

● PSF Bureau of the Budget (1939-1948)^{Dec} Subject File Box ~~118~~

Box 118

PSF Bureau of the Budget

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 4, 1939.

TO Mr. Hanes
FROM Mr. Blough

Attached are the estimates covering the suggestions of Mr. Randolph Paul in his memoranda to the President of November 13 and 16, 1939.

These estimates were prepared in the Division of Research and Statistics and cleared through my office by Mr. Haas in accordance with your request.

RB

Attachments

The estimates are rough and indicative of only the approximate magnitude of each proposed change in law. Plus (+) signs indicate increases in revenue, the approximate amounts of which cannot be measured.

		Estimated increase in revenue		in revenue	
		Primary proposals		Alternate proposals	
		First full year of operation	Long-run effect	First full year of operation	Long-run effect
		(..... in millions of dollars		dollars	
Income tax.					
1	Limiting the present personal exemption and credit for dependents to a credit for normal tax purposes only	95	95		
2	The taxation of all stock dividends not presently subjected to income tax	20	20		
5	The taxation of short-term and other trusts of a character exempted from tax to the grantor in such cases as the <u>Meredith Wood</u> case, in which title to the trust property is transferred for a limited term to the trust, and the trust becomes a taxpayer in a lower bracket than would be the grantor if he were charged with the income of the trust .	+	+		
4(a)	The strengthening of Section 102 by a provision that the facts recited in Memorandum A, page 8, shall be regarded as constituting <u>prima facie</u> evidence of a purpose to avoid surtax upon shareholders	+	+		
(b)	The strengthening of Section 102 by a provision that the word "existing" be inserted before the word "business" in subdivision (c) of Section 102 to prevent avoidance of the <u>De Wille</u> type described on pages 8 to 9 of Memorandum A			+	+
(c)	The lengthening of the statute of limitations as suggested in the same memorandum with respect to Section 102 cases			0	+
5(a)	A provision to the effect that deductible religious, charitable, scientific, literary and educational and other contributions of the type deductible under Section 25(o) be limited, when paid in the form of property, to the cost basis of the property to the donor or its value at the date of gift, whichever is lower	+	+		
(b)	An alternative provision allowing no greater deduction than would be allowed if the donor sold the property and contributed the proceeds less the capital gains tax			+	+
6(a)	An elimination of the deduction now contained in Section 25(e)(5) applicable to losses arising from fire, storm, shipwreck or other casualty, or from theft	4	4		
(b)	Treatment of such deduction as a capital loss instead of an ordinary loss			2	2
7	A limitation of the allowance for the deduction of interest on non-business individual borrowings to a fixed amount of \$500	20	20		
8(a)	An elimination of the deduction provided in Section 25(b) of the Internal Revenue Code for interest paid or accrued on funded corporate indebtedness	260	260		
(b)	A restriction of the reorganization provision so that it will not apply to recapitalizations having as their principal purpose the tax avoidance motive of substituting borrowed capital for an equity contribution by stockholders			+	+
9	An elimination of the provision contained in Section 25(k) for the deduction of non-business bad debts except bad debts when not exceeding \$1,000 in the case of each debtor	3	3		
10	A limitation upon the allowance of deductible taxes as provided in Section 25(d) in respect to property held for the taxpayer's own use to taxes on small homes not exceeding \$10,000 in cost to the deducting owner, or value in the taxable year of deduction	12	12		
11	A provision to the effect that where the optional valuation privilege granted by Section 302(j) of the estate tax statute is used, the basis for the property valued pursuant to this election shall be the same for purposes of capital gains or losses as the value used in the estate tax return ..	+	+		
12(a)	A provision denying to husband and wife living together the privilege of filing joint returns	+	+		
(b)	A provision generally adopting the British method of taxation of husband and wife as outlined in Memorandum A, assessing the joint income at surtax rates based upon the combined income of both husband and wife			100	100

Estimated increase in revenue			
Primary proposals		Alternate proposals	
First full year of operation	Long-run effect	First full year of operation	Long-run effect
(..... in millions of dollars)			

Income tax (continued)

13(a)	An amendment of existing law along the lines suggested in item 15 of Memorandum A with particular respect to taxing the interest on all state or Federal bonds issued after the passage of a new Congressional amendment	0	179 to 557 *		
(b)	An amendment of the existing law, as proposed by Senator Glass 20 years ago, which would measure the surtaxes applicable to non-tax-exempt income in relation to taxpayer's total income, including tax-exempt income			40	40
14(a)	A flat increase in capital gain rates of 50% of the existing rates with a provision that capital gains shall not be recognized to the extent that the gains are reinvested within 12 months in risk-bearing equities in new enterprises.	Indeterminate	Indeterminate		
(b)	An amendment of capital gains provisions so as to make capital gains taxable at the highest rate (not exceeding 50%, however) applicable to taxpayer's income, exclusive of capital gains, with a provision for a credit against the tax to the extent that the gains are reinvested within 12 months in risk-bearing equities in new enterprises			Indeterminate	Indeterminate
15	A provision revoking the exemption now granted by Section 115(b) of the Internal Revenue Code to corporate distributions of earnings or profits or increase in value of property accrued prior to March 1, 1915	+	+		
16	A provision in the statute incorporating the general principles of G.C.M. 13,786, CB XIII-2, p. 41, discussed under item 16 of Memorandum A	+	+		
17	A provision discountenancing the doctrine of the <u>W. & K. Holding</u> case, 32 BTA 830	+	+		
18(a)	A provision that the basis for gain or loss and depreciation and depletion shall be, in the case of property transmitted at death, the adjusted cost basis in the hands of the decedent, rather than the value at the date of death	+	+		
(b)	A provision along the lines of Section 42 of the Internal Revenue Code generally to the effect that death shall constitute a closed transaction with respect to property transmitted by the decedent at death			+	+
19	A provision limiting the exemption now accorded to domestic building and loan associations along the general lines indicated at page 28 of Memorandum A	5	5		
20	A provision limiting the exemption and deductions granted to mutual casualty and fire insurance companies along the lines indicated at page 29 of Memorandum A	2	2		
21	A provision limiting the deduction for payments made by employers to pension trusts to a fixed amount per annum of \$5,000 for any one employee	+	+		
22	A provision eliminating the "bonus" deduction on account of discovery value and percentage depletion now allowed to mine owners and oil and gas well owners, to the general end that such taxpayers shall be limited to cost depletion, or depletion on the basis of value at March 1, 1915	32	32		
23	A modification of the existing regulations granting the option as to the expense deduction or capitalization of intangible drilling and development costs as outlined at page 35 of Memorandum A	36	36		
24(a)	The elimination of the exemption from capital gains tax on sales consummated within the United States now granted to non-resident aliens and foreign corporations having no office or place of business within the United States	+	+		
(b)	A general provision placing foreign non-resident corporations upon a basis of taxation similar to that employed with respect to domestic corporations			4	4
Total, income tax		487	666 to 824		

* These figures measure the probable range of the annual additional revenue expected some fifty years in the future when all existing tax-exempt securities will have been replaced by new issues not carrying the tax-exempt feature.

Estimated increase in revenue			
Primary proposals		Alternate proposals	
First full year of operation	Long-run effect	First full year of operation	Long-run effect
(..... in millions of dollars)			

Estate and gift taxes.

25(a)	A modification of the \$40,000 general estate tax exemption (and also the \$100,000 estate tax exemption granted by the 1926 Act) so that an equal benefit is derived from the exemption by both large and small estates	34	34		
(b)	An elimination of the \$40,000 general estate tax exemption (and the \$100,000 estate exemption) in the case of estates exceeding \$1,000,000 in net value excluding the exemption ...			2	2
(c)	A redevelopment of the estate tax structure so that the effect of the \$40,000 general estate tax exemption (and the \$100,000 exemption granted by the 1926 Act) is limited to a normal estate tax not exceeding 20%			5	5
(d)	A provision similar to that mentioned in (a), (b) and (c) above with respect to the insurance proceeds exemption of \$40,000 on policies payable to named beneficiaries				
	(a)	5	5		
	(b)			1	1
	(c)			1	1
26(a)	A prospective provision generally to the effect that the proceeds of life insurance shall be subjected to estate tax to the extent that the decedent has paid premiums on the insurance or in their full amount where he possesses at the date of his death some incident of ownership over the policies	+	+		
(b)	A provision as to cross-insurance policies along the lines suggested in Memorandum A, page 39, subjecting the proceeds of such policies to income tax at the regular rates, or to a special excise tax at a flat rate of 10%	+	+		
(c)	A comparative statement showing the effect of this amendment generally as compared with an amendment modified on the basis of cash surrender value or ratio on the time basis, as described on page 39 of Memorandum A				
27(a)	A provision limiting the tax exempting effect now applicable in the case of special powers of appointment as indicated on page 43 of Memorandum A with an exception that special powers made thereunder can be exercised free from estate tax only among the children of the donor or donee and where the property in default of appointment is to be distributed among that class			Indeterminate	Indeterminate
(b)	A provision imposing a succession or inheritance tax on the value of remainders under a will, to be imposed at the death of the life tenant at rates equal to the existing estate tax rates	+	+		
28	A provision subjecting reverter interests to estate tax taxation where the decedent retains any valuable interest in his property by which he postpones final disposition thereof until his death, such as the interest involved in the <u>St. Louis</u> case mentioned on page 43	+	+		
29	A provision that gifts by persons over 60 years of age shall be subject to an irrebuttable presumption that they were made in contemplation of death	+	+		
30	A provision precluding the estate tax deductibility of uncollectible claims	+	+		
31	A provision limiting the \$4,000 gift tax exemption to gifts to members of the donor's immediate family	+	+		
	Total, estate and gift taxes	39	39		
	Total, income, estate and gift taxes	526	705 to 865		

The estimates are rough and indicative of only the approximate magnitude of each proposed change in law.
 Plus (+) signs and minus (-) signs indicate increases and decreases in revenue,
 the approximate amounts of which cannot be measured.

