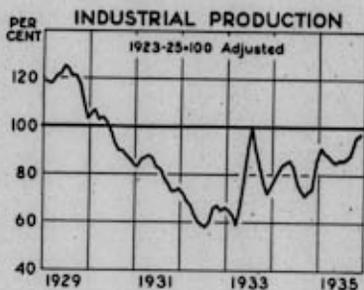
Chart 1

December 23, 1935

THE ECONOMIC SITUATION  
3rd Quarter, 1935 as Percentage of 1930

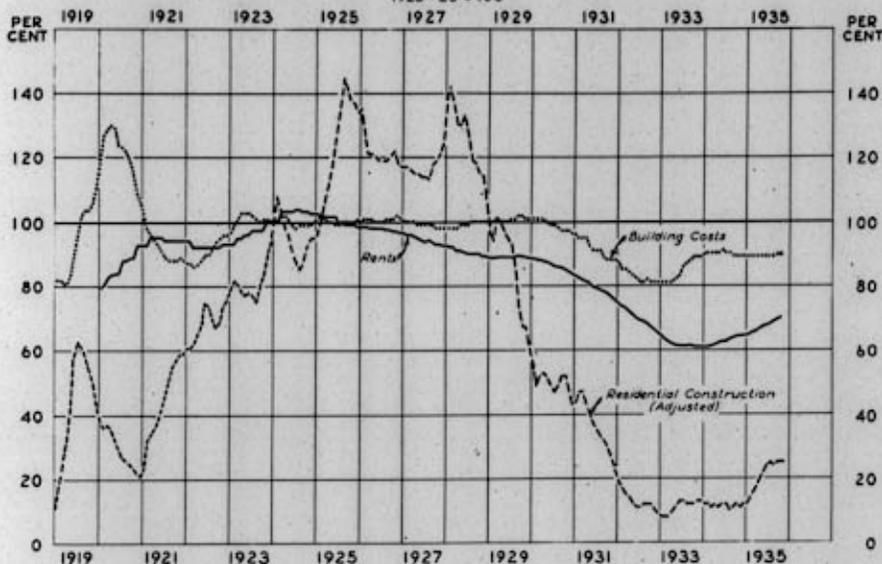


## INDUSTRIAL ACTIVITY



# BUILDING SITUATION

Residential Construction, Rents and Building Costs  
1923-'25 = 100



Total Contracts - 37 States

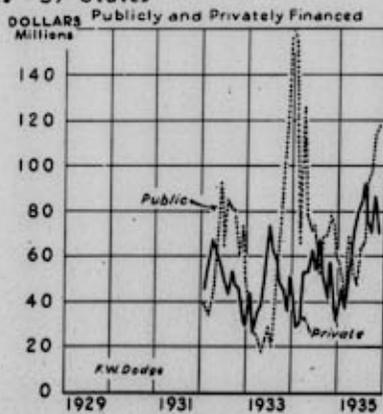
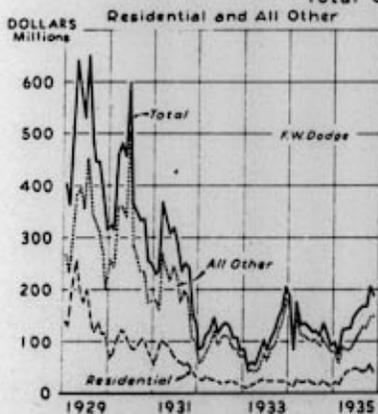


Chart 4

December 23, 1935

### RETAIL TRADE

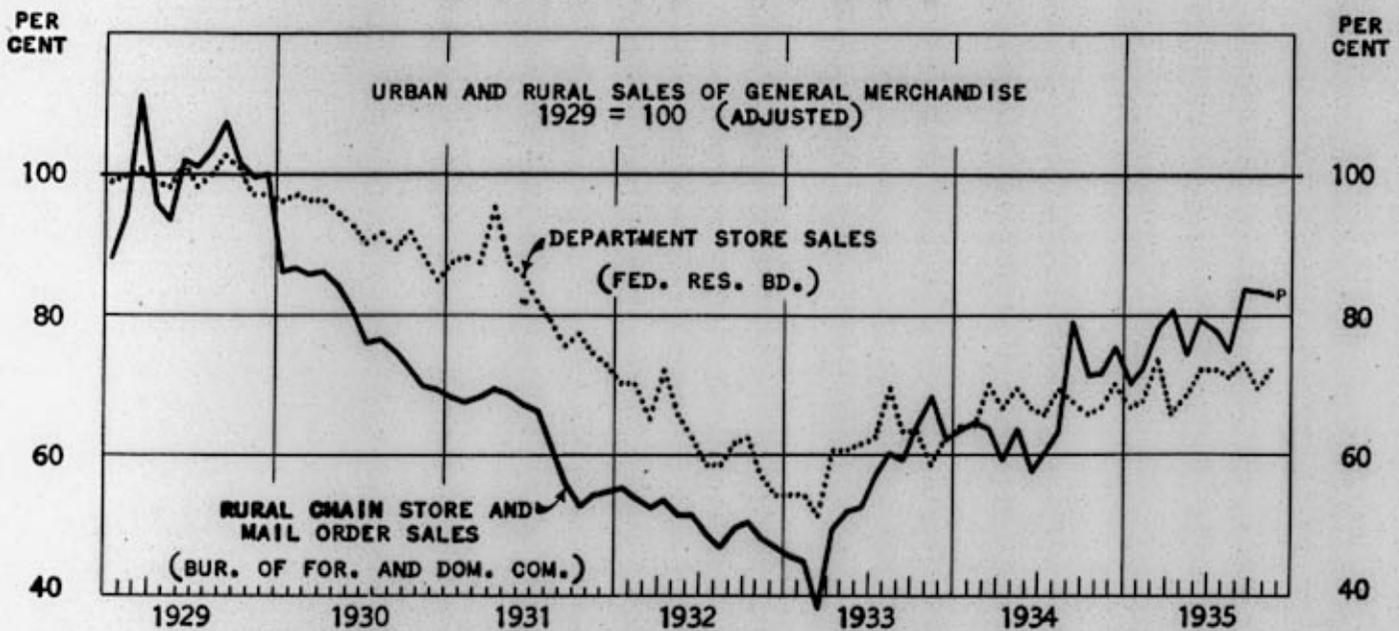
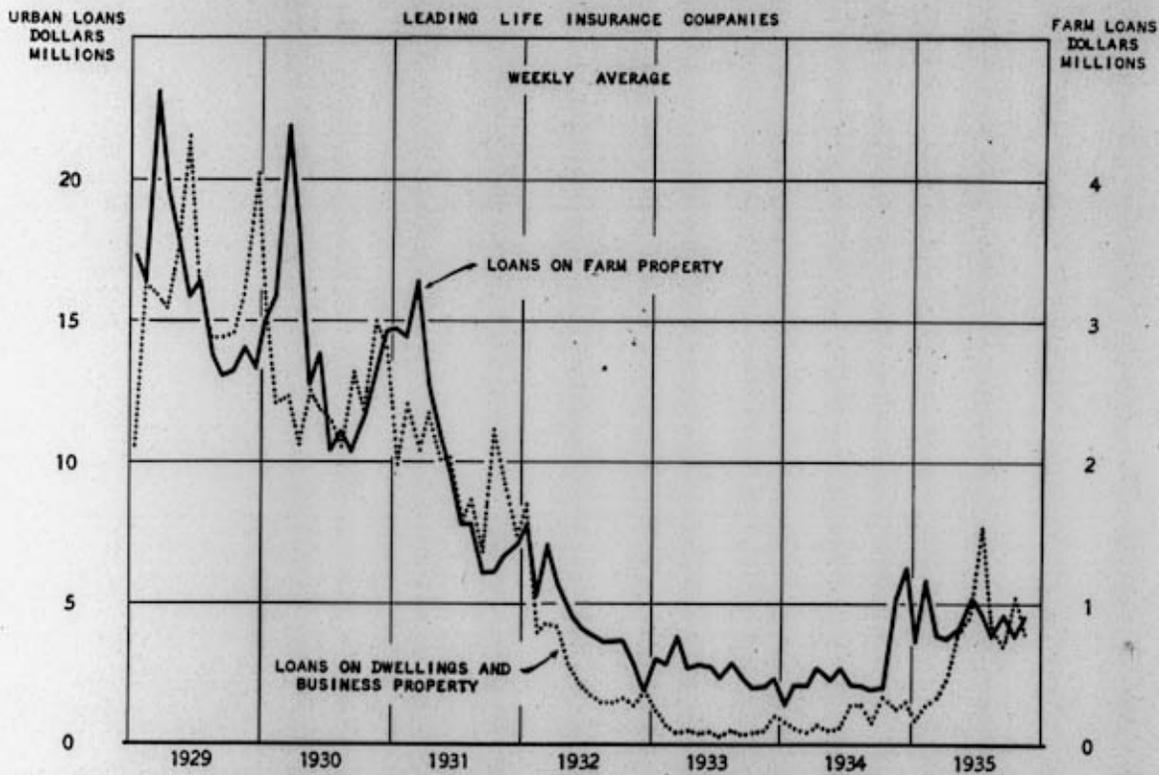


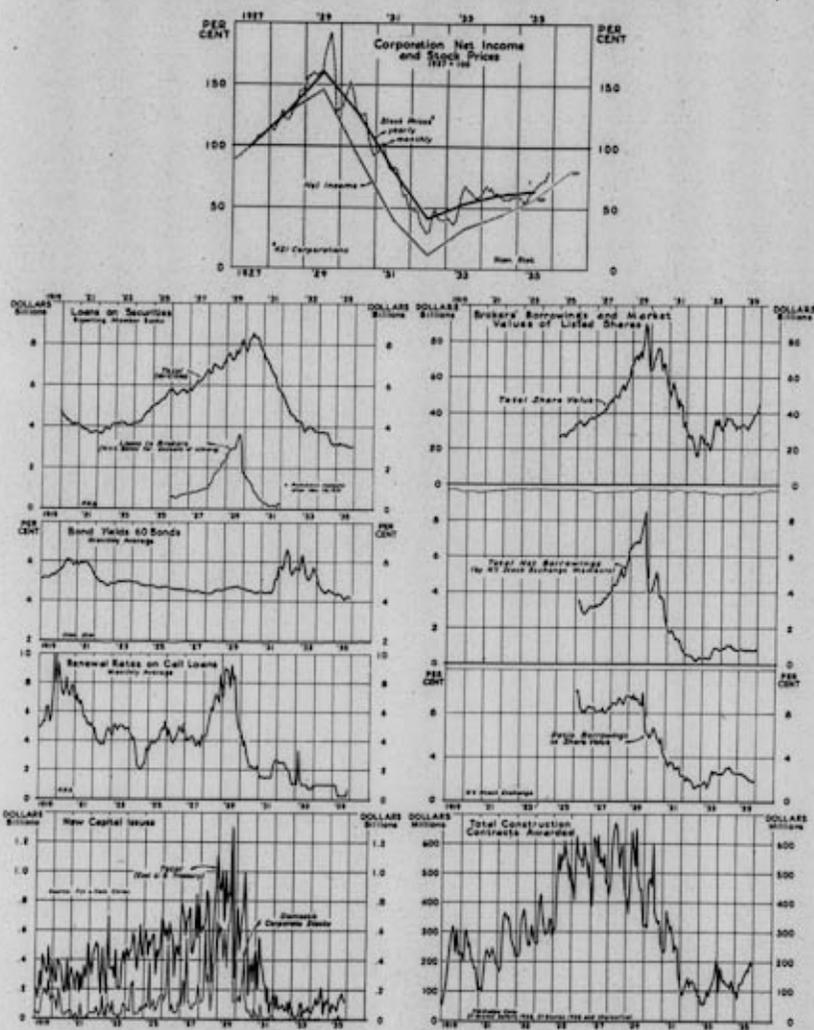
Chart 5

### NEW MORTGAGE LOANS

December 25, 1935



STOCK PRICES, PROFITS AND RELATED FACTORS



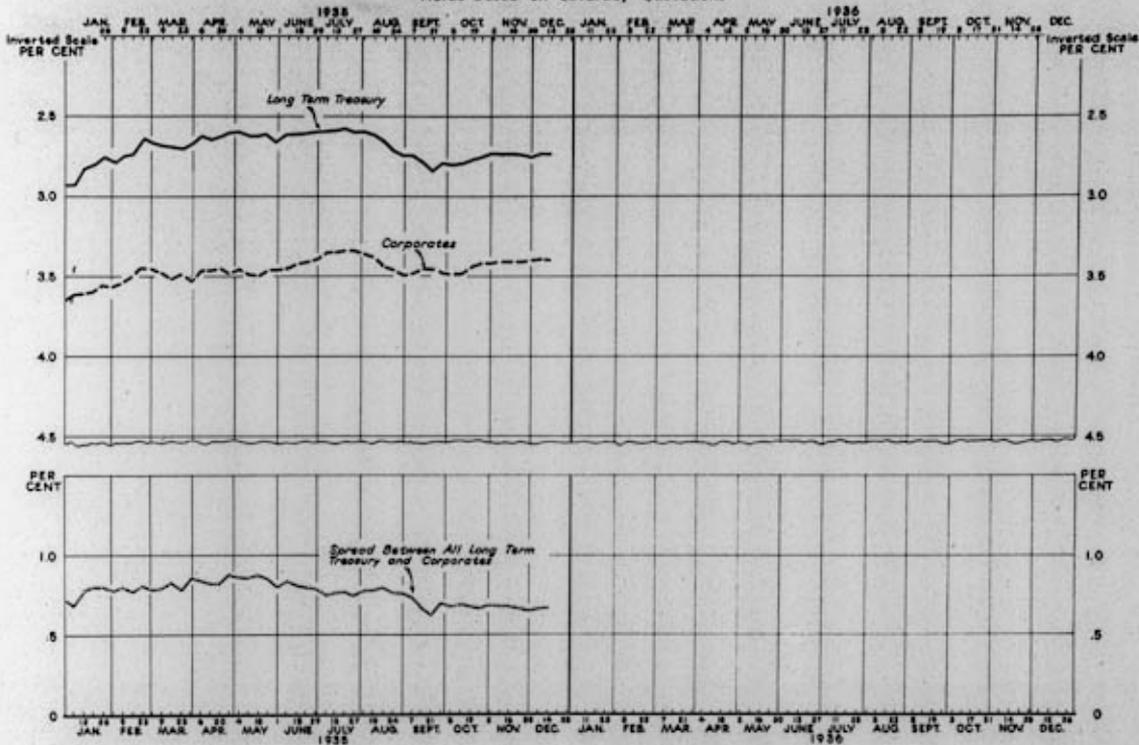
Ways of the Secretary of the Treasury  
Division of Finance and Statistics

Chart 7

December 23, 1935

### COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS

Yields Based on Saturday Quotations



PSF: Bureau of Budget

FEDERAL RESERVE BOARD

WASHINGTON

Chairman  
OFFICE OF THE GOVERNOR

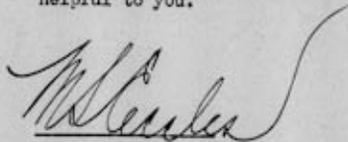
December 28, 1955.

MEMORANDUM:

To - The President  
From - Chairman Eccles

I am sending you herewith a redraft of the memorandum which I discussed with you the other day, and also a 2½-page summary or recapitulation of the salient points.

This redrafted memorandum is a material improvement, I think, inasmuch as it brings out some points and omits some duplications which were in the draft I left with you and which, because of lack of time, I did not have an opportunity to revise before talking with you. Needless to say, I earnestly hope that you will find this material helpful to you.