		Estimated decrease (-) in revenue	
		Primary proposals	Alternate proposals
		(in millions of dollars)	
1(a)	A provision requiring affiliated corporations (defining those terms as they were defined in the income tax acts immediately prior to 1954) to file consolidated returns, the rates of taxation to remain unchanged	- 35	
(b)	A provision granting permission to file consolidated returns (1) upon condition that under a consolidated return there should be added an additional rate of 1% to the tax generally provided with respect to corporations,	- 10	
	and (2) without such a 1% differential	- 35	
2	A provision modifying the present taxation on 15% of the amount received as inter-corporate dividends in the following respects:		
(a)	An elimination of this tax where the dividends were received from a subsidiary company the formation of which was necessary to carry on business activities in a particular state	-	
(b)	Eliminating the tax completely where the corporation has reasonably invested surplus in another corporation without acquiring a controlling interest	-	
(c)	Raising the tax (by imposing it upon 25% instead of 15% of the dividends received) in the case of complicated corporate structures involving a sub-subsidiary	+	
3(a)	A provision amending Section 820 added by the Revenue Act of 1938 and giving the Commissioner discretion to allow adjustments back to 1932 for worthless stock or bad debts when there has been a determination resulting in a double disallowance of such a deduction	-	
(b)	A provision eliminating from the statute (retroactively to 1932) the requirement that bad debts ascertained to be worthless during the taxable year must be charged off on the books of the taxpayer	-	
4	A provision amending Section 117 of the Internal Revenue Code to provide that neither a mortgage foreclosure nor any conveyance in lieu of a foreclosure should be regarded as a sale or exchange within the meaning of Section 117 and that the loss of either party upon such transactions should be ordinary, rather than capital, losses	-	
5(a)	A provision which would prospectively amend the income tax statute by rejecting the Supreme Court cases of <u>Gould v. Gould</u> and <u>Douglas v. Willcuts</u> and which would impose income tax upon a divorced wife with respect to amounts hereafter received by way of alimony or trust payments in lieu of alimony, allowing the husband to deduct such amounts from his gross income	-	
(b)	A provision which would subject to existing gift tax rates the creation by a husband of an alimony trust which completely discharged the husband's obligation of support towards his divorced wife	+	
6	A provision amending the Chandler Act to provide that the cost basis of assets in the hands of a corporation reorganized under Section 77B should be reduced only by the amount of the debt cancellation which would have constituted taxable income except for the statutory exemption in the same Act	-	
7	A provision that the earnings or profits of corporations available for dividend distribution shall not be affected by any increase or decrease in the value of assets, or on account of a tax-free reorganization, which are not recognized for income tax purposes	-	
8	A provision retroactively reducing the undistributed profits tax in the case of corporations which were unable to make legal distribution of dividends under local law because of capital deficits, to a flat tax of 5%	- 20	
9(a)	A provision removing the 65% or 75% tax on the undistributed income of personal holding companies where the company has no earnings or profits available for the distribution of a dividend	-	
(b)	A provision imposing the personal holding company surtax upon taxable income without regard to the existence of earnings or profits, but extending the consent dividends credit provided in Section 28 to permit shareholders to consent to the taxation of undistributed income even though such amounts would not have been taxed to them as a dividend if actually distributed	-	
10	A procedural provision requiring all tax suits or proceedings to be instituted against the United States rather than the Collector or Commissioner and conferring upon the Board of Tax Appeals and the courts a broad discretion in tax cases to disregard the principle of <u>res judicata</u> , where the facts or the law as announced by the courts is changed in the subsequent year	-	
11	A provision allowing the \$400 credit for dependents to be claimed with respect to children of the taxpayer until the children reach the age of 21, instead of 18	- 5	
12	A provision allowing a maximum deduction of \$100 for medical or dental expenses per year paid on behalf of the taxpayer or any of his dependents	- 8	
13	A provision once more granting the \$4,000 gift tax exclusion to gifts in trust, but with a limitation that only one such exclusion should be recognized in any year with respect to gifts in trust for the same beneficiary	- 1	
14	A provision amending the gift tax law to the effect that conveyances by way of tenancies of the entirety of the type involved in <u>Lilly v. Smith</u> should not be subjected to gift tax where the same property will later be taxed for estate tax purposes	-	
15	A provision reducing the interest on deficiencies and refunds to 4%, rather than 6%	-	
Total		- 69	

BSF
Bureau of the Budget
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1939.

TO Mr. Hanes

FROM Mr. Blough

Subject: Possible method of raising \$500,000,000 additional revenue.

In this optional method it is proposed to raise approximately \$300,000,000 additional revenue from increases in the personal income surtaxes, and \$200,000,000 from increases in the estate and gift taxes.

The suggested rate schedules are attached. Formal estimates have not yet been made but a comparison with other rate schedules indicates that these schedules would raise approximately the indicated amounts.

I. Personal Income Surtaxes

The surtaxes at selected levels of income after deduction of exemption are shown in the following table:

Surtax net income (In thousands of dollars):	Total surtax		
	Present rates	Suggested rates	Increase
\$ 2	\$ -	\$ 20	\$ 20
5	40	100	60
10	300	480	180
20	1,260	2,500	1,240
50	7,700	16,120	8,420
100	30,000	43,420	13,420
500	286,000	299,420	13,420
1,000	641,000	654,420	13,420

It will be noticed that this rate schedule does not provide for any decreases in the higher surtax brackets. It does not increase rates on brackets of income above \$100,000.

II. Estate and Gift Taxes

The estate taxes under the present rates and under the suggested rate schedule are shown in the following table:

Net estate after specific exemption (In thousands of dollars)	Total estate tax		
	Present rates	Suggested rates	Increase
\$ 20	\$ 600	\$ 1,800	\$ 1,200
40	2,000	5,400	3,400
100	9,600	21,000	11,400
200	26,600	54,500	27,900
500	89,600	182,000	92,400
1,000	222,600	417,000	194,400
10,000	4,962,600	5,547,000	584,400

There have been no increases of the present scale in the estate brackets above \$6,000,000.

It is assumed that the gift tax rates will be increased to three-fourths the proposed estate tax rates.

III. Note Regarding Other Income and Estate Tax Changes

For the sake of simplicity, the optional plan is limited to rate increases. The bulk of the additional revenue would probably have to come from such increases under any plan. Certain changes in exemptions, deductions, etc. which would increase the tax base, would no doubt be considered and to the extent adopted, would make possible smaller rate increases than those shown.

IV. Note Regarding Excess-Profits Tax

If it is desired to impose an excess-profits tax as part of the revenue plan, the increases in surtax rates and estate and gift tax rates could be kept smaller than those shown in the suggested schedules. A considerable amount of additional work would be necessary to develop a formula for an excess-profits tax sufficiently complete to make practicable an estimate of revenue yield.

RB

Surtax schedule for individual income tax designed to
raise approximately \$300 million additional income

Surtax net income (in thousands of dollars)	:	Rate percent	:	Total surtax
0- 2	:	1	:	\$ 20
2- 4	:	2	:	60
4- 6	:	4	:	140
6- 8	:	7	:	280
8- 10	:	10	:	480
10- 12	:	13	:	740
12- 14	:	16	:	1,060
14- 16	:	20	:	1,460
16- 18	:	24	:	1,940
18- 20	:	28	:	2,500
20- 22	:	32	:	3,140
22- 24	:	36	:	3,860
24- 26	:	40	:	4,660
26- 30	:	44	:	6,420
30- 40	:	47	:	11,120
40- 50	:	50	:	16,120
50- 60	:	52	:	21,320
60- 75	:	54	:	29,420
75- 100	:	56	:	43,420
100- 150	:	58	:	72,420
150- 200	:	60	:	102,420
200- 250	:	62	:	133,420
250- 300	:	64	:	165,420
300- 400	:	66	:	231,420
400- 500	:	68	:	299,420
500- 750	:	70	:	474,420
750-1,000	:	72	:	654,420
1,000-2,000	:	73	:	1,384,420
2,000-5,000	:	74	:	3,604,420
5,000, up	:	75	:	

Treasury Department, Division of Tax Research.

December 4, 1939.

(This schedule to accompany memorandum of December 4, 1939.)

Estate and gift tax rate schedule designed
to raise approximately \$200 million
additional revenue 1/

Tax base: Net estate after specific exemption (in thousands of dollars)	:	Bracket rate percent	:	Total tax
0 - 5	:	4	:	\$ 200
5 - 10	:	8	:	600
10 - 20	:	12	:	1,800
20 - 30	:	16	:	3,400
30 - 40	:	20	:	5,400
40 - 60	:	23	:	10,000
60 - 80	:	26	:	15,200
80 - 100	:	29	:	21,000
100 - 150	:	32	:	37,000
150 - 200	:	35	:	54,500
200 - 250	:	38	:	73,500
250 - 300	:	41	:	94,000
300 - 500	:	44	:	182,000
500 - 1,000	:	47	:	417,000
1,000 - 2,000	:	49	:	907,000
2,000 - 3,000	:	51	:	1,417,000
3,000 - 4,000	:	53	:	1,947,000
4,000 - 5,000	:	55	:	2,497,000
5,000 - 6,000	:	57	:	3,067,000
6,000 - 7,000	:	59	:	3,657,000
7,000 - 8,000	:	61	:	4,267,000
8,000 - 9,000	:	63	:	4,897,000
9,000 - 10,000	:	65	:	5,547,000
10,000 - 20,000	:	67	:	12,247,000
20,000 - 50,000	:	69	:	32,947,000
50,000, up	:	70	:	-

Treasury Department, Division of Tax Research

December 4, 1939

1/ It is assumed that present gift tax rates will be increased to three fourths the proposed estate tax rates.