Attachment

1. Case for Administration needs aggressive presentation; opposition proposes return to unbalanced economy of 20's when 25% of national income went to 1% of the people (Brookings Institution studies), and 200 corporations, including 106 industrials and 52 public utilities, each with assets over \$90,000,000, had combined assets in 1930 of \$81,074,000,000; this equals roughly 22% of the country's total wealth and is 49% of all non-banking corporate wealth, while 300,000 smaller companies owned the remaining half (The Modern Corporation and Private Property, Berle and Means); these individual and corporate beneficiaries of unbalanced economy, through Liberty League, National Association of Manufacturers, etc., are most violent foes of Administration.
2. This Administration inherited, not only chaotic conditions, prostrate business and banking, but a national debt of 20 billions; taxes which should have been applied to curtailing this debt were reduced 4 times in the 20's; also the preceding Administration left a deficit of nearly 1 billion in '32 and over 3 billions in '33, and by letting deflation run far on its course, vastly added to cost of turning the tide back to recovery.
3. Restoration underway; country about half way back to 1929 levels; national income, which fell from over 80 billions in 1929 to less than 40 billions in '32, was up to 50 billions for 1934 and running close to 60 billions at present rate of business activity.
4. Budget is balancing; restoration of national income, out of which alone come taxes to balance budget, has resulted in increase of tax collections estimated for current fiscal year to be \$2,400,000,000 above '33; consequently, government spending needs decline; H.O.L.C., F.C.A. and R.F.C. collecting more than putting out.
5. Taxes to balance budget will come, not out of present income, but future surpluses from restored national income, on basis of capacity to pay; not out of "little fellow"; fixed income groups do not suffer, better off with smaller, assured interest than artificial rates which national economy unable to sustain, with danger of losses of principle as well as interest; government must deflect surpluses, which caused stock market, real estate, etc., inflation of 20's, to pay off debt and, when deflationary tendencies develop, to spending stream.

6. Premature budget balance by wrong method of slashing expenditures before private enterprise takes up unemployment slack, is proposed by opposition; this would set back recovery, threaten new deflation, reverse successful processes set in motion by Administration; this implies a static economy and perpetuation of unbalance.
7. Cost of recovery small; Administration expended about 8 billions (as of November, 1935); deducting Treasury balances, value of assets in R.F.C., etc., and gold increment, net debt increase is about 3 billions; this contrasts with gain of 10 to 20 billions in national income; increase of 20 billions in listed stocks, 7½ billions in listed bonds, and incalculable gain in values of real estate, urban and rural, and other assets; government bonds, some selling down to 85 in '32, now at premium, under lower interest rates; hence cost of carrying debt greatly reduced.
8. Debt burden exaggerated; in last war country incurred deficit of 9 billions in one year, 15 billions the next; war-incurred debt of \$26,000,000,000 paid down by 10 billions in 20's despite 4 tax reductions; at same time some 10 billions squandered on foreign bonds and fully 100 billions added to capital wealth; entire national debt of 30 billions is about 4 months of normal (1929) national income; gross increase of 8 billions under this Administration is about one month's normal national income; net increase of 3 billions is less than 2 weeks of normal national income; a country cannot impoverish itself by borrowing from and paying interest to itself; bulk of debt incurred at behest of and to save banks, insurance companies and private credit structure; critics did not object to unbalancing budget in war or to save private credit structure in 30's; objections illogical against also protecting citizens from ravages of economic forces; Macaulay's "History of England" exposes false analogy between individual's debt and nation's debt, and blindness of alarmists who see debt growing but fail to see that national wealth and income grow faster; serious thing is not debt, but loss of \$40,000,000,000 annually of national income.
9. Administration program succeeding; going off gold, revaluing dollar, necessary expedients to restore equitable debtor-creditor relationships; debt burden further adjusted by H.D.L.C., F.C.A., etc., in funding debts over longer periods at lower rates;

A.A.A., a temporary expedient, has restored parity (non-existent in 20's) between agriculture and tariff-protected industry; farm income which declined to nearly 4 billions in 1932 estimated to be back to 7 billions for 1935; S.E.C., banking acts of '33 and '35, etc., provide safeguards against return to evils of 20's, and will contribute to attainment of goal of abundance.

Administration's objectives are being realized for under-privileged; goal of abundance still far off; to halt now and reverse policy or revert to reaction of opposition would invite new deflation, perpetuate evils which developed inflationary bubbles in 20's and resultant collapse; reaction now may doom Democracy, including the Constitution, and lead to Fascism or Socialism; problem now is production and distribution of real wealth to maximum capacity of machine age, plus technological advances; this envisions dynamic, not static, economy, and orderly, stabilized progress, with government as compensatory medium, through monetary credit and taxing powers; Republican opposition proposes return to unbalance of 20's, with concentrated power and wealth at top, poverty or penury for masses, including small industrialists and business men; wealth distributors would divide up existing inadequate wealth which would be to distribute poverty; Townsendsites, etc., would distribute worthless paper money, neither creating nor distributing real wealth. Administration policies and objectives, based on sound economics, mean salvation of profit-motive, individualistic society, under Democratic institutions and traditions.

Dec 29, 1935

PSF  
Bureau of the Budget

	1936	1937
Receipts	4,410,793,946	5,654,217,650

Expenditures

General	3,099,648,151	4,451,351,738
Recovery + Relief	<u>3,993,578,187</u>	<u>1,722,121,732</u>
Total	7,093,226,338	6,173,473,470

Net deficit	2,682,432,392	519,255,820 ✓
Debt retirement	<u>552,025,000</u>	<u>580,125,000</u>

Gross deficit	3,234,457,392	1,099,380,820
---------------	---------------	---------------

Rec.	Exp	
5107	2151	<del>1108</del>
547	619	
<u>5654</u>	<u>5070</u>	
5070		

Net + 584  
 Dilator 580  
 Net 4

Other  
 Annual Conv. 1103  
 Less Net 4  
 1099

# 3 FFZ MONO. SEC.—

Legislation enacted by the first session also permits including in these estimates a total of \$769,000,000 of additional receipts, of which about 70 percent will accrue under the Bituminous Coal Conservation Act, the Railroad Employees' Retirement Act, and the Social Security Act. It is worthy of note that but slightly less than 30 percent of this increase will be derived under the Revenue Act of 1935. This act, it will be recalled, slightly increased taxes on individuals whose net incomes exceed \$50,000 per year; slightly increased estate taxes on larger fortunes with a corresponding increase in gift taxes; and in respect of corporations, decreased taxes on net earnings of small corporations while increasing in relative ratio the taxes on net income of larger corporations. The act also provided for an increase in taxes on capital stock and on excess profits of corporations. The effect of the excess-profits tax was to increase taxes on corporations which earned in excess of certain percentages of their adjusted declared value of capital stock.

The total revenue expected to be produced by these taxes in the fiscal year 1937 will be only \$222,000,000, or 11 percent, over the income, estate, gift, capital-stock, and excess-profits taxes under the old law. Since collections in the fiscal year 1937 from income taxes and the estate tax only partially reflect the Revenue Act of 1935, the above amount will be somewhat larger on a full year basis.

A Federal public-works program of \$404,000,000 is recommended to meet in part the development and improvement requirements of the Government, and as a proper Federal contribution to work opportunity. While this program represents an increase of about \$200,000,000 over the amount for similar purposes for which the Congress made specific appropriations for the current fiscal year, it is \$235,000,000 less than the total amount made available for Federal public works in 1936, considering allotments made from emergency funds. The budgetary policy of treating general public works as a part of the annual Budget has already been explained.

The success attending the operations of the Civilian Conservation Corps and the Agricultural Adjustment Administration under emergency status justifies taking them into the Budget and program for 1937 as regular activities, and the estimates of appropriations and expenditures have been prepared accordingly. The appropriation recommended for Civilian Conservation Corps is for the period March 31, 1936, to March 31, 1937, and amounts to \$246,000,000, while the appropriation for the Agricultural Adjustment Administration is for the full year and amounts to \$499,054,985.

The following table gives a clear picture of the main figures proposed in this Budget and shows how they compare with similar figures for previous years.

[In millions of dollars]

	Actual		Estimated	
	1934	1935	1936	1937
<b>I. RECEIPTS:</b>				
Income taxes.....	815	1,020	1,494	1,643
Miscellaneous internal revenue.....	1,470	1,627	1,873	2,102
Processing taxes.....	353	521	520	547
Customs.....	313	343	353	354
Miscellaneous.....	152	180	183	180
<b>Total.....</b>	<b>3,113</b>	<b>3,800</b>	<b>4,373</b>	<b>5,107</b>
Taxes under Social Security, Railroad Employees' Retirement, and Bituminous Coal Conservation Acts.....			30	547
<b>Grand total receipts.....</b>	<b>3,113</b>	<b>3,800</b>	<b>4,411</b>	<b>5,654</b>
<b>II. EXPENDITURES:</b>				
<b>1. Regular:</b>				
Operation and maintenance of regular departments and establishments.....	1,095	1,081	1,296	1,300
Veterans' pensions and benefits.....	536	605	725	790
Interest on national debt.....	727	821	743	800
Tax refunds (exclusive of processing taxes).....	63	45	47	48
Agricultural Adjustment Administration.....	300	743	621	619
Statutory debt retirements.....	300	374	552	580
<b>Total regular.....</b>	<b>3,319</b>	<b>3,629</b>	<b>4,273</b>	<b>4,940</b>
Surplus of receipts over regular expenditures.....	794	171	138	714
<b>2. Recovery and relief.....</b>	<b>1,603</b>	<b>1,300</b>	<b>1,272</b>	<b>1,400</b>
<b>Gross deficit.....</b>	<b>1,906</b>	<b>2,258</b>	<b>2,904</b>	<b>2,826</b>
<b>Gross public debt.....</b>	<b>27,003</b>	<b>28,701</b>	<b>30,023</b>	<b>31,531</b>

Directing attention to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the table, the following comment is pertinent:

**Receipts.**—Receipts in 1937 (exclusive of postal revenues and processing taxes and also for purposes of comparison, exclusive of taxes imposed under the Social Security, Bituminous Coal Conservation, and Railroad Employees' Retirement Acts) are expected to reach a total of \$4,559,817,650, an increase of \$716,665,704 over similar receipts for 1936 now estimated at \$3,843,151,946, and \$1,281,

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Directing attention to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the table, the following comment is pertinent:

*Receipts.*—Receipts in 1937 (exclusive of postal revenues and processing taxes and also for purposes of comparison, exclusive of taxes imposed under the Social Security, Bituminous Coal Conservation, and Railroad Employees' Retirement Acts) are expected to reach a total of \$4,559,817,650, an increase of \$716,665,704 over similar receipts for 1936 now estimated at \$3,843,151,946, and \$1,281,790,319 over 1935. It should be pointed out here that this increase is due largely to increased payments of taxes under the old schedules. As has been stated, only about \$222,000,000 will be collected in 1937 as a result of new schedules in the Revenue Act of 1935.

From processing taxes the sum anticipated is \$547,500,000, against the estimate of \$329,042,000 for the current year, an increase of \$18,258,000. Other taxes recently authorized by the Congress under the Social Security, Bituminous Coal Conservation, and Railroad Employees' Retirement Acts will produce \$547,100,000 in 1937 and \$38,600,000 this year, an increase of \$508,500,000.

Thus 1937 receipts from all sources, except postal revenues, are estimated at \$5,654,217,650, against the revised estimate of \$4,410,793,946 for the current fiscal year. The increase in total receipts from stated sources is, therefore, \$1,243,423,704.

Postal receipts for the coming year are estimated at \$705,000,000, an increase of \$35,000,000 over \$670,000,000 anticipated in 1936. This is further evidence of the upward trend in economic conditions.

An examination of the detailed estimates of the first four classes of receipts for 1937 indicates a gain over 1936 in income tax of \$508,488,000, the figures for the 2 years being respectively \$1,942,600,000 and \$1,434,112,000. Similarly, estimated receipts from miscellaneous internal revenue, exclusive of processing taxes, are up from \$1,873,091,000 to \$2,103,114,000, a gain of \$230,023,000. Customs receipts are forecast at \$354,000,000, substantially the same as anticipated for 1936. The reduction of \$22,654,296 in probable miscellaneous receipts, from \$182,737,946 to \$160,103,650, brings the net increase in the estimates of these four classes of receipts to \$716,665,704, as stated.

The provisions of the Social Security, the Bituminous Coal Conservation, and the Railroad Employees' Retirement Acts are such that receipts during the fiscal year 1936 will be comparatively small while revenues from these sources in the next fiscal year will show substantial increases. The amounts estimated for 1937 from each of the new taxes in the order named are \$433,200,000, \$12,300,000, and \$101,600,000.

*Expenditures.*—The expenditures for 1937 contemplated under this Budget will total \$6,752,606,370, or approximately \$900,000,000 less than is now estimated for 1936.

*PSE*  
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*Message 2-37*

**BUREAU OF THE BUDGET**  
**WASHINGTON**

December 31, 1936.

MEMORANDUM FOR THE PRESIDENT:

The only laws that expire within the period ending February 1, 1937, which you should mention in your Message on the State of the Union are -

1. Provisions of the Gold Reserve Act concerning the stabilization fund and authority to change the gold content of the dollar.
2. Authority of the Reconstruction Finance Corporation and the RFC Mortgage Corporation to continue to make loans.
3. Authority of the Electric Home and Farm Authority to continue its functions.

There are others which tie in with the Reconstruction Finance Corporation such as the Commodity Credit Corporation and the Export-Import Bank, authority of which expires April 1, 1937. I understand that you and Mr. Jones have agreed that all of these items should be put in one bill and that they all should be mentioned in your Message.

The following comment on these matters can be used as a basis for any statement you care to include in your Annual Message on the State of the Union:

"Gold Reserve Act--

In January, 1934, the Congress made basic improvements in our financial and monetary structure by enacting the Gold Reserve Act. The events of the past three years have proved that this legislation constituted a sound and wise exercise by the Congress of its constitutional responsibility with respect to the national monetary system.

Included in that legislation were provisions creating a stabilization fund and defining the power to change the gold content of the dollar. As so enacted, both of these powers

would have terminated on January 30, 1936, but for the fact that I extended them for one year from that date, pursuant to the authority vested in me by the Congress. In the absence of further legislation, they will finally expire on January 30, 1937.

The existence of these powers has safeguarded the national interest, and their exercise has promoted the public welfare. The beginning of international monetary cooperation within the last year which these powers made possible has furthered our own well being and that of our neighbors.

It is in the highest public interest that these powers should now be further extended and that the Congress take this action with such promptness as to permit the world no doubt of the disposition of the American people to safeguard the nation's interests in the international monetary field and to cooperate with other governments in further measures helpful to the community of nations."

"Extension of the Reconstruction Finance Corporation and Related Agencies--

The lending authority of the Reconstruction Finance Corporation expires the end of January of this year. Certain of its functions are carried on through Commodity Credit Corporation, The RFC Mortgage Company, Electric Home and Farm Authority, and Export-Import Bank. The lending authority of these also expires soon.

It is not necessary to review here the good that has resulted from RFC loans, and while the need for its facilities is rapidly decreasing, it still exists in substantial measure.

Aside from its great assistance to banking and industry, the RFC has been of immeasurable help through the Commodity Credit Corporation to growers of corn, cotton and other farm products.

The Electric Home and Farm Authority has materially assisted utilities and purchasers of electrical appliances by financing installment sales at fair interest rates.

The RFC Mortgage Company has saved many property owners from foreclosure of their mortgages and has been of great assistance to the Federal Housing Administration in providing a market for insured mortgages on new homes.

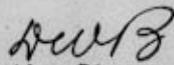
The Export-Import Bank is a useful agency in furthering our export trade.

The fact that these lending facilities have been available has enabled a great many deserving borrowers to get credit from private sources which otherwise would not have been available.

Therefore, with a view to being in a position to meet any emergency that may arise, and to assist in supplying credit of the character furnished by these agencies when it cannot be obtained on fair terms from private sources, I recommend that Congress continue their powers, giving to the Executive the authority to discontinue lending by any or all of these at any time, or to suspend from time to time the exercise of any function of any of said agencies by proclamation for such time or times as may appear to the best interest of the Government.

It is my purpose to cease Government lending as rapidly as private enterprise will meet, and so long as it meets, the credit demands of the country upon fair terms, but I am unwilling to withdraw entirely, and dismantle our lending agencies, until it is clearly demonstrated that this character of Government service is no longer necessary."

The above were furnished by the Treasury Department and the Reconstruction Finance Corporation.

  
Acting Director.

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5,828,000,000

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2,384,000,000

June 30 Est. 2,425,000,000  
Sept 30 " 2,097,000,000

Added Est. Retirement 144,000,000  
Revenue - Profit 175,000,000

38

Rev. 7,294,000,000  
Exp. 16,422,000,000

Surplus 871,000,000  
Ded. Ret. 583,000,000

Net Surplus 288,000,000

BUREAU OF THE BUDGET

WASHINGTON

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April 8, 1937.

THE PRESIDENT:

Attached hereto is a copy of the letter signed by you on April 7, 1937, addressed to the Heads of Executive Departments, Independent Establishments, and Other Government Agencies, requesting an immediate survey of their expenditure requirements for the remaining months of the fiscal year 1937, with a view to curtailing them wherever possible. The letter was dispatched to-day.

It would be helpful, I feel, if you would have this letter read at Cabinet meeting to-morrow (Friday), and at the same time urge all Cabinet Officers to take immediate steps to see that every possible means are taken to insure that the Government's budget situation at the end of the year, notwithstanding decreased revenues, will approximate that outlined by you in your Budget Message of last January.

*W. B. E.*

Acting Director.

Inclosure.

THE WHITE HOUSE  
WASHINGTON

April 7, 1937.

TO THE HEADS OF EXECUTIVE DEPARTMENTS, INDEPENDENT  
ESTABLISHMENTS, AND OTHER GOVERNMENT AGENCIES:

It is my desire that the heads of the executive departments and independent establishments of the Government will immediately cause a survey to be made of the expenditure requirements of their departments and establishments for the remaining months of the fiscal year 1937. It is apparent at this time that the revenues of the Government for the present fiscal year will be materially less than the amount estimated in my budget message of last January; and, hence, the deficit will be far greater than was anticipated unless there is an immediate curtailment of expenditures.

You will carefully examine the status of appropriations for your activities with a view to making a substantial saving by eliminating or deferring all expenditures which are not absolutely necessary at this time. You will report to me through the Acting Director of the Budget not later than May 1, 1937, the steps which you are undertaking to reduce expenditures and the amount of the estimated saving resulting therefrom.

*Franklin D. Roosevelt*

BUREAU OF THE BUDGET

Office of the Acting Director

To The President

I thought maybe  
you would want to  
look this over again  
before it finally goes to  
printer. You can hurriedly  
glance at corrections and  
the questions raised re  
table on page IX. I  
expect to send to Printer  
Tomorrow (Sunday) at  
1:00 pm.

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Mr. Bell  
Bureau of the  
Budget

## BUDGET MESSAGE OF THE PRESIDENT

*To the Congress of the United States:*

Pursuant to provisions of law I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1939, together with this message, which is a part thereof. The estimates have been developed after analysis of the revenues, obligations, and reasonable needs of the Government, and I recommend appropriations for the purposes specifically detailed herein.

In simple fairness to the Treasury of the United States I am confident that the Congress and the public will bear in mind certain fundamentals relating to the making of the National Budget.

The first step calls for the presentation, before the 15th of September, by every department and agency head, of estimates of appropriations for the fiscal year beginning the first day of the following July—in other words at least 9 months before the spending of the money can begin. These estimates, carefully prepared by the Budget officers and other officials of each department and agency, are intended to represent what they consider the minimum needs of the work assigned to them by law.

Thereupon the Director of the Budget presents these totals to the President who without taking up the thousands of separate items asks the Secretary of the Treasury for estimates of the total amount of tax receipts which the Government may obtain during the 12 months beginning 9 months later. This estimate by the Secretary of the Treasury is furnished him by civil service experts who have long-standing experience with the whole subject of forecasting economic conditions in what may well be called the remote future. These experts properly call attention to the fact that they are asked to guess what the economic status—and therefore the tax receipts—will be during the fiscal year beginning the first of the following July.

If the forecast of tax receipts made by these experts, who are at least of equal competence with the experts of the largest banks and industrial corporations of the United States, show that the departmental estimates of expenditures will exceed the estimated tax receipts, the President instructs the Director of the Budget, as a result of his hearings, to make every possible effort to pare the departmental estimates in order to reduce the total.

During the months of November and December and after the hearings have been held by the Director of the Budget, he presents to the President the total estimates with his recommendations.

Again the President obtains from the Treasury Department a check-up on estimated revenue during the year beginning the following 1st of July. If the new report shows a probable falling off of revenue, he makes every effort with the assistance of the Director

of the Budget to make further reductions before approving the final department and agency budgets.

It should be remembered that the laws provide that the departments and agencies shall carry out certain duties. By these laws, the President and the Director of the Budget are, in effect, prohibited from eliminating Government functions or curtailing them to the point of ineffectiveness.

The result is that the President and the Director of the Budget arrive at a figure for each department and agency which they believe to be the proper amount under which the functions required by law can be carried out with reasonable efficiency.

During the final 2 weeks of the calendar year, the President obtains once more from the Treasury Department its final estimates of tax revenues during the fiscal year which begins more than 6 months later.

Since the tax revenues from practically every major source depend on business conditions during that future fiscal year the Treasury's figures of necessity are based on a prophecy of business conditions beginning 6 months later and ending 18 months later.

Business concerns are more fortunate. They also lay out programs months and even a year and a half in advance. But their programs are flexible. They are controlled currently by the condition of business, which permits the making of necessary changes from month to month and even from week to week.

The affairs of the Government are not so flexible. The Budget reports are the administration's fiscal plan; and in the form adopted by the Congress during the winter and spring, it becomes practically a fixed program of expenditure which cannot be changed for many months even though economic conditions radically change the receipt side of the ledger.

While I re-emphasize the difficulty of estimating the revenue of the Federal Government from 6 to 18 months before that revenue flows in, there is satisfaction in knowing that during the past 4 years the estimates of tax receipts thus made far in advance, have been infinitely more accurate as proven by the final result than in the preceding years. Estimates remain a prophecy; but our prophecies have been far better borne out by later events than prophecies of earlier years.

It is also worth while to call the attention of the Congress and the public to the fact that a very large proportion of our total expenditures represent fixed charges which cannot be reduced by Executive action. These charges are obligatory on the President and the Treasury, and include interest on the public debt, military and naval pensions, contributions to retirement funds, and to the old-age reserve account, and many grants in aid to States.

Another class of expenditures, which, though subject to some measure of administrative control, does not afford opportunity for

large reductions, is made up of those which carry on the normal, everyday operations of the Government. For example, the major part of the appropriations for the State Department is required to pay the reasonable salaries of consuls, diplomatic agents, secretarial staffs, and ministers who represent American interests in every part of the world.

The third type of expenditure is represented by the major effort of the Government to help the economic security of large groups of citizens in every part of the country who, for many reasons, definitely require some form of Government assistance. This includes various kinds of aid to save farms and homes from foreclosure, to furnish work relief for needy able-bodied unemployed, and to provide old-age pensions, unemployment insurance and other assistance under the social-security program. Obligations such as these, though large in amount, can be reduced only by depriving a very large proportion of our population of benefits which modern civilization insists on.

The final category includes items of public expenditure for capital improvements—such as new highways, new river and harbor projects, new flood control, new public buildings, new reclamation projects, and other new public works. All of these items can be contracted or expanded to conform with the contraction or expansion of Government income.

This year I recommend that such items be curtailed. First, because expected Government income will be less, and second, because it has been amply demonstrated that they do not provide as much work for the unemployed as other methods of taking care of the unemployed.

For example, we have appropriated as Federal aid to new permanent State highways almost \$1,500,000,000 during the past 5 years; and an equal sum has been spent during the same period for constructing, repairing, and improving roads and streets by Federal agencies administering unemployment relief. These vast expenditures have put our highway systems far in advance of what would have been normal expansion. I do not propose eliminating Federal aid to highways, but I do ask that such aid be restored to approximately the pre-depression figures.

We have a great accumulation of unliquidated "matching" authorizations for aid to States running into the year 1940—but the States also should be encouraged to bring their highway budgets back to a more normal figure. Therefore I hope that the Congress will start at this session to cut down the actual appropriations used to match State funds.

For the 10 years up to June 30, 1933, the Federal Government spent an average of \$40,000,000 a year for river and harbor improvements. During the past 5 years we have spent an average of over \$100,000,000

a year. Meanwhile, a justified demand for greater protection against floods has developed. Flood protection is necessary and in this Budget I am curtailing the estimates for new river and harbor improvements in order to provide more money for flood emergencies.

Reclamation projects have been started which will call for future appropriations of nearly \$600,000,000. It seems obvious to me and I hope it will be to the Congress, that no further projects should be authorized until projects now under construction have reached a substantial stage of completion.

During the past 5 years we have built more than 1,100 new Federal buildings—almost doubling the number of such buildings throughout the country. It is true that this saves the renting of buildings but to offset that saving we are paying in many cases far more for maintenance of these new buildings than we formerly paid for leasing private quarters. Except for meeting the problem of adequate housing for Government departments and agencies in the District of Columbia, I am strongly of the opinion that the public building program should be restricted to the comparatively small number of projects where the capital investment will be returned through savings in annual operating costs.

*Expenditures.*—The most important fact of this Budget is the reduction of \$539,000,000 in the estimated expenditures for the fiscal year 1939. They amount to \$6,869,000,000, compared with estimated expenditures during the current fiscal year of 1938 of \$7,408,000,000.

It is hoped that this fact will not be overlooked. It is fair to say that this estimated reduction may, by force of circumstances, become smaller because of future events which today cannot definitely be foretold. I refer specifically to the possibility that due to world conditions over which this Nation has no control, I may find it necessary to request additional appropriations for national defense. Furthermore, the economic situation may not improve—and if it does not, I expect the approval of Congress and the public for additional appropriations if they become necessary to save thousands of American families from dire need.

*Revenues.*—During the first 10 months of the calendar year 1937 business conditions improved materially and it was the consensus of opinion in Government and in business circles that the improvement would be maintained in 1938. There was every reason to expect that the revenues for the fiscal year 1939 would be greater than the expected revenues for 1938 and that with a reduction in the cost of relief, the total expenditures for 1939 would greatly decline. That was the basis for our expectation of a balanced Budget for the fiscal year 1939.

The recent recession in business has changed that outlook. Today it is necessary to revise the estimates of revenues. They will be less than we had anticipated. They will, as far as we can tell, remain below our estimated necessary expenditures.

We hope that the calendar year 1938 will bring an improvement in business conditions and, therefore, in tax receipts. The Treasury, leaning to the conservative side, predicts some improvement over the present level but does not assume in its figures that business ~~tax~~ receipts in the calendar year 1938 will reach as high a level as in the calendar year 1937.

The present estimate of revenue for the fiscal year 1939 is \$5,919,000,000 compared with the present estimate of ~~tax~~ receipts for the fiscal year 1938 of \$6,320,000,000—or, in other words, a falling off of \$401,000,000.

*Balance.*—The net result of these estimates of expenditures and receipts shows for the fiscal year 1939 a net deficit of \$950,000,000, but it is fair to state at the same time that this deficit will be \$138,000,000 less than the expected deficit in the current fiscal year. In other words, for the third year in succession we continue to decrease the deficit.

The following table shows the effect on the Budget program for the fiscal year 1938 submitted in January 1937 of the changes in the fiscal picture that have occurred in the last 12 months:

(In millions of dollars)

	Budget, January 1937	President's message, Apr. 20, 1937	Budget amendment, Oct. 19, 1937	Budget, January 1938
<b>Receipts:</b>				
Income taxes.....	3,363.3	2,655	2,791.5	2,902.9
Miscellaneous internal revenue.....	2,508.1	3,268	2,386.2	2,279.5
Other internal revenue.....	774.8		756.7	725.3
Customs.....	463.0	463	463.9	413.3
All other.....	182.2	390	319.9	296.1
<b>Total.....</b>	<b>7,391.4</b>	<b>6,996</b>	<b>6,658.4</b>	<b>6,623.1</b>
<b>Expenditures:</b>				
Regular.....	5,430.3	5,494	5,499.6	5,438.9
Recovery and relief.....	1,836.2	1,830	1,875.0	1,978.7
<b>Total.....</b>	<b>7,266.5</b>	<b>7,324</b>	<b>7,374.6</b>	<b>7,417.6</b>
Surplus.....	37.1			
Deficit (net).....		428	716.2	794.5

It will be of interest to compare the major classes of receipts and expenditures for the fiscal years 1931 to 1939 as set forth in the following table:

*Tax receipts in calendar 1938 will be greater than calendar year 1937*

*In view of change in Budget message I question the necessity or desirability of this table.*

*swB*

THE BUDGET, 1930

Actual and estimated receipts and expenditures of the Government for the fiscal years 1931-39  
(Classifications include expenditures from both general and emergency funds)

(In millions of dollars)

	Estimated		Actual						
	1929	1928	1927	1926	1925	1924	1923	1922	1921
<b>RECEIPTS</b>									
<b>Internal revenue:</b>									
Income tax	2,414.2	2,692.9	3,157.5	1,426.8	1,090.1	818.0	745.2	1,037.3	1,905.4
Miscellaneous internal revenue	2,960.1	2,279.3	2,181.2	3,000.9	1,657.2	1,490.6	836.2	503.7	400.4
Union enrollment tax	16.0	5.0	5.9						
Taxes under Social Security Act	308.8	371.0	352.2						
Taxes upon carriers and their employees	114.9	150.3							
Processing tax on farm products									
Customs	260.4	415.3	485.4	396.6	343.4	313.4	270.8	327.7	376.0
Miscellaneous receipts	106.0	306.5	218.3	216.3	170.4	181.6	224.5	117.0	383.2
<b>Total receipts</b>	<b>3,918.4</b>	<b>6,329.5</b>	<b>5,261.8</b>	<b>4,113.9</b>	<b>3,800.5</b>	<b>3,113.6</b>	<b>2,979.7</b>	<b>2,005.7</b>	<b>3,160.9</b>
<b>EXPENDITURES</b>									
<b>Regular operating expenditures:</b>									
<b>Legislative, judicial, and civil establishments:</b>									
Legislative establishment	26.8	31.1	20.7	31.7	18.0	16.6	17.7	21.9	31.4
Department of Agriculture	124.9	150.0	170.1	122.9	71.1	62.7	72.2	98.0	71.5
Department of Commerce	41.5	41.2	40.3	44.3	30.0	30.8	41.7	48.1	36.9
Department of the Interior	95.2	122.6	112.4	78.3	74.4	48.9	55.8	63.4	60.8
Department of Justice	40.7	39.8	36.0	36.3	32.8	31.7	44.1	31.7	44.4
Department of Labor	17.3	21.5	30.7	26.9	18.6	12.7	13.7	14.7	12.2
Post Office Department (deficiency)	18.2	20.6	30.3	35.3	61.0	64.2	117.4	201.0	143.7
Department of State	15.3	17.0	17.1	17.2	16.7	12.0	13.8	16.7	15.3
Treasury Department	127.1	178.0	184.6	164.1	128.0	111.8	132.9	161.0	130.1
War Department (nonmilitary)	48.2	47.5	53.1	48.2	44.1	41.1	43.1	47.9	46.9
District of Columbia (United States share)	5.0	5.0	3.0	3.7	4.3	3.7	2.8	3.5	3.3
Independent offices and commissions	171.8	130.4	90.8	81.7	65.1	50.1	70.0	108.8	68.1
<b>Subtotal</b>	<b>750.0</b>	<b>827.3</b>	<b>814.7</b>	<b>730.0</b>	<b>554.9</b>	<b>473.3</b>	<b>617.8</b>	<b>844.7</b>	<b>700.9</b>
National defense	960.2	325.0	398.6	879.3	656.5	490.9	633.6	904.3	667.2
Veterans' pensions and benefits	538.6	574.7	1,126.2	2,318.6	605.9	554.1	868.9	972.8	942.9
Interest on the public debt	103.0	927.0	865.4	710.4	820.0	756.0	580.4	536.3	611.8
Other (refunds of receipts, settlement of war claims, etc.)	30.8	47.9	48.1	41.1	38.2	62.8	66.7	136.0	97.0
<b>Total</b>	<b>3,316.7</b>	<b>8,332.9</b>	<b>3,745.0</b>	<b>4,743.2</b>	<b>2,676.9</b>	<b>2,348.7</b>	<b>2,878.4</b>	<b>3,211.3</b>	<b>3,628.4</b>
<b>Public works:</b>									
Public highways	180.1	280.1	350.0	243.9	317.4	307.9	178.2	206.9	172.8
Tennessee Valley Authority	41.0	65.0	41.2	48.8	36.2	11.0			
Reclamation	66.4	68.3	52.3	61.9	61.9	24.8	25.2	26.3	13.9
Rivers and Harbors, Improvement	66.0	81.2	142.4	137.8	132.9	78.4	30.5	55.4	51.4
Flood control	63.9	74.4	75.3	71.9	58.1	78.7	103.7	80.2	67.0
Public buildings	33.2		36.6	32.3	38.7	48.1	39.7	20.2	22.8
Grants to public bodies, including administration	153.4	180.2	272.9	233.9	48.9	18.8			
Other	47.1	90.2	80.1	74.0	88.4	87.4	30.4	71.7	50.8
<b>Total</b>	<b>619.3</b>	<b>878.1</b>	<b>1,079.4</b>	<b>912.3</b>	<b>762.7</b>	<b>613.1</b>	<b>458.7</b>	<b>478.7</b>	<b>604.1</b>
<b>Unemployment relief:</b>									
Direct relief	33.9	128.9	184.3	561.7	1,014.1	715.8	326.7		
Work relief (W. P. A. and C. W. A.)	1,000.1	1,322.2	1,806.7	1,264.4	11.3	605.1			
Civilian Conservation Corps	230.0	330.0	363.8	465.3	633.2	331.9	8.8		
<b>Total</b>	<b>1,264.0</b>	<b>1,781.0</b>	<b>2,454.8</b>	<b>2,391.4</b>	<b>2,390.9</b>	<b>1,653.8</b>	<b>336.3</b>		
<b>Loans (net):</b>									
Subscriptions to stock and surplus	58.0	* 47.9	* 307.1	* 190.8	102.1	819.3	911.8	464.0	235.4
Agricultural Adjustment Program	3.0	43.6	47.1	88.9	156.7	820.9	71.9	627.0	3.0
Social security	960.1	442.5	318.8	511.0	743.0	290.2			
Railroad retirement	813.2	636.7	447.7	28.4					
Supplemental items	115.5	180.7	3.5						
	73.0	233.0							
<b>Total expenditures, exclusive of debt retirement</b>	<b>6,803.9</b>	<b>7,408.6</b>	<b>8,001.2</b>	<b>8,476.5</b>	<b>6,802.3</b>	<b>6,743.2</b>	<b>4,081.3</b>	<b>4,711.0</b>	<b>5,870.9</b>
<b>Net deficit</b>	<b>300.0</b>	<b>1,003.4</b>	<b>2,703.4</b>	<b>4,390.6</b>	<b>3,001.8</b>	<b>3,629.6</b>	<b>2,001.0</b>	<b>2,715.3</b>	<b>681.3</b>
<b>Gross public debt at the end of each fiscal year</b>	<b>36,528.2</b>	<b>37,903.6</b>	<b>39,424.8</b>	<b>34,778.5</b>	<b>38,703.0</b>	<b>27,033.1</b>	<b>22,538.7</b>	<b>19,487.0</b>	<b>16,801.3</b>