(This schedule to accompany memorandum of December 4, 1939.)

Comparison of present and suggested rates of
individual income tax

SINGLE PERSON NO DEPENDENTS

Net income before personal: exemption 1/	Maximum bracket rates (normal and surtax)		Effective rates	
	Present	Suggested	Present	Suggested
\$ 2,000	4%	5%	1.6%	2.1%
6,000	8	8	3.6	4.6
10,000	10	14	5.6	7.0
20,000	17	32	9.2	14.6
30,000	23	48	13.0	23.6
50,000	31	54	18.7	35.0
100,000	59	60	33.4	46.8
250,000	66	66	51.7	57.1
500,000	72	72	61.0	63.7
1,000,000	76	76	68.0	69.4

Treasury Department, Division of Tax Research December 4, 1939.

1/ Maximum earned income assumed.

Comparison of present and suggested rates of
individual income tax

MARRIED PERSON TWO DEPENDENTS

Net income before personal exemption and credit for dependents ^{1/}	Maximum bracket rates: (normal and surtax)		Effective rates	
	Present	Suggested	Present	Suggested
\$ 2,000	-	-	-	-
6,000	4%	6%	1.4%	2.0%
10,000	9	11	3.4	4.2
20,000	15	28	7.3	11.2
30,000	23	48	11.3	19.9
50,000	31	54	17.2	32.6
100,000	59	60	32.0	45.4
250,000	66	66	51.1	56.5
500,000	72	72	60.7	63.4
1,000,000	76	76	67.8	69.2

Treasury Department, Division of Tax Research December 4, 1939.

^{1/} Maximum earned income assumed.

Comparison of present and suggested rates
of estate tax

Net estate before exemption	Maximum bracket rates		Effective rates	
	Present	Suggested	Present	Suggested
\$ 50,000	2%	8%	.4%	1.2%
100,000	12	23	4.2	10.0
200,000	17	35	9.9	20.3
300,000	20	41	12.9	25.9
500,000	23	44	16.1	32.9
1,000,000	29	47	21.1	39.8
3,000,000	41	51	31.2	46.6
5,000,000	53	55	38.0	49.5
10,000,000	65	65	49.4	55.2
50,000,000	69	69	64.7	65.8

Treasury Department, Division of Tax Research December 4, 1939.

Present individual surtax rate schedule under
the Revenue Act of 1938

Amount of surtax net income (Thousands of dollars) :		:	Rate percent :	:	Total surtax cumulative
0 -	4	-			-
4 -	6	4		\$	80
6 -	8	5			180
8 -	10	6			300
10 -	12	7			440
12 -	14	8			600
14 -	16	9			780
16 -	18	11			1,000
18 -	20	13			1,260
20 -	22	15			1,560
22 -	26	17			2,240
26 -	32	19			3,380
32 -	38	21			4,640
38 -	44	24			6,080
44 -	50	27			7,700
50 -	56	31			9,560
56 -	62	35			11,660
62 -	68	39			14,000
68 -	74	43			16,580
74 -	80	47			19,400
80 -	90	51			24,500
90 -	100	55			30,000
100 -	150	58			59,000
150 -	200	60			89,000
200 -	250	62			120,000
250 -	300	64			152,000
300 -	400	66			218,000
400 -	500	68			286,000
500 -	750	70			461,000
750 -	1,000	72			641,000
1,000 -	2,000	73			1,371,000
2,000 -	5,000	74			3,591,000
5,000 up		75			

Treasury Department, Division of Tax Research. December 4, 1939.

Estate Tax Rate Schedule
(Revenue Act of 1932 as amended in 1935)
(Dollars in thousands)

Net estate	: : Bracket rate : :	: : Cumulative tax : on higher amount
\$ 0 - 10	2%	\$.2
10 - 20	4	.6
20 - 30	6	1.2
30 - 40	8	2.0
40 - 50	10	3.0
50 - 70	12	5.4
70 - 100	14	9.6
100 - 200	17	26.6
200 - 400	20	66.6
400 - 600	23	112.6
600 - 800	26	164.6
800 - 1,000	29	222.6
1,000 - 1,500	32	382.6
1,500 - 2,000	35	557.6
2,000 - 2,500	38	747.6
2,500 - 3,000	41	952.6
3,000 - 3,500	44	1,172.6
3,500 - 4,000	47	1,407.6
4,000 - 4,500	50	1,657.6
4,500 - 5,000	53	1,922.6
5,000 - 6,000	56	2,482.6
6,000 - 7,000	59	3,072.6
7,000 - 8,000	61	3,682.6
8,000 - 9,000	63	4,312.6
9,000 - 10,000	65	4,962.6
10,000 - 20,000	67	11,662.6
20,000 - 50,000	69	32,362.6
50,000 -	70	

*Budget message
12-19-40*

THE WHITE HOUSE
WASHINGTON

*PSF
Bureau of the
Budget*

December 14, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Revenue Estimates for Fiscal
Year 1941.

I haven't seen the Treasury estimates yet but I thought you might be interested in some independent estimates. One of my former assistants at the Federal Reserve, who has worked on this material for some years, estimates total revenues at from \$6.4 billion on an average index of production of 110 in 1940, to \$6.77 billion on an average index of production of 115. A. S. McLeod, former official estimator at the Treasury, estimates receipts at \$6.4 billion.

Lauchlin Currie
Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

December 14, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Tax Proposals.

A comparatively simple tax program to finance increased national defense expenditures, whereby wealthy individuals would be asked to give up certain exemptions and larger corporations to make a special contribution, would be as follows:

A. From Individuals.

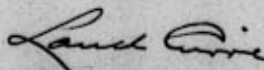
1. Limit the present personal exemptions and credits for dependents to normal tax, rather than to both normal and surtax as at present. This would yield about \$100 million in a full year.
2. Modify the \$40,000 general estate tax exemption so that an equal benefit is derived from the exemption by both large and small estates. Yield - \$34 million.
3. Adopt the Carter Glass proposal on tax-exempt income. (Include tax-exempt income in total income to determine surtax rates on non-tax-exempt income). Yield - \$40 million.

Total from individuals - \$175 million.

B. From Corporations.

1. Raise income tax on earnings in excess of \$25,000 from 18 percent to 22.8 percent. Yield - about \$350 million for full year.

Total from individuals and corporations in first full year - \$525 million.


Lauchlin Currie

PSF

Bureau of the Budget

THE WHITE HOUSE
WASHINGTON

December 14, 1939

MEMORANDUM FOR THE PRESIDENT:

Re: U. S. Savings Bonds and the Budget

I should like to raise the question of reducing the permissible yearly purchase of savings bonds by a single investor from \$10,000 to a lower maturity value. I do so for the following reasons:

- (1) Excessive cost to Treasury. The return of 2.9 percent may be compared with the current return on comparable regular Treasury bonds of 1-7/8 percent. When the plan was instituted the differential was less than 1/4 of 1 percent. In addition to the 1 percent subsidy holders may redeem their bonds in cash at any time.
- (2) The subsidy now goes too largely to the relatively wealthy. Present limitations permit the investment of \$625 monthly or, for a family of four, \$30,000 a year - a rate of saving applicable to people far up in the income scale. Sales of individual bonds of a face value of from \$5,000 to \$10,000 will this year amount to at least \$400 million. A limitation to \$5,000 face value would permit monthly saving and investment of \$300, which is more than sufficient to meet the requirements of small savers. A limitation of \$1600 would provide an outlet for monthly savings of \$100.
- (3) The statutory debt limitation applies to the face value of Government securities. Hence net receipts of \$900 million next year from sale of bonds would increase the debt, for statutory debt limitation purposes, by \$1.2 billion.
- (4) The cash redemption feature is particularly attractive for wealthy and institutional holders.
- (5) If any action is taken, it would be desirable to have it taken immediately. January is the big month when wealthier people and institutions take up their yearly quota.

PSF
Bureau of
the Budget

December 14, 1939

THE PUBLIC DEBT

From June 30, 1933 to June 30, 1940, the public debt of the federal government will have increased by approximately \$20 billion. During this period nearly \$14 billion of federal funds will have gone into recoverable loans and investments and durable improvements. The increase in the national income over 1932 for the year 1939 alone is far in excess of the total increase in the debt for the whole period since 1933. The interest on the public debt in the calendar year 1939 constituted only 1.45 percent of the national income as contrasted with a corresponding percentage of 1.62 percent for the year 1933. The debt burden as a whole has greatly decreased. The credit of the federal government has never been higher. Debt, whether individual, corporate or governmental, cannot be judged in vacuo, but must be considered in light of earnings, assets and credit standing. When the increase in the national debt is viewed against the background of what was accomplished by the increase in useful physical assets, and in effective national earning power, and by the strengthening of the nation's credit and morale, there is no economic ground for concern as to the nation's future.

The debt accumulated since 1933 represents a far more prudent use of our people's savings than the enormous private debts piled up in the Twenties. The billions that were borrowed for speculation,

for foreign loans, for second and third mortgages on overproduced office buildings and hotels hardly represented the most prudent use of our people's savings. It is true that isolated private debts can be defaulted without great harm to the general economy. But this is not true when, as in 1933, a large part of our private debt was in danger of default, and the savings of the whole community, as well as the general credit of industry and agriculture, were imperilled.

In considering the growth of the federal debt, it must be borne in mind that in recent years the federal government has had to take over some of the burdens which have heretofore fallen upon our states and municipalities. By 1933 the strain of the depression upon the finances of local governments had become unbearable. From June 1929 to June 1933, states and municipalities had to increase their net debt by over \$4 billion and their credit in many cases had approached the breaking point. By 1933 there was an insistent demand that the national government come to the financial aid of local governments. Consequently between June, 1933 and June, 1940 the federal government will have made available for local relief, work relief and local public works the sum of \$17,409,000,000. In addition, during this same period, the federal government increased its grants for public roads by \$1,071,000,000 over the preceding seven years. By reason of these federal expenditures it became

possible for the states and municipalities during this period to rehabilitate their credit, and even to reduce somewhat their aggregate indebtedness. If they had continued to discharge the responsibilities that were formerly theirs to a degree commensurate with the federal government's effort, the aggregate indebtedness of our states and municipalities would have been increased by not less than \$18,000,000,000 and their taxes would have been enormously increased.

— PSF; Bureau of Budget

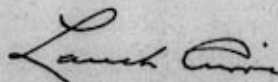
THE WHITE HOUSE
WASHINGTON

December 14, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Budget Message.

Attached are a few points that
might be of some use in connection
with the Budget Message.


Lauchlin Currie

December 14, 1939.

Background of Budget Policy for Fiscal Year 1941

The budget of the United States is a statement that reflects in money terms what the government does for the people, and what the people do for the government.

In these figures over a course of years, are mirrored the changing attitudes of the people towards the growing needs which they expect their government to meet. The relatively low and constant level of expenditures throughout the Twenties accurately reflected the relatively minor role played by Government in those years. The substantial increase in the past decade is a reflection of the degree to which the community, in response to changing economic and international conditions and changing attitudes, has turned to Government to meet its urgent needs. Nowhere are our democratic processes so faithfully depicted.

In the early Thirties—prior to 1933—fiscal policy was exceedingly simple in theory and extraordinarily disastrous in practice. It consisted in trying to keep expenditures as low as possible in face of shrinking national income. Persistence in this attempt came near to bankrupting both our people and our government.

Following 1933 the fiscal policy of government was more realistically adapted to the needs of the people. All about were idle men, idle factories and idle funds, and yet the people were in desperate need of more goods than they had the purchasing power to acquire. The government deliberately set itself to correct these conditions

by borrowing idle funds to put idle men and idle factories to work.

The deliberate use of government funds and of government credit to energize private enterprise—to put purchasing power in the hand of those who needed it and to create a demand for the products of factory and farm—had a profound effect both on government revenues and private incomes. The national income in four years rose 69 percent, from \$42 billion in 1933 to \$72 billion in 1937, the largest absolute rise for any four year period in our history, not even excepting the rise during the World War. Tax revenues rose from \$2 billion in the fiscal year 1933 to over \$5 billion in the fiscal year 1937, primarily because the people had more income out of which to pay taxes. The people paid \$3 billion more in taxes but they had nearly ten times more, or \$30 billion, to spend on other things. By the calendar year 1937 excess of government cash outgo over government cash income had dropped to \$331 million.

Unfortunately just at the time when it seemed that the Federal Government would be able to balance its budget on the basis of a national income of approximately 75 billion dollars, maladjustments in the economic system again began to appear and caused a recession in economic activity. The recession was due to a variety of causes stemming in the main from over-optimism which led government to curtail its net expenditures too abruptly, and business to expand production and raise prices too sharply for consumer's purchasing power to keep pace. An unhealthy inventory situation developed.

If the recession was not to feed on itself and become another depression, the buying power of the people, which constitutes the market for the products of industry and agriculture, had to be maintained. To this end, I recommended a further use of government credit and the Congress acted on my recommendation.

The soundness of this realistic approach to a fiscal policy related to economic need was again strikingly demonstrated. In place of the \$42 billion decline in national income that occurred from 1929 to 1932, the decline from 1937 to 1938 scarcely exceeded \$8 billion. In place of a four-year period of liquidation and deflation, productive activity turned up within nine months. By 1939, in terms of dollars, the national income closely approached, and, in terms of real production and consumption, making allowance for the somewhat lower level of prices, was equal to that of 1937.

The experience of 1938-39 should remove any doubt as to the effectiveness of a fiscal policy related to economic need. The wise exercise of such a fiscal policy imposes grave responsibility on Government. Government must have the wisdom to use government credit to sustain economic activity in periods of economic recession and the courage to withhold it and retire debt in periods of economic prosperity. And let us not forget that the withholding of government credits for political advantage in time of need, is not less reprehensible than its profligate use at any time.

In approaching the budget for the fiscal year 1941 I have sought, as in the past, to relate fiscal policy to probable economic necessities. As the budget is being prepared we are achieving the highest levels of production and consumption in our history. The extent to which recovery has progressed, and the degree to which speculation and price increases have on the whole been kept in check, have made it possible for us to consider a substantial lessening of government expenditures on activities not immediately essential for national defense. On the other hand employment still lags considerably below the levels of 1929. Many of our younger workers have not found employment, and many others have been displaced by the machine. We must not only guard the gains we have made but we must press on to attain full employment which will make possible a higher standard of living for our people. We must therefore guard against too drastic or too sudden a curtailment of government support.

Against this background of aims substantially yet not fully attained, I propose in the field of fiscal policy that we steer a middle course. We should count upon a natural increase in receipts from current taxes and a modest decrease in current expenditures, and we should try to offset the unavoidable increase in expenditures for national defense by special tax receipts, and thus hope to secure, for the overall picture, a gradual tapering off, rather than an abrupt cessation, of the deficit.

In accordance with my custom of highlighting in the Budget presentation certain special types of expenditures in which there is widespread interest I am this year segregating the increase in the national defense expenditures rendered necessary by abnormal conditions abroad.

In the proposed budget, I have tried to interpret the wishes of our people. They want to strengthen our national defenses and are prepared to pay additional taxes for this purpose. They wish to avoid if possible an overall increase in expenditures. They would like to see a reduction in the deficit but not of a magnitude that would imperil the progress of recovery.

WPA EMPLOYMENT WITH VARIOUS APPROPRIATIONS

Fiscal Year 1941

	Amount of Appropriation A/					
	\$1,477,000,000	\$1,400,000,000	\$1,300,000,000	\$1,200,000,000	\$1,100,000,000	\$1,000,000,000
Average Monthly employment ^{B/} 1940						
July	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
August	1,500,000	1,500,000	1,500,000	1,500,000	1,400,000	1,400,000
September	1,600,000	1,600,000	1,550,000	1,500,000	1,400,000	1,300,000
October	1,800,000	1,700,000	1,600,000	1,600,000	1,500,000	1,400,000
November	2,050,000	1,900,000	1,800,000	1,700,000	1,600,000	1,500,000
December	2,300,000	2,100,000	2,000,000	1,800,000	1,700,000	1,600,000
1941						
January	2,400,000	2,300,000	2,100,000	1,900,000	1,800,000	1,650,000
February	2,500,000	2,300,000	2,100,000	1,950,000	1,800,000	1,650,000
March	2,400,000	2,200,000	2,000,000	1,800,000	1,700,000	1,500,000
April	2,250,000	2,100,000	1,800,000	1,600,000	1,400,000	1,200,000
May	2,000,000	1,880,000	1,600,000	1,400,000	1,100,000	900,000
June	1,520,000	1,500,000	1,400,000	1,100,000	850,000	600,000
Average for the Year	1,985,000	1,882,000	1,746,000	1,613,000	1,479,000	1,350,000

^{B/} Based on estimated cost of \$62 per month per worker employed.

A/ Appropriation to WPA only. Does not include appropriations for the Treasury, the General Accounting Office, Compensation, etc.

December 16, 1939

BT
Bureau of the Budget

**APPROPRIATIONS AND EXPENDITURES
1940 and 1941 (TENTATIVE)**

(In millions)

	<u>Appropriations</u>		<u>Expenditures</u>	
	<u>1940</u>	<u>1941</u>	<u>1940</u>	<u>1941</u>
"A" Program				
I. Legislative and Judicial	\$ 32.9	\$ 35.0*	\$ 32.0	\$ 34.0*
II. Civil Departments and Agencies				
Federal Security Agency	822.5	808.3	800.0	796.0
Federal Works Agency	19.7	31.3	423.6	159.2
Veterans Administration	557.1	578.5	548.0	572.0
Other Independent Offices	410.9	512.3	440.4	508.4
Agriculture	1,131.1	877.2	1,181.0	1,050.0
Commerce	38.1	34.5	37.0	34.0
Interior	78.3	66.8*	87.0	70.0*
Justice	39.6	40.2	44.0	39.5
Labor	28.7	33.5	27.0	32.0
Post Office (Postal deficit)	39.0	56.9	40.0	55.0
State	19.7	18.8	18.2	18.0
Treasury (Excluding Old-Age Reserve)	414.5	225.1	406.6	225.0
War - Civil and Panama Canal	72.6	56.5*	64.0	62.0*
District of Columbia (U. S. share)	6.0	6.0	6.0	6.0
III. National defense				
War	660.2	691.0	625.0	700.0
Navy	720.8	904.5	705.0	845.0
IV. General Public Works	751.7	537.3*	714.0	640.0*
V. Relief (W.P.A. and Farm Security)	1,620.0	1,125.0*	1,550.0	1,125.0*
VI. Interest on the Public Debt	1,050.0	1,120.0	1,050.0	1,120.0
VII. Supplemental items	100.0	100.0	100.0	100.0
Total "A" Program	8,613.4	7,858.7	8,898.8	8,191.1
"B" Program				
I. War	119.4	135.0*	75.0	125.0*
II. Navy	138.5	123.8*	68.0	165.0*
III. Coast Guard	4.5	7.8*	3.7	7.6*
IV. Federal Bureau of Investigation	1.5	2.5*	1.3	2.4*
V. Public Works				
War	.6	15.0*	.5	10.0*
Navy	7.5	1.2*	6.5	2.0*
Panama Canal	-	34.0*	-	25.0*
Total "B" Program	272.0	319.3	155.0	337.0
Total excluding debt retirement	8,885.4	8,178.0	9,053.8	8,528.1
Debt retirement	584.6	586.8	100.0	100.0
Grand total	9,470.0	8,764.8	9,153.8	8,628.1

* Tentative.