\* Excess of credits, debit.

RECOMMENDATIONS

*Appropriation item veto.*—An important feature of the fiscal procedure in the majority of our States is the authority given to the executive to withhold approval of individual items in an appropriation bill, and, while approving the remainder of the bill, to return such rejected items for the further consideration of the legislature. This grant of power has been considered a consistent corollary of the power of the legislature to withhold approval of items in the budget of the executive; and the system meets with general approval in the many States which have adopted it. A respectable difference of opinion exists as to whether a similar item of veto power could be given to the President by legislation or whether a constitutional amendment would be necessary. I strongly recommend that the present Congress adopt whichever course it may deem to be the correct one.

*Commodity Credit Corporation.*—At present the funds for the operations of the Commodity Credit Corporation are provided through allocations from the Reconstruction Finance Corporation. Such bases as the Commodity Credit Corporation may sustain upon its commodity loans remain an indefinite quantity until the liquidation of the Reconstruction Finance Corporation. In order to provide for an annual review of the operations of the Commodity Credit Corporation and of its annual net cost to the Government, I recommend the enactment by the Congress of legislation which will require an annual appraisal of the assets of the Corporation, and, as a means of providing funds to make and guarantee its loans, provide the Corporation with adequate capital and authorize the issuance by it of obligations guaranteed by the United States. Congress would be advised annually of the Corporation's net profit or loss and be in a position to make such appropriations as might be necessary to meet any annual impairment of the capital of the Corporation that would result from losses sustained upon its loans.

REVIEW OF THE FISCAL YEARS 1937 AND 1938, AND THE FISCAL PROGRAM FOR 1939

This review concerns itself with the cash actually received and paid out by the Treasury in the fiscal year 1937, with the estimates of receipts and expenditures for the fiscal year 1938, and with the fiscal program for 1939.

FISCAL YEAR 1937

*Receipts.*—Total general fund receipts for the fiscal year 1937 amounted to \$5,293,840,236 which was \$534,000,000 less than was estimated 1 year ago but a gain over 1936 of \$1,178,000,000. The

receipts from income taxes were \$215,000,000 less than the estimate contained in the 1938 Budget, while miscellaneous internal revenue taxes were \$94,000,000 less.

It was believed last January that taxes on carriers and their employers would produce \$134,552,000, but litigation delayed collection of these taxes and only \$345,000 was received in 1937. The tax on unjust enrichment produced only \$8,000,000 as against Budget estimates of \$82,000,000 a year ago, while the receipts from social-security taxes were \$72,000,000 less than was estimated at that time. Customs and miscellaneous receipts, however, exceeded the amount anticipated a year ago by \$40,000,000 and \$18,000,000, respectively.

As pointed out in my message of April 20 last, the March 1937 tax returns brought to light certain defects in the present revenue law. As a result of these disclosures, committees of Congress have been considering corrective tax legislation; and I hope that there may be enacted at an early date such amendments to the revenue law as will maintain the revenue producing power of the present tax structure while correcting at the same time existing proven inequities.

*Expenditures.*—The total expenditures for the fiscal year ended June 30, 1937 (exclusive of expenditures from postal revenues), amounted to \$8,105,158,547 as compared with an estimate of \$8,480,804,493 in the Budget submitted a year ago. This latter estimate included an amount of \$404,525,000 for statutory debt retirement while the actual expenditures for this purpose were \$103,971,200. Thus, excluding debt retirement, the expenditures for the fiscal year 1937 were \$75,000,000 less than the estimate for that year contained in the 1938 Budget. The total expenditures for recovery and relief were \$3,014,589,913 as against an estimate of \$3,144,689,700. Revolving funds showed a net credit of \$243,569,165, which was \$85,000,000 less than the previous Budget estimate of \$328,532,000. Transfers to trust accounts totaled \$872,386,048, while the estimates for this purpose amounted to \$842,235,300. For the operation and maintenance of the regular departments and establishments of the Government, including interest on the public debt, there was expended \$4,357,780,551, while the amounts estimated for these purposes totaled \$4,417,887,093.

*Deficit and public debt.*—The gross deficit for the fiscal year 1937 amounted to \$2,811,318,311. Excluding \$103,971,200 for statutory debt retirement, the net deficit was \$2,707,347,111. The estimated net deficit, as contained in the Budget submitted a year ago, was \$2,248,128,774. The increase in the net deficit is more than accounted for by the decline in receipts.

The increase in the gross public debt during the year amounted to \$2,046,070,238, bringing the total gross debt on June 30, 1937, to \$36,424,613,732.29.

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5,886,338

## FISCAL YEAR 1938

*Receipts.*—The income of the Federal Government during the fiscal year 1938 is expected to increase \$1,026,673,000 over that of 1937, the increase of \$1,101,573,000 in internal revenue collections being partially offset by a reduction of \$74,900,000 in other classes of receipts. The total revenues from all sources (exclusive of postal revenues) will amount to \$6,320,513,000. This figure, however, is less by \$973,000,000 than the estimate of revenues for 1938 contained in the Budget last year.

Income taxes are expected to produce \$2,602,900,000 as compared with 1937 receipts of \$2,157,526,981. Miscellaneous internal-revenue taxes will amount to \$2,279,511,000 as compared with actual collections in 1937 of \$2,181,217,856. The reenactment of legislation levying taxes upon carriers and their employers will produce \$150,300,000 in 1938, whereas last year's receipts amounted to only \$345,088. Taxes under the Social Security Act, which were levied on a 6-month basis in 1937 produced \$252,160,840, in 1938. The tax on unjust enrichment is estimated at \$5,000,000, or \$886,836 less than the receipts from this source in 1937. Customs duties are expected to yield \$415,300,000 in 1938, whereas in 1937 they produced \$486,356,599. Miscellaneous revenues are \$2,411,000 less than last year, the estimate for the current year being \$165,409,083; and from realization upon assets there will be derived a total of \$41,090,917, or \$1,433,000 less than in 1937.

*Expenditures.*—The total expenditures (exclusive of expenditures from postal revenues) for the fiscal year 1938 are now estimated at \$7,614,858,300. Included in this amount, however, are statutory debt retirements of \$206,215,700. Eliminating debt retirement and the non-recurring item of adjusted compensation payments, the 1938 expenditures are expected to be about \$36,000,000 less than last year. There is a decrease of \$1,186,000,000 in expenditures for recovery and relief, the agricultural adjustment program, the Civilian Conservation Corps, and refunds of taxes, and an increase of \$1,151,000,000 for the following purposes: \$53,000,000 for the legislative, executive, and judicial offices and the civil departments and agencies; \$168,000,000 for the general public works program; \$90,000,000 for national defense; \$2,000,000 for veterans' pensions and benefits; \$91,000,000, principally for grants to States, under the Social Security Act; \$61,000,000 for interest on the public debt; \$280,000,000 for payments into the old age reserve account and the railroad and Government employees' retirement funds; \$200,000,000 for supplemental items; and \$206,000,000 representing a reduction in revolving fund credits.

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year basis, will  
produce \$571,002,000

*Deficit and public debt.*—Excluding public-debt retirements, the net deficit for 1938 is now estimated as \$1,088,000,000 as against an actual deficit in 1937 of \$2,707,000,000. The gross public debt on June 30, 1938, is estimated at \$37,604,000,000. This, of course, does not take into account any future changes in the debt which may occur as a result of the Treasury policy with respect to the sterilization of gold.

## FISCAL PROGRAM FOR 1939

*Receipts.*—The estimates of revenues for the fiscal year 1939, which are necessarily based on existing tax laws, amount to \$5,919,437,000. This is \$401,000,000 less than the anticipated receipts for 1938. With the exception of social-security taxes and realization upon assets, each major class of revenue shows a decline below the 1938 level. Income taxes are estimated at \$2,414,200,000, or \$278,700,000 less than for 1938. Total miscellaneous internal revenue will be \$2,190,072,000, which is \$89,439,000 less than 1938. The taxes upon carriers and their employees are expected to total \$116,900,000, a decline of \$33,400,000 from 1938, which is due largely to the fact that the 1938 collections included 1937 accruals deferred by litigation. Social-security taxes will be \$598,865,000, an increase of \$27,863,000 over 1938. The tax on unjust enrichment will produce \$10,000,000, as compared with \$5,000,000 for 1938. Miscellaneous revenues show a total of \$148,882,320, less than the current year by \$16,527,000. Realization upon assets is estimated at \$50,118,000, an increase of \$9,027,000 over 1938.

*Expenditures.*—The expenditures contemplated for the fiscal year 1939 (exclusive of those from postal revenues) total \$7,070,558,000. This includes \$201,515,000 for statutory debt retirement, leaving \$6,869,043,000 for other purposes, which is \$539,600,000 less than the amount estimated for 1938. There are net increases of \$53,000,000 in the regular activities of the civil departments and agencies which are more than accounted for by increases of \$62,000,000 under the Rural Electrification Administration and the United States Maritime Commission. The General Public Works Program will require \$404,026,500, or \$73,957,000 less than for 1938. Expenditures for national defense are expected to be \$55,000,000 greater than for 1938, reaching a total of \$988,623,400 in the fiscal year 1939. On the other hand, the expenditures for veterans' pensions and benefits will decline from \$573,682,800 for 1938 to \$538,610,000 for 1939, because of the completion of payments of insurance claims on account of deaths occurring during the World War. Expenditures under the agricultural adjustment program will increase \$143,573,000 in 1939, due principally to the legislation enacted during the last regular session of Congress providing for subsidy payments to cotton producers.

The Civilian Conservation Corps, because of a contemplated reduction in the number of camps and reduced expenditures for cooperating agencies, will require \$230,000,000, or \$80,000,000 less than for 1938. Expenditures for administration and grants to States under the Social Security Act will reach a total of \$338,230,000, which represents an increase of \$66,500,000 in grants to States and a decrease of \$2,000,000 in administrative expenses. The interest payments on the public debt will amount to \$976,000,000, or \$49,000,000 more than for 1938.

Expenditures for recovery and relief are estimated at \$1,138,304,000, or \$841,356,000 less than for 1938. The operations of the Social Security Act and the unemployment-compensation laws of the States have the effect of materially reducing our program for work relief. Moreover, operations under the new Housing Act will greatly assist in providing employment. We can also look to the regular public-works program to provide a certain amount of employment. With these aids and the assistance confidently expected from private industry, I hope that the foregoing amount for expenditure will be sufficient to meet the needs for 1939. An estimate of appropriation of \$1,000,000,000 for this purpose is contained in the 1939 Budget.

Expenditures from revolving funds are expected to amount to \$141,961,000, which represents, because of an excess of receipts of \$37,778,200 in 1938, an increase in total expenditures of \$179,739,200. For the old-age reserve account the estimate is \$475,000,000, an increase of \$90,000,000 over 1938. For the railroad retirement account \$117,250,000 will be required, \$20,286,000 less than for 1938. An accumulation of payments due in 1937 had to be met in 1938, whereas there will be no accumulation to be carried over into 1939. The amount for supplemental items is \$75,000,000, which is \$125,000,000 less than the amount now indicated for 1938.

*Deficit and public debt.*—The net deficit for the fiscal year 1939 is \$949,606,000, or \$138,523,608, less than the deficit for the current year. The gross public debt on June 30, 1939, is estimated at \$38,528,000,000. This does not take into account any changes in the debt which may occur as a result of the Treasury policy with respect to the sterilization of gold.

It should be pointed out, however, that the increase in the debt by reason of the deficit does not mean that the Treasury will borrow that additional sum on the market. Included in the expenditure figures which result in this deficit are approximately \$667,000,000 of transfers to trust accounts. About \$570,000,000 of these expenditures are for investment in special issues of Government obligations. An additional \$653,000,000 will be invested in such issues from the State contributions to the unemployment trust fund. As a result of these investment operations the Treasury financing for the fiscal year 1939 will be confined to refunding maturing obligations.

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The following table shows the gross public debt at the end of the fiscal years 1936 and 1937 and the estimated gross debt at the end of the fiscal years 1938 and 1939:

(In millions of dollars)

	June 30, 1939 (estimated)	June 30, 1938 (estimated)	June 30, 1937	June 30, 1936
<b>Market operations:</b>				
Held by—				
Public banks, insurance companies, trust companies, corporations, individuals, etc. . . . .	36,317	30,551	30,677	35,436
Federal Reserve System . . . . .	2,564	2,564	2,329	3,430
Governmental agencies . . . . .	500	500	451	381
Government trust funds . . . . .	1,228	1,228	1,212	933
	<u>34,613</u>	<u>34,843</u>	<u>34,669</u>	<u>39,180</u>
<b>Special issues:</b>				
Held by—				
Old-age reserve account . . . . .	1,143	661	267	—
Unemployment trust fund . . . . .	1,528	965	312	19
Railroad retirement account . . . . .	137	90	—	—
Employee retirement funds . . . . .	432	371	316	280
Veterans funds . . . . .	215	225	308	127
Other . . . . .	130	150	125	200
	<u>3,915</u>	<u>2,712</u>	<u>1,558</u>	<u>626</u>
<b>Gross debt . . . . .</b>	<b>38,528</b>	<b>37,555</b>	<b>36,227</b>	<b>39,776</b>

\* As of Dec. 1, 1937, and it is assumed for the purpose of this statement that they will remain at these amounts throughout the fiscal years 1938 and 1939.