Budget
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CURRENT STATUS OF 1941 BUDGET ESTIMATES
(In millions)

	<u>1940</u>	<u>1941</u>
Receipts (excluding taxes for old-age reserve account) *	<u>\$4,980.6</u>	<u>\$5,710.0</u>
Expenditures (excluding debt retirement and old-age reserve account)	"A" 8,898.8	8,191.1
	"B" <u>155.0</u>	<u>337.0</u>
Total	<u>9,053.8</u>	<u>8,528.1</u>
Net deficit	<u>4,073.2</u>	<u>2,818.1</u> ↓

* Old-age reserve account taxes
1940 - \$545.0
1941 - 590.0

These revenue figures were furnished by the Treasury about two months ago.
There are indications that the estimates will be changed; possibly increasing
1940 and decreasing 1941.

BF
Bureau of The Budget
THE WHITE HOUSE
WASHINGTON

December 18, 1939

MEMORANDUM FOR THE PRESIDENT:

Re: Repayment of Surplus Capital Funds in Government Corporations

In accordance with your request, I am attaching separate statements for each of the Government corporations whose capital funds appear unnecessarily large, indicating (a) the statutory authority and procedure for repayment to the Treasury, (b) unimpaired capital funds (where available), (c) volume of outstanding loans, (d) borrowing power, (e) source of funds for repayment of capital, (f) trend of activity of the corporations, (g) earnings and expenses.

The sources and amounts of cash that might reasonably be raised are as follows:

	In Millions of Dollars
Reconstruction Finance Corporation	200
Federal Land Banks	200
Federal Home Loan Banks	90
Banks for Cooperatives	85
Intermediate Credit Banks	40
Sale of Treasury shares in Federal Savings and Loan Association to Home Owners Loan Corporation	<u>40</u>
	655

These operations would be reflected in the budget in the following ways:

Increase in miscellaneous receipts	330
Decrease in expenditures	<u>325</u>
Decrease in deficit	655

Repayments of capital by the Federal Land Banks, the Banks for Cooperatives and Federal Intermediate Credit Banks would not be irrevocable but would revert to revolving funds and would remain available if and when needed. Such repayments would appear in the Treasury statement as negative expenditures.

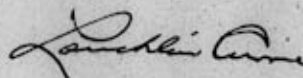
Memorandum for the
President

December 18, 1939

Re: Repayment of
Surplus Capital Funds
in Government Corpora-
tions

Repayments by the Reconstruction Finance Corporation and the Home Loan Banks would be irrevocable and would appear as miscellaneous receipts.

In the case of the Treasury sale of stock of the Federal Savings and Loan Association to the Home Owners Loan Corporation, the proceeds would appear as miscellaneous receipts but the Treasury would still have authority to purchase up to \$50 million shares if necessary.



Lauchlin Currie

PSF

Bureau of the Budget
December 18, 1939
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REDUCTION IN CAPITAL STOCK OF
RECONSTRUCTION FINANCE CORPORATION

Capital position

The Government's investment in capital stock of the Reconstruction Finance Corporation amounts to \$500,000,000, and the Corporation has built up an earned surplus of \$260,000,000. After allowance for possible losses, the unimpaired capital funds amount to \$. In view of the fact that the Corporation's loans and investments are substantially reduced from their peak and are currently showing a very small increase at a level of about \$1,900,000,000, it would appear that this volume of capital funds is uneconomically large and might be reduced.

Legislative authority for reduction

The following provision of the Reconstruction Finance Corporation Act apparently authorizes the repayment and cancellation of the Government-owned capital stock at any time by administrative action of the Corporation, or the payment of surplus to the Treasury without cancellation of capital stock;

"Sec.13. ...The Corporation may also at any time pay to the Treasurer of the United States as miscellaneous receipts any money belonging to the corporation or from time to time received by it in the course of liquidation or otherwise in excess of reasonable amounts reserved to meet its requirements during liquidations. Upon such deposit being made, such amount of the capital stock of the Corporation as may be specified by the Corporation with the approval of the Secretary of the Treasury but not exceeding in par value the amount so paid in shall be cancelled and retired. ..."

It will be noted that the only purpose of the second sentence is apparently to insure that if stock is retired it shall not exceed in par value the amount paid in. The first sentence is the only sentence in the Act relating to the disposition of surplus. There is reason to believe that it was drafted with the possibility of paying out surplus in mind.

Amount of Payment to the Treasury

The payment might be from capital or from surplus. Owing, however, to the fact that the Corporation's borrowing power is a multiple of its capital rather than its capital and surplus, and also the fact that outstanding commitments of some \$800 million reduce the unobligated borrowing power, it appears advisable to charge the payment to surplus. The earned surplus is about \$260 million, and is being steadily added to out of earnings. A payment of \$200 million would leave capital funds of \$560 million which is more than ample coverage for any conceivable losses.

The payment of \$200 million of surplus would necessitate the issue of \$200 million more R.F.C. notes. This would leave the unobligated borrowing power at around \$800 million. There is reason to believe, however, that a substantial portion of the commitments will never be exercised. In addition annual repayments of loans to the Corporation provide a substantial source of money for new loans. Commitments have stood at a high figure for several years while loans outstanding have been tending downward.

Effect upon Corporation's income

Assuming that the Corporation would borrow money at 1 per cent (the rate on its last public issue of guaranteed notes) to retire stock, the yearly interest cost would be only \$2 million which is small relative to its current operating profit.

December 14, 1939

REDUCTION OF GOVERNMENT-OWNED CAPITAL
STOCK AND PAID-IN SURPLUS OF THE
FEDERAL LAND BANKS

Present capital account

In 1932 the Treasury was authorized to purchase \$125,-000,000 of capital stock in the Federal Land banks, of which \$124,741,000 is still held by the Treasury. In addition, the Treasury, under Congressional authority, has subscribed \$188,-000,000 to the paid-in surplus of the Federal Land banks since 1933. Under the law, the subscriptions were to supply the banks with funds to use for their operations in place of the amounts which the banks have been deprived of by reason of extensions of their loans. These amounts together with privately-owned stock give the Land banks total book capital funds of over \$510,000,000. Unimpaired capital amounts to \$

A reduction of the Government-owned interest by \$200,000,000 would appear to leave the banks with a conservative capital structure.

Legislative authority for reduction in capital and paid-in surplus

The following provision would appear to give the Farm Credit Administration authority to retire the Government-owned capital stock at any time:

"U.S.C. SEC. 678. ... PROVIDED, However, That stock issued pursuant to this section may at any time, in the discretion of the Farm Credit Administration, be paid off at par and retired in whole or in part: and that said Administration may at any time require such stock to be paid off at par and retired in whole or in part if in the opinion

of the Administration the bank has resources available therefor. The proceeds of all repayments on account of stock issued pursuant to this section shall be held in the Treasury of the United States and shall be available for the purpose of paying for other stock thereafter issued pursuant to this section."

The paid-in surplus of the banks apparently can be repaid by action of the Land Bank Commission as follows:

"U.S.C. SEC. 781. ...The amount of any subscription to the paid-in surplus of any such banks may be repaid in whole or in part at any time in the discretion of the bank and with the approval of the Land Bank Commissioner, and the Commissioner may at any time require such subscriptions to be repaid in whole or in part if in his opinion the bank has resources available therefor.and the proceeds of all repayments on account of such paid-in surplus, shall be held in the Treasury of the United States as a revolving fund and shall be available for subscriptions to paid-in surplus made pursuant to this paragraph."

Trend of lending activity

The peak volume of loans held by the Federal Land banks was reached in about 1935 and since that time the amount outstanding has shown a steady downward trend. The rate of decline has been accelerated since July 1938 when the three-year moratorium on principal repayments on their mortgage loans ended. The present volume of loans is about \$1,900,000,000.

As a result of the Government subscriptions to capital and paid-in surplus and the declining trend of loans, the Land banks now have a ratio of total capital funds to loans of 26.7 per cent, as compared with around 17 per cent when loans outstanding were at their maximum in 1935 and between 6 1/2 and 7 per cent during the period from 1923 to 1931.

In view of the facts that the large majority of the Land bank loans are in good standing, principal payments are being made on schedule, and the banks have set up substantial reserves for losses, it would seem that this abnormally large capital structure could be reduced by \$200,000,000 by repayment to the Treasury of the paid-in surplus and part of the Government-owned capital stock.

Source of funds for repayment

The Land banks hold \$78,000,000 of Government securities and have \$48,000,000 cash on hand. The proceeds from sale of these Governments and part of their cash could probably be used to retire paid-in capital and Government-owned stock. In addition, however, it would be possible for the Land banks to obtain funds for this purpose by selling their consolidated bonds to the Federal Farm Mortgage Corporation which, in turn, could finance the purchase by the sale of its guaranteed obligations in the market, or by selling directly their own nonguaranteed bonds to the public.

Effect upon earnings

In 1938 the net profits of the Federal Land banks amounted to about \$16,000,000. If half of the amount necessary to retire capital stock and surplus were obtained from sale of Government securities and cash, this would reduce the Land bank's income by about \$1,500,000. If the rest were obtained by sale of their consolidated bonds at 3 per cent, the total cost to the Land banks would be \$4,500,000 which would still leave substantial profits.

Funds would remain available to Land banks in case they are needed

As provided in the legislation quoted above, the funds received from the retirement of capital and surplus would be held by the Treasury in a revolving fund which would be available to the Land banks in case they are needed in the future. At the time of repayment, however, they would appear as a credit to the Treasury expenditure accounts and would, therefore, reduce the current deficit.

Effect upon borrowing capacity

The Federal Land Banks are authorized to issue bonds up to twenty times their paid-in capital and surplus. As they would still have \$214,000,000 capital after the suggested reduction of government-owned capital and paid-in surplus, the banks would be able to issue \$4,280,000,000 of bonds. At present they have about \$1,750,000,000 of bonds outstanding.

December 14, 1939

REDUCTION IN GOVERNMENT-OWNED
CAPITAL OF
FEDERAL HOME LOAN BANKS

Legislative authority

At present the Government holds nearly \$125,000,000 of the capital stock of the Federal Home Loan banks, while the private capital investment is about \$50,000,000. Total unimpaired capital is calculated at \$173,000,000. The following provision of the Federal Home Loan Bank Act would appear to give the Federal Home Loan Bank Board power to require that the Government-owned stock be paid off and retired at any time:

"SEC. 6(g). ... Stock held by the United States may at any time, in the discretion of the Federal Home Loan Bank, and with the approval of the Board, be paid off at par and retired in whole or in part; and the board may at any time require such stock to be paid off at par and retired in whole or in part if in the opinion of the board the Federal Home Loan Bank has resources available therefor: PROVIDED, That accumulated dividends, as provided in subsection (k), have been paid."

Amount of reduction in capital

In view of the small volume of outstanding loans of these banks, their unused borrowing capacity, and their strong cash position, it appears unnecessary for the Government to have such a large capital investment in the banks at the present time. The repayment to the Government of \$90,000,000 of the banks' capital stock would still leave them with a capital structure of nearly \$85,000,000.

Sources of funds for retirement of capital

At the present time the Federal Home Loan banks hold nearly \$50,000,000 of Government direct and guaranteed securities and have over \$30,000,000 cash. A substantial part of the funds for the suggested retirement of capital could be obtained by selling Government securities and by reducing these cash balances. The remainder would have to be obtained by sales of Home Loan Bank debentures to the public. The banks are authorized to issue debentures up to 5 times their paid-in capital. As the suggested reduction would leave the banks with about \$75,000,000 paid-in capital, they would have authorized borrowing capacity of \$375,000,000. Less than \$50,000,000 of the banks' debentures are now outstanding.

Trend of loans

For the past two years loans of the Federal Home Loan banks have shown a slight decline and at present amount to about \$170,000,000. Although the potential borrowing capacity of members of the Federal Home Loan Bank System is very large, it is unlikely that a large demand for accommodation will develop in the near future. Shares in the member institutions have been showing a steady increase and, in view of the fact that these shares are insured up to a principal amount of \$5,000 by the Federal Savings and Loan Insurance Corporation, it is unlikely that there will be a heavy demand for liquidation by shareholders. Should the Federal Home Loan banks experience an increase in the demand for credit by members, they could obtain

funds by selling debentures to the public.

Effect of retirement upon earnings of Home Loan banks

During the first half of 1939 the Home Loan banks showed a net operating income of \$1,714,000, of which about \$500,000 represented interest from Government securities. If these securities were sold and the Federal Home Loan banks issued about \$20,000,000 of debentures at, say, 1 1/2 per cent to finance the retirement of capital stock they would still have a satisfactory net income on their remaining capital stock.

Effect on budget

The retirement of capital stock by the Federal Home Loan banks would appear on the Treasury statement as a miscellaneous receipt and would, therefore, reduce the deficit.

December 14, 1939

REDUCTION OF GOVERNMENT-OWNED CAPITAL IN
BANKS FOR COOPERATIVES

Legislative authority

The Government owns \$149,000,000 of capital stock in the banks for cooperatives, while total unimpaired capital amounts to \$164,000,000. From the financial position of the banks and other considerations, it would appear that a reduction of \$85,000,000 in the capital stock might be possible.

Such a reduction would seem to be authorized by administrative action of the Governor of the Farm Credit Administration under the following provision of the law:

"12 U.S.C SEC. 1134(e) RETIREMENT OF STOCK HELD BY THE GOVERNMENT.- The Governor may at any time require any such banks to retire and cancel stock held by the governor in such bank, if, in the judgment of the governor, the bank has resources available therefor, and amounts received by the governor in any such case shall be credited to the revolving fund created under section 1141d of this title. (June 16, 1933, c. 98, sections 43, 48 Stat. 265.)"

Sources of funds to retire stock

The banks for cooperatives now hold Government direct and guaranteed securities amounting to \$95,000,000 which could be sold to provide funds for the retirement of capital stock.

Trend of loans

During the past year loans of the banks for cooperatives have declined about \$17,000,000 and now amount to only \$70,000,000. There appears to be no immediate prospect of a large increase in loans, but in case one should develop the banks for cooperatives can rediscount loans with the Intermediate Credit banks if they

need additional funds.

Funds for retirement of stock would continue to be available to the banks

As provided in the section of the act quoted above, the funds tendered by the banks for retirement of their capital stock would be held in a revolving fund by the Treasury for subscriptions to capital stock in case the banks have a need for the funds at some time in the future. The repayment, however, would appear as a credit to an expenditure account on the Treasury statement and would, therefore, reduce the current Federal deficit.

December 14, 1939

RETIREMENT OF PAID-IN SURPLUS AND PART OF
CAPITAL STOCK OF
INTERMEDIATE CREDIT BANKS

Legislative authority

At present the Intermediate Credit banks have unimpaired funds of \$118,000,000, of which \$70,000,000 is capital stock, \$30,000,000 paid-in surplus, and the remainder undivided profits. Under the law, \$60,000,000 of the capital stock is permanent, but the other \$10,000,000 and the \$30,000,000 of paid-in surplus can be retired at any time by the Governor of the Farm Credit Administration.

"12U.S.C. SEC. 1061. With the approval of the Secretary of the Treasury, the Governor of the Farm Credit Administration is hereby authorized to subscribe from time to time to the capital stock and/or paid-in surplus of any Federal Intermediate Credit bank on behalf of the United States, in such amounts as he may determine are necessary for the purpose of meeting the credit needs of eligible borrowers from the bank, and the amount of the capital stock and paid-in surplus of such bank may be increased or decreased from time to time by the Governor, in accordance with such needs. Such stock shall be divided into shares of \$100 each and subscriptions to such paid-in surplus shall be made in multiples of \$100 out of the revolving fund created under subsection (e) of section 1131i of this chapter. The Governor on behalf of the United States shall make payment for stock and paid-in surplus of such bank and such payment shall be subject to call in whole or in part by the board of directors of the bank, with the approval of the Governor."

Sources of funds for retirement

The Intermediate Credit banks have nearly \$50,000,000 cash on hand and hold about \$75,000,000 of Government securities,

so it appears they have adequate resources which could be used to retire the paid-in surplus and part of their capital. If \$40,000,000 were thus retired, the banks would still have \$60,000,000 capital stock and nearly \$20,000,000 earned surplus. The amount of debentures which the banks may have outstanding at any one time may not exceed 10 times their paid-in capital and surplus. Even with the suggested reduction of capital and surplus, the banks would still have borrowing capacity of \$600,000,000, which is far in excess of the amount which has ever been outstanding and should provide funds to take care of any large increase in the demand for accommodation by eligible borrowers.

Effect upon earnings of the Intermediate Credit banks

Net profits of the Intermediate Credit banks amounted to \$1,400,000 in 1938. The loss of income which would be involved in the sale of the small amount of Government securities that would be necessary to retire \$40,000,000 of capital and surplus would be a negligible percentage of these profits.

Trend of lending activity

For the past two years the outstanding loans of the Federal Intermediate Credit banks have shown little change at the level of about \$200,000,000. There is no reason to expect any large increase in loan demand in the immediate future.

Funds would continue to be available in case an unexpected need arose

As provided in the legislation quoted above, the funds received from the retirement of paid-in surplus and capital would

be held by the Treasury in a revolving fund and would be available to the Intermediate Credit banks in case a need for credit should develop in the future. The repayment would appear as a credit to Treasury expenditure accounts and would, therefore, reduce the current deficit.