*Appropriations.*—The appropriations and reappropriations recommended in this Budget, including those for the Postal Service, the District of Columbia, and probable supplemental items, total \$7,973,843,219.39. The appropriations and reappropriations already made and prospective supplemental items for the fiscal year 1938 for the same purposes total \$8,629,921,393.06. This is a decrease of \$656,078,173.67.

FRANKLIN D. ROOSEVELT.

JANUARY 3, 1938.

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BUREAU OF THE BUDGET  
WASHINGTON

PSP: Subject File  
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Confidential

FEB 3 1938

MEMORANDUM FOR THE PRESIDENT.

In your annual Budget message to Congress you recommended that you be given authority to veto items in appropriation acts. You stated that the question as to whether this authority should be conferred upon the President by legislation or Constitutional amendment should be determined by the Congress. As a result of this recommendation, the House recently passed an amendment to the Independent Offices Appropriation Act proposed by Representative Woodrum which would confer authority upon the President to eliminate or reduce items in an appropriation act. The amendment, patterned after the principle of the Hoover Reorganization Act of 1932, would authorize the President, at any time after an appropriation act had become effective, to issue an Executive order eliminating or reducing any item contained in such act. The order would have to contain a declaration that the President had, after investigation, found that the elimination or reduction of the particular appropriation item or items would aid either in balancing the Budget or in reducing the public debt. The order would have to be submitted to the Congress and could not become effective until sixty days after its transmission.

The difference between Representative Woodrum's amendment and the reorganization legislation is that under the former the President would be authorized to deal directly with appropriations, whereas in the latter his authority with respect to appropriations is only incidental to his power to abolish functions.

As will appear to you, this is not strictly "item veto" legislation but accomplishes the same objective and much more effectively, because it will authorize the President to reduce items in an appropriation act as and when the need may arise, whereas "item veto" legislation could confer this authority for exercise only at the time of his consideration of the enrolled bill.

There is need in our Budget system for more authoritative procedure whereby the expenditure program for a fiscal year may be curtailed during that year to offset, at least in part, any falling off of receipts from previously anticipated revenue. Our present apportionment system, i. e., the apportioning, after setting up reserves at the beginning of the fiscal year, of the amount that may be spent during each month or other portion of the year, was

designed to prevent the incurrence of "deficiencies", and rests for its authority on the Anti-Deficiency Act of 1905. There is no specific authority of law for the use of the apportionment system to effect "savings". The apportionment system as an instrument for the accomplishment of "savings" cannot be made truly effective until implemented by legislation of the character of the Woodrum amendment.

The House Appropriations Committee disapproved of Representative Woodrum's action by a vote of 20 to 13, because the Representative had proposed the amendment without consulting his committee. Further, the House Appropriations Committee requested the Senate Appropriations Committee to strike Representative Woodrum's amendment from the bill and, as a courtesy to the House Committee, the Senate Committee has voted to do so.

I am informed that immediately following the adoption of Representative Woodrum's amendment by the House a poll of the Senate indicated that twenty-nine Senators unhesitatingly favored the amendment.

It is my understanding that Senator Ashurst, whose Senate Judiciary Committee is holding hearings on Senator Vandenberg's proposed constitutional amendment to authorize the President to veto items in appropriation acts, has publicly stated that no constitutional amendment is necessary to authorize Congress to enact strictly item veto legislation, that is, legislation which would authorize the President to treat each item of an appropriation act as a separate bill. Chairman Sumners of the House Judiciary Committee has expressed a similar view in an opinion to the Speaker of the House. Moreover, Representative Woodrum entertains the view that it will be very difficult, if not impossible, to obtain a constitutional amendment, particularly, since the States will be fearful of losing Federal grants if such a power were vested in the President. He expresses the further opinion that if his amendment is defeated there is little likelihood even of strictly item veto legislation being enacted in the future.

The Representative feels, on the other hand, that his present amendment can be enacted into law if you will lend it your support and so advise the leaders in Congress. It is reported that an attempt will be made tomorrow in the Senate to bring up the Independent Offices Appropriation bill and if the attempt is unsuccessful, then a further attempt will be made on Monday. For this reason, if any action is to be taken in behalf of this amendment, it must be done at once.

*A. W. Bell*  
Acting Director.

R. F.

When this comes back will  
you give it to me for the  
President's personal file?

G. G. T.

*Budget*  
2

THE WHITE HOUSE  
WASHINGTON

February 12, 1938.

MEMORANDUM FOR

THE ACTING DIRECTOR OF THE BUDGET

FOR YOUR INFORMATION AND WILL  
YOU RETURN FOR MY FILES?

F. D. R.

Letter from the Postmaster General, 2/11/38  
to the President. States that in reply  
to President's letter of 1/18/38, and in  
reference to their conversation on the subject  
of postal expense, fact must be faced that  
the determination of postal expenditure is in  
the hands of the public despite views which  
might be held by Congress, the Budget or the  
Dept.

BUREAU OF THE BUDGET  
WASHINGTON

*BF*  
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*Budget*

FEB 14 1938

MEMORANDUM FOR THE PRESIDENT:

Your memorandum of February 12, and the accompanying letter from the Postmaster General, dated February 11, 1938, have been noted and are returned herewith in accordance with your request.

*AWP Bell*  
Acting Director.

Enclosures.

MEMORANDUM FOR THE PRESIDENT:

Your memorandum of February 12, and the accompanying letter from the Postmaster General, dated February 11, 1938, have been noted and are returned herewith in accordance with your request.

Acting Director.

Enclosures.

THE WHITE HOUSE  
WASHINGTON

February 12, 1938.

MEMORANDUM FOR

THE ACTING DIRECTOR OF THE BUDGET

FOR YOUR INFORMATION AND  
WILL YOU RETURN FOR MY FILES?

F. D. R.

RECEIVED

FEB 14 1938

BUREAU OF THE BUDGET



Office of the Postmaster General  
Washington, D. C.

February 11, 1938.

THE WHITE HOUSE

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RECEIVED

The President,

The White House.

My dear Mr. President:

In reply to your letter of January 18, 1938, and in reference to our conversation on the subject of postal expense, we must face the fact that the determination of postal expenditure is in the hands of the public despite views which might be held by Congress, the Budget or the Department. In the determination of future expense, our best guide is the volume of current postal earnings that the public gives to us and that cause expenditure.

For the month of January just ended, we know that earnings are keeping up. It follows that we require as much for expenditure in January this year as we required for January last year -- a sum approximating 63 millions.

Our best forecast of earnings for the balance of the fiscal year is that we will require approximately as much to pay for the service this year as we actually spent last year -- a sum approximating 777 millions.

Therefore, fiscal 1938 appears as follows:

Expenditures - - - - -	777	Millions
Earnings - - - - -	752	"
Gross Deficit - - - - -	25	"
Non-Postal Items - - - - -	42	"
Surplus - - - - -	17	"

Faithfully yours,

*James Farley*  
Postmaster General.

*PSF  
Division of  
The*

~~CONFIDENTIAL~~

May 13, 1938.

MEMORANDUM FOR

THE ACTING DIRECTOR OF THE BUDGET

I enclose letter from the Secretary of the Navy in regard to increase of Navy personnel for the fiscal year 1940.

I have checked this list with the construction reports and my tentative suggestion is as follows:

1. New Construction

The WASP will be completed about December, 1939 and a crew must, therefore, be provided.

The HELENA is listed for completion January, 1940, but I doubt if she is completed until later in the year.

2. Submarines

The estimate for 138 additional personnel seems O.K.

3. Destroyers

The estimate seems high. I think 2000 men instead of 2478 would be enough.

4. Increase in Aircraft

18 men O.K.

5. At Sea, Miscellaneous

The increase of 300 men seems O.K.

6. On Shore, Miscellaneous

This number - 2765 - seems high. I think it can be cut by three or four hundred men.

7. Increase in % of allowance to complement

This whole item should, I think, go out. I am not, and never have been, convinced that it is necessary to have a 90% complement in time of peace instead of the present ratio of 85%.

All of the above means that the increase of 9900 men for the Navy can be cut by nearly 4000 -- in other words, I think the total increase for the Navy of 6000 men is enough.

In regard to increase of Marine Corps by 4000 men, I suggest that this figure be cut ~~in half~~ -- ~~to 2000~~ 1600 men.

Please talk this over with me.

F. D. R.

BUREAU OF THE BUDGET  
Office of the Acting Director

To The President

You requested this  
memo of the conference  
on Nov. 16th with the  
Secy. of the Treasury and  
Mr. Hanes, so that you  
could take it with you  
to Warm Springs -

SWB  
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journal

PSF: *[Handwritten initials]*  
CONFERENCE WITH THE PRESIDENT ON NOVEMBER 16, 1938,  
REGARDING TAX PROGRAM TO BE SUBMITTED TO THE NEXT CONGRESS  
*Bureau*

Those present besides the President were Secretary Morgenthau,  
Under Secretary Hanes and Mr. Bell.

Mr. Hanes started the conversation by telling the President that in order to work out a definite program the Treasury would have to know how much revenue the President wanted to raise. He said that to get 2 billion dollars additional revenue it would be necessary to go deeply into the tax structure of the country. Some of the taxes might have an adverse effect on business conditions. He explained that the estimated revenue amounting to 5 billion dollars, was based on a national income of 60 billion dollars. He is inclined to believe that these estimates are conservative and that in all probability the national income will be in excess of that figure, in which case we should get more revenue than now estimated. He explained to the President also that there were other indices, such as the price level and the Federal Reserve Board index of production, which are factors in these estimates.

The President asked the question as to how much revenue would the Treasury get if the national income should go to 70 billion dollars. Mr. Hanes said that it was his opinion that it would amount to approximately 5 billion, 600 million dollars, exclusive of Social Security taxes, and that if you add the latter you should get around 6 billion, 700 million dollars.

The President then said that he thought that we might make two kinds of estimates: one for current revenue on the basis of 60 billion dollars national income, which on the basis of the present tax rates would amount

to 5 billion dollars. Assume then that we would have expenditures on ordinary account of 7 billion dollars and on account of relief of 1 billion 500 million dollars, which would result in a  $3\frac{1}{2}$  billion dollar deficit. The President said then to make another estimate of revenue based on new taxes to be levied, say up to 2 billion dollars. This would reduce the deficit to  $1\frac{1}{2}$  billion dollars. We could then state in our budget message that if the national income increases to 70 billion dollars, we should get additional revenue of approximately 1 billion 700 million dollars, which would give more than a balanced budget in 1941. These estimates of expenditures do not include any amount for debt retirement.

The President then asked me to give him rough figures of 1940 estimates of expenditures. I had no estimates with me so the figures in the first column below represent rough figures which I submitted from memory and the second column shows the figures that should have been given:

	<u>Rough Estimates</u>	<u>Figures should have been</u>
	M	M
Regular Departments	\$ 750	\$ 795
National defense	1,000	1,155
Veterans' Administration	550	546
AAA (Inc. Farm Tenancy)	650	850
CCC	—	300
General Public Works	500	649
U. S. Maritime Commission	—	125
Interest	1,025	1,030
Social Security and Railroad Retirement	875	943
PWA (lag)	750)	500
Emergency Public Works (lag)	— )	333
Miscellaneous	<u>300</u>	<u>200</u>
Total	\$ 6,400	\$ 7,426

The President then said to assume that the total regular expenditures as given above for 1940 should amount to as much as	M
add for WPA, which he thought was very low, another	\$ 6,700
and then add for national defense	1,000
making a total of	<u>500</u>
deducting from this figure the official revenue estimate of	8,200
and then add new taxes of	M
we get total revenue of	\$ 5,000
leaving a deficit of	<u>2,000</u>
	7,000
	\$ 1,200

Then we could say that if the national income should go to 70 billion dollars, instead of getting 5 billion dollars in revenue as the present estimates indicate, we would get 6 billion, 700 million dollars, which with the new revenue to be raised would make 8 billion, 700 million dollars revenue, leaving no deficit. This would give us a balanced budget and 500 million dollars for debt retirement.

Mr. Hanes then went over his statement of possible new sources of revenue with the President, showing that by increasing the rates set out on this statement and making other changes in the tax structure, as much as he could get in the form of new revenue for a full fiscal year's operation under a new revenue act embodying these suggestions would be 1 billion 800 million dollars based upon the current indices used by the Treasury in determining its revenue estimates.

The President then said assuming we have expenditures of 7 billions

and receipts of 5 and we wanted to raise 2 billion dollars of additional revenue to balance the budget, what class of people would pay under the proposal set out on this statement. Mr. Hanes replied that the middle-income groups would be hit the hardest; those receiving incomes between 8 thousand and 70 thousand would be hit very hard.

The Secretary told the President that he had an idea as to some of the additional taxes that might be levied. He said that he realized that the President had always been against a sales tax but many states in the Union have adopted it and he thought that the Federal Government might also resort to it for special reasons. He also explained that our so-called excise taxes which we have today are nothing more than sales taxes. He said that what he had in mind was a special form of tax stamp with the picture of a battleship and a bomber on the face of it, which would bring home to every American that he is helping to pay for the expenditures made necessary by World conditions, to put his country in a position where it can defend itself against the outside world. The President then asked him how about exemptions. The Secretary replied that, of course, in discussing sales taxes in the past he had always thought of exempting food stuffs, and clothing up to a certain point, but that in this case he was of the opinion that there should be no exemptions and that every one from the highest to the lowest should help pay this additional cost.

The President said that he would like to have Mr. Hanes work on this matter and see what he could do to make just one exemption and that would be on food stuffs not in containers, that is, food stuffs in the raw state. This would certainly have the effect of increasing the consumption of fresh vegetables which would be a good thing for the American people.

The Secretary then said that he thought that as long as we were discussing the special kind of tax for a special purpose, why would it not be an excellent thing if we should have a specially designed stamp to show that the taxes paid are for the purpose of financing the additional national defense expenditures and other special taxes specifically levied to take care of relief. It was explained to the President that if we did not have any exemptions whatever that according to old estimates based on lower business levels a rate of 1% on manufacturers' net sales not subject to present excises would have produced annual revenue of approximately 238 million dollars and that a 4% rate would have produced a little less than 1 billion dollars a year.

The President said that he was thinking of national defense in terms of 1 billion 500 million dollars which would be spent over a period of two and possibly three years.

The President then asked Mr. Hanes if he could get up for him a simple comparative table containing data on the 100 richest individuals in the United States for the calendar year 1928 or 1929, whichever is the higher, showing the tax rate for that year and the gross income less deductible losses. This would show what those individuals had as spendable income in that year. Then show how much of that spendable income they paid to the Federal Government. He would then like to have this same information for 1932 and for 1937 or the latest year for which the information is available. He would then like to show as to whether funds of these individuals have gone into tax-exempt securities or into other lines of investment. If they have gone into tax-exempts, he would like to use it in a recommendation

to Congress, immediately after its opening for the elimination of the issuance of tax-exempt securities. He would like to recommend that this elimination be secured by legislation and not by the long route of a constitutional amendment.

The President said that he would also like to have us work on a budget with the revenue based upon the national income of 60 billion dollars which would be no more than 2 billion dollars out of balance. And then he would like for us to work on raising revenue of say 1 billion dollars under additional taxes and then we could make the statement that if the national income increases to 70 billion dollars we would have a balanced budget for 1941. Getting the expenditures down to 7 billion dollars will be a difficult task for 1940.