December 13, 1939

SALE OF TREASURY SHARES IN FEDERAL SAVINGS
AND LOAN ASSOCIATIONS TO
HOME OWNERS' LOAN CORPORATION

Legislative authority

The Treasury now holds an investment of \$40,000,000 in shares of Federal Savings and Loan Associations. The purchase of these shares by the Home Owners' Loan Corporation appears to be authorized under the following provision of the Home Owners' Loan Act.

SEC. 17(n) ... The Corporation is also authorized to purchase full-paid-income shares of Federal Savings and Loan Associations after the funds made available to the Secretary of the Treasury for the purchase of such shares have been exhausted. Such purchases of shares shall be on the same terms and conditions as have been heretofore authorized by law for the purchase of such shares by the Secretary of the Treasury: PROVIDED, That the total amount of such shares in any one association held by the Secretary of the Treasury and the Corporation shall not exceed the total amount of such shares heretofore authorized to be held by the Secretary of the Treasury in any one association. The Corporation is also authorized to purchase shares in any institution which is (1) a member of a Federal Home Loan Bank, or (2) whose accounts are insured under title IV of the National Housing Act, if the institution is eligible for insurance under such title; and to make deposits and purchase certificates of deposit and investment certificates in such institution....."

Source of funds for purchase of shares

The Home Owners' Loan Corporation now has about \$170,000,000 in cash, practically all held with the Treasury. This, together with net repayments in the next few months, should just about cover the above transactions; the retirement of \$130,000,000 bonds maturing next May, and the retirement of \$80,000,000 of

outstanding matured bonds not yet presented for payment. As the Corporation banks with the Treasury, this transaction would not provide the Treasury with new cash, but would appear on the Treasury's books as a miscellaneous receipt and would therefore reduce the deficit.

Effect upon Corporation's earnings

The Treasury's return on their shares amounted to 3.9 per cent in the fiscal year 1938. The same rate on present holdings would provide the Home Owners' Loan Corporation with \$1,560,000 additional annual income because it now obtains no interest on its deposits with the Treasury.

Other considerations

This transfer would seem to be advisable from an administrative standpoint in view of the fact that the Home Loan Bank Board has general supervision over both the Home Owners' Loan Corporation and the Federal Savings and Loan Associations. In recent months, there have been small net redemptions of the shares now owned by the Home Owners' Loan Corporation, and since 1937 it has been the Corporation's policy not to make any new purchases except in special cases.

Treasury could repurchase shares in case Home Owners' Loan Corporation needed funds in future

It would appear that after the sale of these shares to the Home Owners' Loan Corporation the Treasury would still have authority to purchase about \$50,000,000 shares in Federal Savings and Loan Associations of the \$100,000,000 originally available.

Thus, if the Home Owners' Loan Corporation needed funds for some emergency purpose in the future, the Treasury could repurchase these shares at any time.

DECEMBER 20, 1939.

In The Nation

Conflict of the President and the Budget Balancers

By ARTHUR KROCK

In his forthcoming message to Congress and the discussion of the budget which will follow the President will deal with two of the most vulnerable points in his record, the budget and the national debt. Republican candidates for the Presidency have already made it clear that they will attack heavily on these lines. But thus far they have dealt in generalities. When the President has had his say, it will devolve on them to get down to specifications. If they intend to balance the budget in a given length of time, how do they propose to do it?

In tones increasingly assured and defiant the President has reiterated to them this question. He has repeatedly told the public that when he asks it he gets no workable reply. Recently Mr. Roosevelt has been referred to his 1932 campaign speeches and their prescription for a balanced budget, and to numerous annual messages since then in which he has ranged from confident forecast to hope that the turn in Federal finances would come. But certain new conditions have arisen which affect with obsolescence some of these procedures, including those proposed by the President himself. Therefore, when he has delivered his January message to Congress, it will be up to the critics to offer some new suggestions.

On both sides of the party aisle, with a few exceptions, the sentiment is unanimous for large additional expenditures for national defense. The President, "thinking aloud," has talked of a special pay-as-you-go tax to meet this dislocation of budget plans, and of a separate bookkeeping account in which these will be dissociated from the ordinary budget. Since the debit would not be altered by mere bookkeeping, this latter idea has been rejected by the budget balancers. But they must do more than reject ideas; they must furnish good ones of their own.

Causes of the Deficit

In addition to the new costs for national defense, the government remains in the red and the national debt increases from four causes: continued spending for a huge Federal establishment; Federal relief of the reduced yield from taxes based on business and debt service. As the government tax income rises from better business relief costs can be reduced, so these two are mutually curable. But here the critics have their first chance to score unless business-baiting, now a recrudescence in Washington, is firmly abolished, the income from recovery will not arrive. And unless the President takes strong leadership in reducing relief costs, these will not be greatly lowered.

As to debt service it is necessarily commensurate with the debt, and as this grows so does the servicing. Its reduction is wholly dependent on the two factors named above, which brings a budget balancer into the one quarter where an immediate start toward solvency could be made—the cost of the Federal establishment.

The President has been working at this for some time. He has sent stringent orders to Cabinet members and their division chiefs to cut to the bone. Accordingly they have sought to run their far-flung and myriad enterprises at the lowest possible cost. But the moderate effect of this procedure on the budget is made apparent by this typical experience of a division chief: He was able to trim from a bureau costing \$20,000,000 only \$120,000 a year.

A Formula for Economy

The expert, non-political view of those who know about the government and work at budgets is that much pruning brings negligible results. Thus far they are inclined to believe that the reallocation of bureaus under the Reorganization Act has not reduced Federal expenses, but, has perhaps increased them. If those whom the President is challenging for a budget-balancing formula will follow the ideas of these experts they will call for the abolition of many present government functions instead of trying to cut their costs. And they will offer illustrations.

To abolish present functions a President must forget all about politics and asserted vested interest in certain government jobs. He must be immune from the pressure of workers' lobbies and consign to limbo pet projects and fads of many well-intentioned and excellent men and women. One veteran government official, who has watched with alarm the growth of functionaries under the New Deal, has made several suggestions to this correspondent. Among the present government activities which this expert believes should be investigated with a view to abolition are:

In the State Department, the Division of Cultural Relations and in the Interior Department, the Puerto Rico Reconstruction Administration. He would, in the Agriculture Department, combine under one head Soil Conservation, Crop Insurance, Commodity Credit, Surplus Commodities, Federal Farm Mortgages, Farm Credits, the AAA; absorb Entomology and Plant Quarantine into Plant Industry; and combine Forestry and National Parks. He would abolish Marine Inspection and Navigation and put it under the Maritime Commission and eliminate American Battle Monuments, National Emergency Council, Railroad Administration and Disaster Loan.

Here is a program for study, at any rate.

BSF
Bureau of the Budget
Message
Folder

ALTERNATIVE PARAGRAPH

In the fall of 1937 when the new agricultural program was under consideration in Congress, I strongly urged that if its cost should exceed the \$500,000,000 already in the Budget to finance the Soil Conservation and Domestic Allotment Plan, additional revenues should be provided to finance the excess. The Agricultural Adjustment Act of 1938, approved by me on February 16, 1938, authorized parity payments, the cost of which was in addition to the Soil Conservation and Domestic Allotment program, but no revenue provision was made for financing these payments. When I signed this bill I said publicly that no parity payments ought to be made until Congress had provided the necessary revenues. While Congress has taken no steps to provide this additional revenue, it did appropriate in 1938 and again in 1939 a total of \$437,000,000 for making parity payments. Congress has thus added to the aggregate deficit \$437,000,000 for this purpose. If further appropriations are made for parity payments I strongly urge that revenue be provided for financing them. I think the Congress should also give serious consideration to providing added revenues to reimburse the Treasury for the amounts expended in parity payments in the last two fiscal years.

Budget
Message
Folder

December 21, 1939

Through diligent effort and most careful scrutiny of every proposed item of expenditure, material reductions have been made in the appropriations recommended for the operation of the government in the fiscal year 1941 with the exception of the one item of making added provision for the national defense. The deficit, even including the proposed expenditures for the enlarged national defense program, has been substantially reduced as compared to the estimated deficit for this fiscal year.

Faced with the necessity of putting our defenses in a sufficiently strong condition to safeguard us under present circumstances, any smaller appropriations for defense than are indicated in this message would not in my opinion be adequate. If we are to make the further progress that I believe should be made at this time in lessening the deficit we must seek additional revenue.

I am convinced that the situation fully justifies an extraordinary national effort. Therefore, I recommend that provision be made for financing the additions to the national defense in the present fiscal year and the fiscal year 1941 through special taxation. To cover the expenditures contemplated this special addition to our revenue structure should

yield approximately \$500,000,000 on an annual basis, but the application of the tax should not extend beyond the period necessary to provide revenue sufficient to defray the cost of the additions to our defenses.

Since it is the function of Congress to determine how revenues should be raised I leave the choice of particular tax measures to its judgment. However, I believe I am expressing the sentiment of the country when I suggest that measures adopted for raising additional tax revenues should reflect two objectives. The first is that the taxes should come from the portion of the population which can best afford to pay them, with due regard to the taxes they now pay to the State, local and Federal governments. Care should be taken especially to design the taxes so that they will not fall on that portion of the population which can least afford to pay them. The second objective is that the taxes should have a minimum of disturbing effects on the further recovery and smooth working of the economy and accordingly should avoid as far as possible the discouragement of productive activity and employment.

Another matter concerning revenue which I should like to call to the attention of the Congress is the fact that parity payments for agriculture were added to the Executive

budget in both of the last two fiscal years in a total amount of \$437,000,000 without any provision having been made for revenue to finance them. Therefore, I again urge, as I have in two previous years, that provision be made for new taxes to finance any new authorization for parity payments that may be made for the fiscal year 1941, and also that the Congress give consideration to making some provision for recouping through new taxes the amounts expended outside the budget for the fiscal years 1939 and 1940.