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*Bureau of the Budget*

The item for relief remains. Without that item the Budget is in balance. To make today a formal budget estimate of the amount necessary for work relief would be of necessity a difficult task. We have too recently reached our goal of putting three and a half million people at work, and the beneficial effects from this program and from increasing expenditures on public works cannot be foretold as accurately today as two months from now. Furthermore, employment by private industry continues to show substantial gains over the figures of a year ago. It is reasonably certain that the total appropriations for work relief during the fiscal year 1937 will be far less than during the current fiscal year. Furthermore, it is worthy of note that even if the total amount for work relief were to run to \$2,135,000,000, which I do not anticipate, the deficit figures for the fiscal year 1937 would still not exceed the estimated deficit figures for 1936.

To state the case even more precisely, the gross deficit of the Government in 1934 was \$3,889,000,000; in 1935 \$3,575,000,000; in 1936 (estimated) \$3,234,000,000; and in 1937 (estimated, but not including work relief) \$1,099,000,000.

Therefore, it is clear: first, that since June 30, 1934, the gross deficit of the Government shows a steady

INSERT C (continued)

decrease during the fiscal years 1935 and 1936. Second, that if work relief appropriations by this session of the Congress were to be made up to a total of \$2,135,000,000, <sup>the</sup> a total gross deficit for the fiscal year 1937 would not exceed that of 1936, which in itself was the lowest gross deficit of the past three years. Therefore, it follows that whatever is the amount less than \$2,135,000,000 appropriated for work relief at this session, such amount will represent that much decrease in the deficit of 1937 over the deficit of 1936. I do not expect that any such sum as \$2,135,000,000 will be necessary to be appropriated.

With this limitation and this excellent prospect clearly in mind, I defer submitting at this time actual work relief figures. I shall do so with far greater knowledge and, therefore, with greater accuracy in sufficient time before the adjournment of this session to give to the Congress full opportunity to examine into the needs and to make the necessary appropriations.

Part 2, Bureau of the Budget <sup>PS 12</sup>

Recommendations

The following recommendations are offered:

Appropriation Transfer Provisions-- The text accompanying a number of the estimates of appropriations has been drafted to include provisions for transfers between appropriations within the same department. This provision will add a measure of administrative flexibility and will tend to promote economical execution of the program as a whole, and approval thereof by the Congress is recommended.

~~Federal Coordinator of Transportation-- The work of the Federal Coordinator of Transportation will be completed on June 17, 1936. Thereafter, if further studies are desired relative to transportation problems, such studies can be made by the Interstate Commerce Commission. It is therefore recommended that the office of the Federal Coordinator of Transportation be discontinued.~~

Repeal Amendment to Agricultural Adjustment Act-- During the first session of the 74th Congress the Agricultural Adjustment Act was amended so as to appropriate a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities. No estimate of expenditure for account of this legislation is included herein; and repeal of the amendment is recommended for the following reasons:

By appropriating directly instead of authorizing an appropriation the amendment denies to the President the opportunity to consider the need and include appropriate estimates in the Budget; and it denies to the Congress the opportunity to review such estimates in their relation

to the whole program of the Government. The amendment violates the principles of the Permanent Appropriation Repeal Act of 1934, and of the Budget and Accounting Act of June 10, 1921. It is in conflict with sound administration in that it provides in advance for large annual expenditures without any attempt to coordinate income and expense. It is in conflict with recognized principles of taxation in that general revenues are made available for financing a service the benefits of which are not general but are peculiar to a special group of beneficiaries. The amendment was passed in the last days of the session as a result of conference agreement and without the debate and consideration by the Congress which the import of the measure clearly justifies.

Apportionments of Appropriations--It is recommended that Section 3679 of the Revised Statutes be amended so as to bring all agencies of the Government, including government-owned and government-controlled corporations, within the authority of the Director of the Budget with respect to their apportionments of appropriations.

Draft of proposed legislation to effectuate these recommendations is transmitted herewith.

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Part 3 Budget

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Review of Fiscal Years 1935 and 1936  
and  
The Fiscal Program of 1937

This review concerns itself with cash actually received and paid out by the Treasury in the fiscal year 1935; and with the estimates of receipts, appropriations and expenditure for the fiscal years 1936 and 1937.

Fiscal Year 1935

Receipts-- Treasury receipts for the year ended June 30, 1935, were ~~slightly~~ in excess of estimates prepared a year ago. Considering all sources except postal revenues, total receipts amounted to \$3,800,467,202, or \$89,000,000 above the estimate. Internal Revenue, including processing taxes on farm products, produced \$3,277,690,028, exceeding the estimate by \$80,000,000. Customs receipts amounted to \$343,353,033, an increase over the estimate of \$56,000,000.

Miscellaneous receipts estimated at \$217,813,426, fell short of the estimate by \$48,000,000; the amount actually received under this item was \$179,424,140. These figures do not represent a loss, or a decline in this source of revenue. At the time the estimate was made it was assumed amounts recovered on loans made by the Public Works Administration would be covered into the Treasury and applied to debt retirement. This was in accord with provisions of the National Industrial Recovery Act of June 16, 1933. A subsequent law, however, authorizes the Public Works Administration to sell securities to the Reconstruction Finance Corporation and to use the proceeds thereof for further loans. The adoption of this authorized policy ~~increased the Treasury's~~ <sup>diverted these</sup> estimated receipts

amounts <sup>to \$144</sup> ~~were~~ \$75,000,000. In other respects, receipts from miscellaneous sources of income exceeded the estimate by about \$27,000,000.

Expenditures-- While actual receipts for the year were greater than anticipated, actual expenditures were less than the amount estimated by \$1,200,000,000. The aggregate of all expenditures was \$7,375,825,166 against an estimate of \$8,581,069,026. Approximately a billion dollars of this difference related to recovery and relief, and the regular agencies accounted for the remaining \$200,000,000.

The total spent for recovery and relief was \$4,262,257,208, whereas the 1936 Budget estimate was \$5,259,802,852. This difference is partly due to this fact:

When the Budget for 1936 was prepared it seemed probable that the Reconstruction Finance Corporation, in all accounts except relief, would close the year with an excess of loans over repayments; and the amount of the net expenditures was estimated at \$556,000,000. However, because of improved business conditions, the demands for Corporation assistance were so much less than estimated and the repayments of loans so much greater, that the Corporation actually closed the year with net receipts of \$107,000,000; and the net <sup>reductions</sup> ~~difference~~ between the actual <sup>expenditures</sup> ~~amount~~ and the estimate amounted to \$663,000,000. Other agencies spent for recovery and relief \$335,000,000 less than estimated.

For the operation and maintenance of regular departments and establishments of the Government actual expenditures were \$1,719,083,353 against the estimate of \$1,913,700,174.

For statutory debt retirements there was expended \$573,558,250 and for interest on the public debt \$820,926,353, whereas the amounts budgeted for these items were respectively \$572,566,000 and \$835,000,000.

3

Deficit and Public Debt— The year closed with a gross deficit of \$3,575,357,964. instead of the estimate of \$4,869,418,338. After deducting the amount paid out for statutory debt retirement the net deficit was \$3,001,799,714. The increase in the total outstanding gross public debt was \$1,647,751,210, which figure is properly obtained by subtracting from the net deficit the decrease in the general fund balance, the excess of trust fund receipts over trust fund expenditures and the amount of retirement of national bank notes from the gold increment. As of June 30, 1935, the total outstanding gross public debt was \$28,700,892,624, while on June 30, 1934, it was \$27,053,141,414.

#### Fiscal Year 1936

Drawing upon the experience of the first six months of the current year it is possible to forecast with a fair degree of accuracy the results of financial operations for the whole 1936 fiscal period.

Receipts— The same sources of income (excluding postal revenues) which a year ago were expected to produce receipts aggregating \$3,991,904,639 are now expected to produce a total of \$4,410,793,946.

~~This latter figure is less than appeared in the Budget Summation in September by \$60,000,000, due to transactions in securities held by the Public Works Administration, with respect to which the explanation is the same as that previously stated in this text where the 1935 receipts from miscellaneous revenues are discussed.~~

Of the items comprising the whole, income taxes will develop \$1,434,112,000, or \$246,000,000 more than the 1936 Budget estimate.

Miscellaneous internal revenue exclusive of processing taxes is now estimated at \$1,873,091,000, an increase of \$187,000,000. Receipts from customs are expected to reach a total of \$353,191,000, exceeding the original estimate by \$55,000,000. Other changes, some upward and some downward, result in the new estimate of total receipts at a figure of \$419,000,000 higher than shown in the Budget for 1936 which was presented a year ago.

The present estimate for processing taxes in 1936, included in above total, is in round figures \$529,000,000, as against the original estimate of \$570,000,000. Actual receipts for the five months ended November 30, 1935, totaled \$57,000,000, while approximately \$160,000,000 of due payments have been impounded as result of preliminary court action.

It is pertinent to repeat here a statement appearing in the Summation of the 1936 Budget: "Estimates of receipts contemplate continued collection of processing taxes. If the attack which has been made upon this Act is sustained we will have to face the problem of financing existing contracts for benefit payments out of some form of new taxes."

Two new taxes, namely, the Bituminous Coal tax and the Railroad Employees' Retirement tax, both representing recent legislation, will contribute some \$38,000,000 <sup>over the original</sup> ~~to the~~ estimate of receipts for 1936. Social Security taxes will not produce any income until the fiscal year 1937; and the effect of the Revenue Act of 1935 will not be reflected in receipts for 1936.

Expenditures--Indications are that expenditures including debt retirement during the present fiscal year will not reach the amount budgeted by approximately \$875,000,000; the total now foreseen is \$7,645,000,000, against the original estimate of \$8,520,413,609. Exclusive of debt retirement the total of expenditures now foreseen is \$7,093,226,332 while the original comparable figure was \$7,883,979,609. For recovery and relief the revised estimate of expenditures for the fiscal year 1936 is less than the original Budget estimate by \$589,000,000, while expenditures for all regular purposes will be less by \$286,000,000. The latter figure includes \$217,000,000 for servicing the public debt, since debt retirement will require \$84,000,000 less than was budgeted and interest payments will be \$133,000,000 less. It thus appears that all other regular expenditures will be less than the original Budget estimate by about \$69,000,000.

Deficit and Public Debt--The revised estimates as set out herein show a gross deficit for the current fiscal year of approximately \$3,234,000,000, instead of the original Budget forecast of \$4,529,000,000. After deducting the amount of statutory debt retirement the net deficit will be in round figures \$2,682,000,000. The gross public debt as at June 30, 1936 should not be greater than \$

The foregoing figures are set out in the following table for ready comparison between Budget estimates of a year ago and what are now considered probable.

Comparison of Original and Revised Estimates.  
Fiscal Year 1936

	<u>Budget Estimate, January, 1935</u>	<u>Revised Estimate</u>
1. <u>Receipts (Excluding Postal)-</u>		
Income tax	\$1,188,000,000	\$1,434,112,000
Miscellaneous internal revenue	1,685,900,000	1,873,091,000
Processing taxes on farm products	570,000,000	529,042,000
Customs	298,000,000	353,191,000
All other	250,004,639	221,357,946
Total receipts	<u>3,991,904,639</u>	<u>4,410,793,946</u>
2. <u>Expenditures-</u>		
Regular	2,426,968,134	2,357,648,151
Interest on the public debt	875,000,000	742,000,000
Recovery and relief	4,582,011,475	3,993,578,187
Total expenditures	<u>7,883,979,609</u>	<u>7,093,226,332</u>
3. <u>Net deficit</u>	3,892,074,970	2,682,432,386
Statutory debt retirements	<u>636,434,000</u>	<u>552,025,000</u>
Gross deficit	<u>4,528,508,970</u>	<u>3,234,457,386</u>
4. <u>Gross Public Debt</u>	<u>\$34,239,000,000</u>	<u>\$</u>

Postal revenues for the fiscal year 1936 are now estimated at \$670,000,000, \$25,000,000 over the original estimate.

### The Fiscal Program of 1937.

There is presented here a brief factual resume of the principal features of the Budget for the fiscal year 1937, the details of which appear in subsequent text and tables. A few high points stand out and justify emphasis.

Without impairing the ability of the Government to carry on its normal functions and to prosecute those activities essential to continued recovery, the Budget reflects a substantial decrease in the spread between income and outgo. This is consistent with the prediction made in ~~the Summary of the 1936 Budget last September~~ <sup>Migrate a year ago</sup> and is possible because of progressive improvement in the economic status of the people. Likewise, the state of National recovery is such that receipts from prevailing tax sources on the basis of present rates appear more than adequate for financing the ordinary operations of the Government in 1937, including service on the public debt; and no new or additional taxes are proposed.

Legislation enacted by the first session of the 74th Congress makes it necessary to provide in the 1937 estimates new appropriation items aggregating \$684,000,000. This total will become approximately \$785,000,000 should the Congress reject the recommendation, hereinafter offered, for repeal of that part of the Agricultural Adjustment Act which appropriates a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture, to encourage exportation ~~of agricultural commodities~~ ~~consumption of agricultural commodities.~~

Legislation enacted by the first session also permits including in these estimates a total of \$769,000,000 of additional receipts, of which about seventy per cent will accrue under the Bituminous Coal Conservation Act, the Railroad Employees' Retirement Act and the Social Security Act. It is worthy of note that but slightly less than thirty per cent of this increase will be derived under the Revenue Act of 1935.

A Federal public works program of \$404,000,000 is recommended to meet in part the development and improvement requirements of the Government, and as a proper Federal contribution to work opportunity. While this program represents an increase of about \$200,000,000 over the amount for similar purposes for which the Congress made specific appropriations for the current fiscal year, it is \$ less than the total amount made available for Federal public works in 1936, considering allotments made from emergency funds.

The success attending the operation of the Civilian Conservation Corps as an emergency activity justifies taking it into the Budget as a part of the regular program for 1937, and the estimates of appropriation and expenditure have been prepared accordingly. The appropriation recommended is for an amount of \$246,000,000, of which about \$25,000,000 should be made available for expenditure in fiscal year 1936. In addition, approximately \$75,000,000 for this purpose is included in the lump sum estimate for 1937 supplementals.

The following table gives a clear picture of the main figures proposed in this Budget and shows how they compare with similar figures for previous years.

(In millions of dollars)

	<u>Actual</u>		<u>Estimated</u>	
	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>

**REGULAR:**

**1. Receipts-**

Income tax	818	1,099	1,434	1,943
Misc. Int. Rev.	1,470	1,657	1,873	2,103
Customs	313	343	353	354
Miscellaneous	162	180	183	160
<b>Total</b>	<b>2,763</b>	<b>3,279</b>	<b>3,843</b>	<b>4,560</b>

Taxes under Social Security, Railroad Employees' Retirement and Bituminous Coal Conservation Acts	---	---	39	547
<b>Grand total</b>	<b>2,763</b>	<b>3,279</b>	<b>3,882</b>	<b>5,107</b>

**2. Expenditures-**

Operation and maintenance of regular departments and establishments *	1,086	1,068	1,591	2,806
Veterans' pensions and benefits	556	605	720	791
Interest on National debt	757	821	742	805
Tax refunds (exclusive of processing taxes)	63	45	47	49
<b>Total regular expenditures</b>	<b>2,462</b>	<b>2,539</b>	<b>3,100</b>	<b>4,451</b>

**RECOVERY AND RELIEF:**

**1. Agricultural Adjustment Administration-**

Processing taxes	353	521	529	547
Expenditures (including refunds of processing taxes)	290	743	621	619
Excess of expenditures over taxes	- 63	+ 222	+ 92	+ 72

**2. Other recovery and relief expenditures**

<b>Total recovery and relief expenditures</b>	<b>3,993</b>	<b>3,519</b>	<b>3,372</b>	<b>1,103</b>
<b>Total expenditures (exclusive of debt retirements)</b>	<b>3,930</b>	<b>3,741</b>	<b>3,464</b>	<b>1,175</b>
<b>Net deficit</b>	<b>3,629</b>	<b>3,001</b>	<b>2,682</b>	<b>519</b>
Debt retirements	360	574	552	580
<b>Gross deficit</b>	<b>3,989</b>	<b>3,575</b>	<b>3,234</b>	<b>1,099</b>

1097  
2,135,000

Directing attention to a comparison between fiscal operations proposed for 1937 and now estimated for 1936, as set forth in the table, the following comment is pertinent:

Receipts--Receipts in 1937 from regular sources (exclusive of postal revenues, processing taxes and taxes imposed under the Social Security, Bituminous Coal Conservation and Railroad Employees Retirement Acts) are expected to reach a total of \$4,560,817,650, an increase of \$717,665,704 over similar receipts for 1936 now estimated at \$3,843,151,946, and \$1,281,730,319 over 1935. It should be pointed out here that this increase is due largely to increased payments of taxes under the old schedules. Only about \$222,000,000 will be produced in 1937 as a result of the Revenue Act of 1935.

From processing taxes the sum anticipated is \$547,300,000 against the estimate of \$529,042,000 for the current year, an increase of \$18,258,000. Other taxes recently authorized by the Congress under the Social Security, Bituminous Coal Conservation and Railroad Employees Retirement Acts will produce \$547,100,000 in 1937, and \$38,600,000 this year, an increase of \$508,500,000.

Thus 1937 receipts from all sources, except postal revenues, are estimated at \$5,654,217,650 against the revised estimate of \$4,410,793,946 for the current fiscal year. The increase in total receipts from stated sources is therefore \$1,243,423,704.

Postal receipts for the coming year are estimated at \$705,000,000, an increase of \$35,000,000 over \$670,000,000 anticipated in 1936. This is further evidence of the upward trend in <sup>economic</sup> ~~business~~ conditions.

An examination of the detailed estimates of the first four classes of receipts for 1937 indicates a gain over 1936 in income tax of \$508,488,000, the figures for the two years being respectively \$1,942,600,000 and \$1,434,112,000. Similarly, estimated receipts from miscellaneous internal revenues, exclusive of processing taxes, are up from \$1,873,091,000 to \$2,103,114,000, a gain of \$230,023,000. Customs receipts are forecast at \$354,000,000, substantially the same as anticipated for 1936. The reduction of \$22,654,296 in probable miscellaneous receipts, from \$182,757,946 to \$160,103,650, brings the net increase in the estimates of these four classes of receipts to \$717,665,704, as stated.

The provisions of the Social Security, the Bituminous Coal Conservation and the Railroad Employees' Retirement Acts are such that receipts during the fiscal year 1936 will be comparatively small while revenues from these sources in the next fiscal year will show substantial increases. The amounts estimated for 1937 from each of the new taxes in the order named are \$433,200,000, \$12,300,000, and \$101,600,000.

Expenditures-- The expenditures for 1937 contemplated under this Budget will total \$6,753,598,470, or approximately \$1,900,000,000 less than is now estimated for 1936.

Of the two major categories of expenditure, namely, regular, and recovery and relief, allowances for regular activities amount to \$5,031,476,738 as compared with \$3,651,673,151 for 1936, an increase of \$1,379,803,587. For recovery and relief, expenditures ~~will be~~ <sup>list of items</sup> made from unexpended balances, practically all of which will have been obligated prior to June 30, 1936. <sup>and practically all of which have been already allocated</sup> The total of such expenditures in

1937 is estimated at \$1,722,121,732, which is a decrease of \$2,271,456,455 from the figure of \$3,993,578,187 for 1936.

In regular expenditures there is included \$805,000,000 for interest on the public debt, an increase of \$63,000,000 over the same item for the current year; and \$580,125,000 for statutory debt retirements, an increase of \$28,100,000. The cost of service on the public debt in 1937, therefore, will exceed that for 1936 by \$91,400,000.

Excepting debt retirement and interest, the increase in expenditures for regular activities is \$1,288,403,587 as compared with 1936. The major part of this increase is accounted for as follows: (a) For financing activities under the Social Security Act, the Railroad Employees' Retirement Act, and the Bituminous Coal Conservation Act, \$525,000,000; (b) for increased public works, \$125,000,000; <sup>(Transferred from emergency app)</sup> (c) for other new legislation, \$163,400,000. <sup>(d) L.C.C. 1935 (Transf. from emergency)</sup>

~~among other increases in the expenditures for the regular activities~~  
(e) \$60,000,000 for the Veterans' Adjusted Service Certificate Fund in order to bring the annual contribution of the Government nearer its actual liability under existing law; ~~\$195,000,000 for the Emergency Conservation Work included in the regular activities for the first time;~~ and \$180,000,000 for National Defense to meet the policy of the Congress and the Executive in making up for the delay by the United States in meeting the provisions of the naval treaties of 1922 and 1930, and to provide replacement and improved equipment and additional personnel for the Army.

In the War Department Appropriation Act for the fiscal year 1935 the Congress adopted a policy of increasing the average enlisted strength of the Army from 118,750 to 165,000 men and towards accomplishing such purpose appropriated an additional \$20,000,000 for expenditure during that year. These funds are sufficient to maintain an average enlisted strength during 1936 of approximately 147,000 men. The estimates of expenditure included in this Budget are sufficient in amount to maintain this average during the fiscal year 1937, with the purpose in view of providing in the 1938 Budget the funds necessary to recruit the Army to such strength by the close of that year as will produce an average enlisted strength of 165,000 throughout the fiscal year 1939, the maximum indicated by the Congress. It is felt that this is as fast as the Government should proceed in this matter in the light of the present forecast of fiscal affairs.

The principal decreases are \$12,000,000 in postal deficiency; and \$92,000,000 on account of Agricultural Adjustment Administration, due to the recommendation made herein for repeal of section 32 of the Act of August 24, 1935 which appropriated an amount equal to 30 per cent of the gross customs receipts for use in encouraging exportation and domestic consumption of agricultural products.

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Deficit and Public Debt-- The gross deficit for the fiscal year 1937 is estimated at \$1,099,380,820 including \$580,125,000 for statutory debt retirement, or a net deficit of \$519,255,820. It is estimated that the gross public debt on June 30, 1937, will amount to \$ as compared with an estimated debt on June 30, 1936, of \$

Appropriations-- Appropriations recommended in this Budget aggregate \$6,400,000,000, including probable supplemental items estimated at \$600,000,000, while the appropriations already made and prospective supplemental items for the fiscal year 1936, exclusive of the appropriation of four billion dollars for recovery and relief, amount to \$5,146,000,000, an increase of \$1,254,000,000 required for the fiscal year 1937 over the fiscal year 1936.

This increase is due to (1) appropriations amounting to approximately \$700,000,000, including supplementals to be submitted later, required to finance new legislation enacted at the last session of Congress; (2) an appropriation of \$246,000,000 to continue the operations of the Civilian Conservation Corps from March 31, 1936, to March 31, 1937; (3) an increase in specific appropriations of \$200,000,000 on account of general public works; and (4) increases in the general departmental requirements aggregating approximately \$137,000,000, due largely to the increase in the Army, Navy, and the Department of Agriculture.

Because there has not been <sup>any</sup> time to plan the organization and methods required, no detailed estimates are included in the Budget for expense to be incurred by the Social Security Board, and by the Bureau of Internal Revenue in collecting taxes authorized by the three new acts heretofore referred to. However, the probable expense has been approximated and is included in the total lump sum of \$600 millions estimated to cover 1937

supplementals. The necessary supplemental estimate covering the remainder of the current year will be transmitted during the early days of the session, together with complete details for 1937. Likewise no estimate for administering the Potato Act has been prepared since it is believed this Act should be amended along lines to be recommended by the Secretary of Agriculture, and a supplemental estimate can then be transmitted.

The following table shows the estimates of appropriations which are anticipated will be necessary to administer new legislation enacted during the last session of Congress, and also shows the amount of receipts anticipated in 1937 from new <sup>general</sup> tax provisions.

Recent Legislation re:	Estimated Appropriations 1937	Estimated Receipts 1937
Social Security	\$462,000,000	
Railroad Employees Retirement	47,645,000	
Bituminous Coal	1,155,000	
Motor Carrier Act	1,700,000	
Public Utility Act	1,630,000	
Federal Power Act	1,412,400	
Amendments, Pension Laws	46,470,039	
Postal 40-hour week	27,607,700	
Elimination Diseased Cattle	17,500,000	
Soil Conservation	27,500,000	
Agricultural Research and Extension	11,500,000	
Reduction Int. rate, Fed. Land Banks	10,065,075	
National Labor Relations Board	735,000	
Other, Miscellaneous Items, several departments and establishments	<u>9,445,000</u>	
Total	\$684,906,978	
Estimated receipts a/c new taxes except processing taxes, 1937	\$547,100,000	\$547,100,000

Existing authorizations for the Federal Aid Highway System provide for appropriations of \$125,000,000 for each of the fiscal years 1936 and 1937. Under these authorizations \$40,000,000 has previously been appropriated for the fiscal year 1936. Towards the balance of \$85,000,000 authorized for that year there is provided under the item "General Public Works Program" an estimate of \$60,000,000, which it is believed will be sufficient to meet commitments maturing during 1937. As to the authorization of \$125,000,000 for the fiscal year 1937, language is included in this Budget having for its purpose the cancellation of this authorization for 1937 and making it applicable to the fiscal year 1938. This course appears fully justified in view of the fact that during the fiscal years 1933 to 1936, inclusive, there has been made available from emergency funds a total of approximately \$1,000,000,000 for the construction of highways and the elimination of grade crossings, and that from these funds there will be available for expenditure during the fiscal year 1937 a total of more than \$250,000,000 in addition to the \$60,000,000 provided for in the General Public Works Program, previously referred to. Moreover, roads of secondary classification and farm to market roads are being constructed under allotments of emergency funds in amounts approximating \$115,000,000.

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a total of 2,135,000,000  
The total gross def. fr. the  
fiscal year 1947 will still  
not exceed that of 1936 —  
which was the lowest of the post-war years  
Therefore, whatever amount  
less than 2,135,000,000 is  
approp. for war relief will  
represent that much  
decrease in the def.  
less than that of '36.  
I do not expect that many  
such men will be either

THE WHITE HOUSE  
WASHINGTON

*Henry on Request*

157  
Bureau  
of the  
Budget

The political tide is running against the Administration.

The people and many of their representatives in Congress are confused by the multitudinous actions launched against the enemy of depression, and by the clamor of the opposition which commands most of the press. The Administration threw into action a great army, launching an offensive on all sectors. The public has had its eyes fixed only on the many segments of the battle line—upon individuals in the line—Johnson, Richberg, Tugwell, Ickes, Hopkins, etc.—and has been bewildered by individual actions and often conflicts of action. There has undoubtedly been waste motion, cross-purposes. The public gaze has been upon the individual clashes.

Above all, the public has failed to see what a tremendous victory has been won along the battlefield as a whole, how much lost ground has been recaptured, how far back on the road to recovery the nation has been brought. The opposition now filling the press with vituperation can be made to look ridiculous; it can be completely routed and annihilated by an aggressive campaign, stating the cold, hard unanswerable facts of the case. At the moment that campaign is not being made effectively. It should be made forcefully without more delay.

Since it is the habit of our people, if not all peoples, to vote against rather than for, the campaign should be pitched against the dangers of a return of reaction which would usher in another era of collapse and disaster even though it might be

temporarily preceded by another period of unbalanced prosperity such as we had in the 20's, when 23 percent of the national income went to less than one percent of the people, with affluence at the top but wretchedness among great masses at the bottom of the population pyramid. Assuming that Governor Landon symbolizes what the opposition will stand for, it appears that the major attack will be against spending, i.e., in favor of balancing the budget by drastic reductions of governmental expenditures. It can be demonstrated beyond all successful contradiction that this would be the path back to reaction and new deflation, with a return of misery for the great masses of our people and ultimate destruction of our democratic form of government. For the opposition offers nothing but a return to policies which brought us to the edge of revolution, to an unprecedented economic prostration. The policies offered by the opposition have been tried and failed so completely that only blind men, incapable of learning from experience, would have the effrontery to propose now a resumption of such policies.

This Administration came into office inheriting the most demoralized, most chaotic conditions in the peace time history of America. It may be doubted whether Lincoln faced a country more shattered and panic-ridden. When this Administration took office it inherited a national debt of more than 20 billions, accumulated not only because of the mistaken tax policies pursued under Re-

publican Administrations in the 20's, when taxes were reduced four times though they should have been maintained in order to pay off the war-incurred debt, but also because the Hoover Administration by failing to intervene soon enough and on a broad enough scale, by letting the deflation run far on its course--with untold misery to all our people and losses in the national income estimated in excess of 150 billions--added a deficit of a billion dollars in one year and more than three billion dollars the next to the burden. The cost to the present Administration in stopping the deflation and turning the tide was vastly increased over what would have been the case had the Hoover Administration not permitted deflation to go to such disastrous extremes. In view of the magnificent accomplishment so far achieved of stopping the ruin and bringing the country far back on the road to recovery, it would be absurd for the Administration to be on the defensive. It should be justly proud of the achievement, and prepared for a smashing offensive.

We have come fully half way back to the levels of 1929 measured by the national income, yet we have a long way to go yet. To turn back now, to revert to the opposition policies which were tried and which failed disastrously, would be a fatal mistake. To slash the budget in capitulation to critics, would be not only to confess error where there has been none, not merely to admit that

the critics are right (and they are proved wrong on their own record), but most of all and worst of all it would be political-ly and economically wrong. It would set back the recovery, perhaps fatally.

Budget is Balancing

The essential, ignored but incontrovertible fact is that the budget is being balanced right now; it is being balanced in the only way that it can be balanced without inviting another deflation and another disaster that might end in real revolution and the end of the democratic system, the end of the Constitution, the end of American liberties and traditions. The danger today is not from the meagre handful of Reds in this country, but from the blind reactionaries whose policies all but brought us to public revolt and would, if reinstated, jeopardize the very things of which they prate but are too blind and greedy to understand how to protect.

The budget is being balanced now, in the only way that it can rightly be balanced, by increasing national income, out of which alone can come the revenues with which to effect a balance. That national income, which sank from more than 80 billions in 1929 to less than 40 billions in the last year of the Hoover regime, is nearly halfway back to 1929 levels. As a direct result, our tax revenues are rising correspondingly. They are close to \$2,500,000,000 more now than they were in the last year of Mr. Hoover.

It should be remembered that taxes to pay off the national debt will not be collected out of a static national income, especially when that income has been more than cut in half as happened in the last days of the Hoover Administration. Taxes to pay off the debt will be collected out of a dynamic, restored and (as should be the case under orderly economic progress) steadily expanding national income. That is why the cry that the present or later generations cannot endure the tax burden is foolishly unrealistic. No generation which is impoverished can bear taxation, but a nation with a restored and expanding national income can, without any hardship whatever, endure taxes that would be crushing to an impoverished nation. Nor will the taxes come out of the "little fellow," as Liberty Leaguers and other misled and misleading calamity howlers are so fond of saying. The taxes will come out of the income surpluses piled up in "good times" by corporations and individuals and will be collected on the equitable basis of ability to pay. Not only will this tend to deflect these surpluses from the speculative channels (to say nothing of worthless foreign bonds) into which billions were poured in the 20's, but, when deflationary tendencies develop, the Government can temporarily suspend paying off more of its debt and divert the funds into the spending stream and into the

hands of the under-privileged who will buy food, clothing and other goods and thus bring about creation of new real wealth. That, very simply stated, is the economic process, not under a static but under a dynamic, expanding economy of which people like Liberty Leaguers seem to be unaware.

With recovery underway and tax collections correspondingly increasing, the great credit agencies, such as the R.F.C., the H.O.L.C. and the F.C.A., are accordingly enabled to collect more than they are spending. In other words, the pressures for expenditure are steadily diminishing while revenues are increasing. Three years ago, under the supposed balance-the-budget policies of the Hoover Administration, charted lines would show the line of government expenditures steadily rising, that of government revenues as steadily pointing downward - the two lines moving further and further away from each other - the unbalance of the budget inevitably growing greater and greater. Today, the charted lines have been turned. That of expenditure is going down as fast as recovery proceeds. That of revenue has turned upward. Barring a reversal of policies, a return to deflationary measures, the lines are bound to cross. The rate at which these lines will converge depends, first, on the rapidity with which private enterprise takes over the load of employing the unemployed and thus relieves the government of its inescapable duty to provide for the unemployed in the meantime. A premature effort to balance the budget by the wrong

method of forcing reduced expenditures, ahead of the time when private business is prepared to substitute its own expenditures, would impede recovery and invite another onset of deflation. It would be to confess that the steps already taken, which have been eminently successful, which are producing a balancing budget, have been wrong when, as proved by the facts, they have been absolutely right. Secondly, the rate at which the lines converge depends upon the steady upward progress of the national income, which was up to about 50 billions in 1934 - a gain of fully ten billions over the last year of the Hoover regime - and is running close to 60 billions at the present rate of business activity. To attempt now to force a premature budget balance would slow up this process ruinously. It would imply a static condition of the country, whereas, as the Brookings Institute has emphasized in the final volume of its exhaustive study of the depression and of present day economic conditions (Income and Economic Progress, page 83):

"If we are to achieve the goal of satisfactory standards of living for everyone, the first requirement is to increase progressively the total amount of the income divided. Only as the aggregate national income increases from 30 billions, will the goal of a high standard of living for everyone be attained.

"The distribution of income from year to year is of primary significance not for its momentary effects upon the well-being of the masses, but for its possible cumulative effects in promoting a fuller utilization of our productive facilities and a consequent progressive increase in the aggregate income to be available for distribution. We are not interested in maintaining a static

situation in which the total income, even if equally distributed, would be altogether inadequate; we are interested rather in producing a dynamic situation in which increasing quantities of newly created goods and services would become available for everyone."

Realization of New Deal Objectives

This is the real vision which the New Deal has held out; it is sound economics, supported by the best economic thought in this nation and abroad - not by the reactionaries and the hirelings of banks but by independent, forward-looking economists as represented in the detached and disinterested Brookings group. This implies neither socialism, state capitalism, fascism nor communism; neither regimentation, nor restriction; it is the way to make the capitalistic system produce and distribute to its full capacity, under our Constitution, our traditional liberties and freedom of initiative. It will save our democratic institutions from the extremists, the "Reds" on one side and the blind reactionaries on the other. It is the answer to the wealth-distributors and Townsendites. To distribute the existing static wealth of the country would be to distribute poverty. To distribute pieces of paper marked \$200 a month, whether as an old age pension or for whatever purpose, would be to distribute worthless paper. The problem is to create such an abundance of real wealth - houses, clothing, food, all the things people need and want and use - which is the only real wealth, of which pieces of paper called money

are but the symbol - that the attainable goal of a high standard of living for everyone will be reached, as it can be under an orderly economic progress now underway. This is the real motivation of the New Deal and has been from the inception. It means the fruition of its aspirations for the forgotten man and the under-privileged.

Costs of Recovery Relatively Insignificant

The Administration's expenditures so far are a bagatelle when compared with the results. Not only has the national income been increased by nearly 20 billions, not only are tax revenues up by some \$2,500,000,000 over three years ago, when the Hoover Administration went out, but the value of listed securities on the exchanges is up by 20 billions, the value of listed bonds is up by 7½ billions; the values of all real estate, urban and rural, are up, of bank and insurance company assets, of all other real assets; incidentally government bonds which sold down, for some issues, as low as 83 three years ago, now are at a premium and under lower interest rates. Contrasted with the billions upon billions of increased values is the rise of some 8 billions in the public debt; this is a gross figure which is far less if allowance is made for the Treasury's cash balances, the assets owned by the Government in such agencies as the R.F.C., and the increment from revaluation of the dollar. Deducting those items, the rise in the debt is around 3 billions, an insignificant sum by comparison with the restoration.

Debt Burden Grossly Distorted

The size of the debt has been grossly distorted and magnified by ignorant or irresponsible alarmists, such as the Warburgs and Douglasses. They are like the "shallow politicians" whom Lord Macauley describes in his History of England, who continually cried out that Great Britain was being ruined by her public debt, and were only silenced when the growing wealth of the British people so dwarfed the debt that their needless alarms were exposed as baseless. The Douglasses and Warburgs, the Hoovers and Knoxes and Landons today are like the "shallow politicians" who, as Macauley said, saw only that the debt grew but not that the national wealth grew much faster.

It is overlooked, also, that this country piled up a deficit of \$9,000,000,000 in one year and \$15,000,000,000 in another year of the last war, that the war-incurred debt mounted to 26 billions, mainly in two years, yet during the 20's we paid off ten billions of that debt despite the wrong policy of reducing taxes four times in the same period, and despite the fact that our people squandered some ten billions in foreign securities. At the same time we had such large surpluses that we were able to add vastly to our national wealth in the form of new capital equipment of all sorts - homes, apartments, hotels, factories, power plants, etc., aggregating fully \$100,000,000,000. If we did all that in the 20's, why can't we do it again, and, in fact,

do far better? With the restoration now underway, with the recovery of a national income not merely of 1929 but of the magnitudes envisioned by the Brookings report, it will be possible to pay off the present debt with a rapidity greatly exceeding that of the 20's.

The alarmists also overlook the fact that our entire national, gross debt of some 30 billions amounts to but little more than four months of our normal national income on the basis of 1929. The gross increase in the national debt of some 8 billions since this Administration took office is but little more than one month's normal national income at 1929 levels, and the net increase in the debt since this Administration took office amounts to much less than two weeks of the normal national income. Can it be seriously contended that a Government should not spend a month's normal income, just as an individual would, in order to recover from a critical illness? However, the often used analogy between an individual going into debt and a nation incurring debt is false. In the first place, an individual ordinarily can not expect his income, out of which he must pay his debts, to expand, whereas a progressive nation like ours can count upon its national income growing steadily larger. But, beyond that, how can a nation, which is all of the people, become financially embarrassed by borrowing from itself and paying interest to itself?

It should be remembered, also, that the budget was unbalanced in large part, not to relieve the unemployed, or the distress of the farm and home owners, but to save the banks, the insurance companies, the railroads and the private credit structure all along the line. Is not the Government as much under obligation to unbalance its budget in order to come to the rescue of its citizens who are out of work and destitute through no fault of their own, as to unbalance the budget in order to save the private credit structure?

It is altogether illogical and unreasonable for those who approved and, in fact, solicited government funds in order to support the credit structure to draw the line against support of the unemployed until such time as private enterprise is able to provide employment. No one objected in the last war to unbalancing the budget to the tune of \$9,000,000,000 in one year and \$13,000,000,000 the next in order to protect our citizens against a foreign foe. By what logic can it be held that the same citizens should not be protected likewise against the equally deadly ravages of depression?

A favorite theme of the objectors is that people with fixed incomes suffer because of taxes and lower interest rates. But this view completely overlooks the fact that taxes will be collected out of surpluses, according to ability to pay, and that owners of fixed incomes are infinitely better off with assured incomes even at lower interest rates than with inflated and excessive interest returns which the national economy cannot support and which vanish, along with principle, in a collapse and deflation aggravated, if not directly induced by excessive interest rates.

An Economy of Abundance

The Administration has declared for an abundance economy; the restriction policy in AAA is a temporary expedient to overcome the effects of war-induced over-expansion and to overcome the effects of the industrial high tariff policies fostered by the Republican Administrations, notably including Mr. Hoover, in the 20's the effects of which were to lose foreign markets for agricultural output and to accentuate domestic unbalance between agriculture and industry so much that throughout the 20's agriculture was suffering acutely amidst supposed prosperity. / That more equitable balance has already been largely restored; the Administration's various steps to halt the deflation and restore the general price level to a point of reasonable justice between debtor and creditor - the departure from gold, revaluation, etc., - have all combined to lay the foundations for a stable, orderly progress ahead to the goal of abundance; the S.E.C., the Banking Acts of 1933 and particularly of 1935 provide the instrumentalities for so controlling stock market and credit conditions as to make for more stabilized progress, freedom from the speculative excesses of the 20's and avoidance of the extremes of deflation and inflation. /

A reversal of policy now, in the budget, would strike at the foundations which have been laid and the progress already realized

towards the achievement of an economy of abundance; it will be greeted by the opposition as a confession of error; it will place the Administration on the defensive, and imply that the Douglasses, the Warburgs, the Aldriches, the Liberty League, the Chamber of Commerce, the National Association of Manufacturers, the Republicans - Hoover, Knox, Landon - the crowd that has always been and always will be against this Administration - are right. This is the crowd that wants power rather than recovery - the crowd that for 12 years was in power, that tried the very policies which ended in the greatest smash in our economic history; the crowd that willed this Administration a debt of 20 billions and a demoralized, prostrate country; yet they now have the sublime audacity to propose that we go back to the very policies which wrecked the country. They have been proved false prophets on their own record. To capitulate to their views now would be unthinkable, when this Administration's policies are now being amply vindicated by the unanswerable test of improvement reflected in every index of business, industrial, economic and financial activity. The record itself is not only a vindication but a refutation of the policy to which the opposition bids the nation to return. Far from retreating or retracting the time is opportune to throw the record back into the teeth of these critics; to take an aggressive stand, and to restate aggressively the objectives of this Administration which are in fact being achieved.

Premature Budget Balance Unsound

The budget not only is being balanced through the processes set in motion by this Administration, as evidenced by the diminished pressures and increasing revenues, but will be balanced as fast as private industry steps in and takes up the slack of employment; private capital is getting in; as a result, profits are increasing, and instead of being in the red to the tune of billions as they were in the last days of Hoover, American business men are out of the red as proved by income tax returns, by the drop in bankruptcies (which numbered more than 25,000 for the first 9 months of 1932, with losses aggregating more than three-quarters of a billion dollars, when Hoover says recovery was underway); not only are profits increasing, but unemployment is diminishing, even though still excessive; the national income is accordingly rising and with its tax collections, but only as this process continues is it possible to balance the budget; in other words, as fast as private enterprise takes over the load just so fast will government spending slack off, and to force reduction in government spending faster than private enterprise picks up the load would only halt the process if not reverse it and precipitate another deflation.

The wrong method of balancing the budget is all that the opposition offers; a reversion to the Hoover-Douglas-Liberty League theory of budget-balancing would not only jeopardize recovery, but

implies a static and a scarcity economy for the nation as a whole - abundance for the rich, poverty for the masses, as was the fact during the miscalled prosperous 20's. The Brookings' studies, among others, graphically emphasize the major defects in our economic system in the 20's - for which the opposition offers no remedy whatever, so that a reversion would not merely perpetuate the defects but lead to another collapse. The opposition professes to fear inflation yet it brought on the worst inflation of stock market, real estate and other prices in our history; it offers nothing now to correct the very defects in the system which produced the evil results. As set forth in the studies referred to, one all-important factor of the 20's was that for the first time in our history capital accumulated faster than it could be profitably employed in production.

For 150 years we had an expanding frontier; great waves of immigration and a fairly high birth rate gave us a domestic market that grew so rapidly that as fast as capital accumulated it could be put profitably into new production; simultaneously, until our high tariff policy killed it off, we had a foreign market. By the 20's, as Andre Siegfried has said, America came of age; we had no more frontier; for the first time in our history the tide of immigration turned the other way; our mountainous tariffs cost us our foreign markets, and for the first time in our history capital accumulated much faster than it could be put into productive enterprise; at the same

time, as Berle and Means have set forth, we witnessed rapid changes in corporate organization, with the growth of a great number of industrial giants, which accumulated vast profits which they did not pass along either in the form of higher wages, dividends or, as would have been best of all, lower prices; an incidental effect was the shrinkage in the volume of commercial paper to the point where the commercial banks could no longer exist on that once fundamental type of loan; but the worst effect was that these capital accumulations or savings spilled over into stock, real estate and other speculation--nothing was done then by Republican Administrations to halt the process; the Coolidge-Mellon procedure was to encourage the stock market orgy and Hoover did nothing to abate it until the crash came; nor is anything offered now by the Hoovers, Landons, Knoxes, etc., to safeguard the nation against a recurrence of the calamity; on the contrary their whole policy would expose the nation to the same evils. The facts of the situation are thus set forth by Brookings (Income and Economic Progress, page 156):

"As to income distribution and its results, we found in the second division of our study the proceeds of the nation's efforts going in disproportionate and increasing measure to a small percentage of the population--in 1929 as much as 23 per cent of the national income to 1 percent of the people. We found the unsatisfied wants--~~needs~~ according to any good social standard--of the 92 percent of all families who are now below the level of \$5000 annual income sufficient to absorb the product of all our unused capacity under present conditions of productivity and still demand much more from such unexplored potentialities as might thereafter be opened up. We

found the incomes of the rich going in large proportion to savings and these savings strongly augmented by others impounded at the source by corporations through the practice of accumulating corporate surplus. These savings, after providing for such increase of capital goods as could be profitably employed, we found spilling over into less fruitful or positively harmful uses, ranging from foreign loans (bad as well as good) to the artificial bidding up of prices of domestic properties, notably corporate securities.

"Thus, we began to discern the answer to our question whether the basic defect in our economic system, not discovered in the technical processes of production, is to be found in the way in which we conduct the distribution of income. The answer is affirmative; this is the place at which we do find basic maladjustment."

Correcting Basic Defect

The Administration's expenditures have had the effect of helping to correct this basic maladjustment. To cite the Brookings further (page 87):

"Inadequate buying power among the masses of the people appears to be fundamentally responsible for the persistent failure to call forth our productive powers. It has been shown, also that the standards of living desired for the American people as a whole can be attained only if we can somehow greatly increase the national output of goods and services. Our problem is to determine whether the flow of the income stream to the various groups in society can be so modified as to expand progressively the effective demand for goods and thus evoke an ever greater volume of production--which would mean a steadily augmenting aggregate income to be divided."

It has been by restoring buying power, by putting money into the bottom of the spending stream, that the present progress of recovery has been achieved. A reversal of policy now, therefore,

would as indicated be disastrous from every standpoint, political and economic.

Relief Funds

As a suggestion: Congress might be requested to furnish a certain sum for relief, to be used only as and if private enterprise fails to take over the employment load; the fund, instead of being administered from Washington by men whose experience has been that of case workers in the social field should be handled in decentralized form by those experienced in handling funds; resentment can be abated by doing away with the provision that persons must declare themselves pauperized in order to get on relief rolls and be eligible for work. Incidentally, a balanced budget will not employ people - as Hoover amply proved. Employment results only when business receives orders for goods, and orders for goods in turn only result from people having money with which to buy, and this, further, is the only process which keeps up and adds to the national income out of which come the taxes which balance the budget. In other words, the Administration's infiltration of buying power into the spending stream gets at the fundamental cause of the trouble.

Housing Program

As an immediate measure which would have a stimulative effect, perhaps offsetting possible business recession in the Spring, the housing program, designed to accomplish the largest volume of

construction in the shortest possible time, through the stimulation of private capital, has been agreed upon by the several interested agencies and officials.

Goal of Real Wealth Abundance

This Administration, dedicated to an abundance economy, to the interests of the underprivileged, has not only prepared the way for a lasting recovery, and provided through the stock market and banking controls a means of combatting both inflation and deflation, but is in a position to offer explicit proposals for achieving the degree of abundance represented by a steadily rising national income based upon real wealth, not based on paper money, but based on calling forth full productivity of our economic machine, plus the technological benefits in innumerable fields. To cite the final Brookings report once more (page 153):

"The accumulated knowledge resulting from modern scientific and technical discoveries is so great that were it rapidly and continuously applied to the improvement of productive processes, we could have a rate of industrial advancement, and attain a level of production in the not distant future, that would dwarf anything that has been known in the past."

This goal is in sight under the Administration's declared policies, and demonstrable results so far - though the goal is still far ahead; it is not in sight under a reversion to the blind greed, unbalanced economy and budget-balancing methods of the opposition - to

yield to those methods now could be the greatest possible tragedy.

The goal is attainable by keeping the cost of capital down, interest rates low - as has been the Administration's policy; forcing the distribution of surplus and profits when they fail to flow into real wealth production, but spill over into speculation; keeping this flow directed into the spending stream through taxing surplus in times of prosperity and thus reducing debt incurred in periods of deflation.

The Government must be the compensatory medium in maintaining the flow and balance and at the same time preventing excesses either in the direction of inflation or deflation.

The budget is the key to the whole policy and program.