Enactment of the supplementary revenues here proposed will enable us to proceed with our program of making the substantial annual reductions in the deficit which the progress of recovery warrants. I should like to indicate to the country that there will be no interruption of that program. This can be accomplished if we resolve to finance the enlarged armament cost through a special national effort which will be put forth so long as the emergency exists.

PSE: Bureau of Budget

File Budget Messing
THE WHITE HOUSE
WASHINGTON

December 26, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Secretary Morgenthau's letter to you of December 19, 1939.

1. Drawing down of cash balance. Secretary Morgenthau would prefer that no commitment that cash balances be reduced be made at this time, even to the figure of \$750 million. This appears to represent an ultra-conservative position. We cannot conceive of any greater emergency than that which confronted the country in early March 1933, and at that time the balance was only \$200 million. The availability of Treasury bills and, in the last resort, the Federal Reserve banks with virtually unlimited lending power, make more than a small working balance uneconomical and unnecessary. This has long been recognized in England and applies, even in wartime.
2. Use of Stabilization Fund gold. Secretary Morgenthau advises against announcement of use at this time on three grounds: (1) reduction of debt not contemplated when Fund was extended, (2) commitments by Secretary to Congress that "there is no intention of using that gold for any purpose other than to meet Stabilization Fund purposes", (3) no monetary justification.

These points have merit but I do not think they are conclusive. In using the gold there appear to be at least three possibilities:

(1) You might retain the Fund but cover the gold in as miscellaneous receipts. This is the possibility to which the Secretary's first two objections specifically apply.

(2) You might at any time declare that the emergency, for the purposes of the Fund, has passed, whereupon the Fund will cease and the gold will appear as miscellaneous receipts. The occasion for such action is the war which ensures that foreign balances here will be drawn down for goods, and will not be suddenly recalled to Europe. There is really no economic need for the Fund now and it was always contemplated that when the need passed the Fund should be used to reduce the debt. A portion of it could very well be used to pay off the June bond and note maturities.

Memorandum for the President

Re: Secretary Morgenthau's letter
to you of December 19, 1939.

-2-

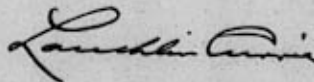
December 26, 1939.

(3) You might ask Congress to reduce the Fund to, say, \$500 million, which would retain the Fund for current operations and yet permit you to redeem \$1.5 billion of debt. This request could be made in the Budget Message or later.

In connection with Secretary Morgenthau's third objection — lack of monetary justification, I know that Chairman Eccles feels that since additional authority will eventually be needed to cope with existing excess reserves, the addition of more reserves is a matter of no great moment and may actually improve the chances of getting earlier Congressional action covering the whole problem of excess reserves.

3. Use of silver seigniorage. I am inclined to concur with the Secretary on this point as I have a feeling that the use of silver may possibly result in a different popular reaction than the use of gold. It had perhaps better be held in reserve at this time.

4. The deficit and the debt. Secretary Morgenthau concludes that you should indicate that the greater part of the deficit should be financed by an increase in the public debt. Without, however, the covering back of excess capital funds from government corporations, the drawing down of cash balances, and the expectation of revenues from additional taxes, you would have to indicate a debt by June 30, 1941, above \$45 billion, which would immediately raise the whole issue of the statutory limit.



Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

December 22, 1939

MEMO FOR LAUCHLIN CURRIE

To speak to me about.

F. D. R.

Enclosure



THE SECRETARY OF THE TREASURY
WASHINGTON

December 19, 1939

My dear Mr. President:

At our luncheon conference on December 12th you requested a statement showing what might be done to make funds available to finance a deficit over the next eighteen months of as much as \$4,000,000,000 without increasing the public debt. You indicated that you might even want to show in the forthcoming budget a smaller public debt at the end of this period than now exists, in which case it would, of course, be necessary to obtain funds in excess of the \$4,000,000,000 by means other than direct borrowing or taxation.

One obvious course of action open to us is the possibility of decreasing the working balance in the General Fund. I now estimate that the working balance on January 1, 1940, will amount to about \$1,750,000,000. It would be possible, I think, if no new unfavorable developments occur, to reduce this balance to \$750,000,000, by the end of the fiscal year 1941, in which case about \$1,000,000,000 would be made available for current expenditure. Whether it would be wise, however, to commit ourselves in advance to so large a reduction is, I think, a matter for very careful consideration.

The Treasury has carried, as a matter of policy, a substantial working balance and it has also refrained from utilizing to the full the short-term borrowing possibilities available through Treasury bills. This has assured the immediate availability of sufficient

funds to meet whatever emergency might arise. The Treasury has thus been in a position to relieve the money market of major financing operations during critical situations, such as, for instance, the one which occurred last September. I believe that there are definite advantages in this policy, not only with respect to the Government security market, but also because of the record volume of demand obligations now outstanding, such as United States Savings Bonds, Postal Savings deposits, Unemployment Trust Fund, and commitments of the many credit agencies of the Government.

The proceeds of the sale of obligations of credit agencies of the Government constitute another possible source of funds. During the calendar year 1939 we have sold guaranteed securities in the amount of about \$700,000,000, the proceeds of which have been used to repay advances previously made by the Treasury. Thus the amount to be obtained from repayment of advances has now been reduced to approximately \$100,000,000.

The credit agencies of the Government, which already have on deposit in the Treasury working balances to the extent of approximately \$400,000,000, might conceivably use their borrowing powers to obtain additional funds from the market, in excess of their own actual needs. These funds could then be deposited in the Treasury where they would be available to meet current Government expenditures. However, adoption of such a course might subject the Administration to sharp criticism on the ground that it constituted an evasion of the congressional intent with respect both to the activities of these agencies and to the

limitation on the public debt.

The amount under the first two items would provide not more than \$1,100,000,000, which is far short of the \$4,000,000,000 desired. To obtain this sum it would, therefore, be necessary to employ additional measures which conflict with previous commitments to Congress and involve basic questions of currency and monetary policy.

Measures which are legally possible include:

I. Use of Stabilization Fund Gold. We have the authority to transfer to the Treasury the \$1,800,000,000 of gold now held for the account of the Stabilization Fund. If exercised this would provide \$1,800,000,000 for the Treasury working balance to meet prospective expenditures. It would, on the other hand, leave the Fund with only a book credit against which it could draw at any time. If the current operations of the Fund should require more than the present \$200,000,000 working balance, it would be necessary for it to draw against this book credit, and the Treasury in that event would have to find new money to meet such withdrawal.

It was clearly not contemplated at the time when the powers in the Gold Reserve Act with respect to the Stabilization Fund were extended that its gold assets would be used to meet current expenditures. As Secretary of the Treasury, I have repeatedly advised the Congress that \$1,800,000,000 of this Fund is still held in the form of gold and that there is no intention of using that gold for any purpose

other than to meet Stabilization Fund requirements. Only when these requirements no longer exist would it be appropriate to allocate the assets for the retirement of the public debt, and even then the proper timing of this use of the Fund would involve fundamental questions of monetary and currency policy.

II. Use Silver Seigniorage for Issuance of Silver Certificates.

We have authority to issue silver certificates up to the monetary value (\$1.29 an ounce) of the free silver now in the Treasury. If exercised, this would increase the amount of funds available to meet expenditures by about \$1,500,000,000. When the Silver Purchase Act was approved, we decided to issue silver certificates only up to the cost of the silver, and to set aside any seigniorage in a special fund, and not to treat it as an ordinary Government receipt. This was a decision not to use a monetary device for the purpose of lessening the amount of public debt borrowing. I still believe that decision was wise.

III. Use the Balance of the Increment Resulting from the Reduction in the Weight of the Gold Dollar. This balance, in the amount of approximately \$142,000,000, could be transferred to the working balance. This increment balance was appropriated or authorized to be used for specific purposes, namely, loans to industry through the Federal Reserve Banks and payment to the Philippines in connection

with the reduction in the weight of the gold dollar. As in the case of the use of the Stabilization Fund gold and the silver seigniorage, the transfer of this increment to the working balance would raise a question of monetary policy. The sum involved, however, is not large and its transfer would have little practical importance.

IV. Other Legally Possible Measures. There are other executive powers which, if invoked, would make funds available in addition to those enumerated above; namely, further devaluation of the gold dollar, which, on the basis of present holdings, would provide about \$3,100,000,000 if it were reduced in weight to the full statutory limit; equal devaluation of the silver dollar, which would provide about \$3,300,000,000; and the use of Thomas currency, issuable, however, only under certain important restrictions, which would provide \$3,000,000,000. I am not discussing these measures in detail for the reason that I do not think you have their use in mind.

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There are two important phases of this whole problem upon which I should like to make further comment:

1. The budget and debt aspect, and
2. The general monetary and financial aspect.

We are faced with a substantial deficit for the fiscal year ending June 30, 1941, as well as for the current fiscal year. For the past ten years the Government has financed its deficits by selling public debt obligations based on the public credit. The fact that the

Treasury has been able to sell these obligations in the aggregate amount of approximately \$25,000,000,000 during this period, and at the same time to reduce the average rate on the interest-bearing debt from 3.57% to 2.59% indicates to me that recourse to borrowing in the market in the normal way is still open to us without undue strain on the money market or unreasonable interest costs to the Treasury.

Now as to the monetary and financial aspects. The use of the Stabilization Fund gold, the silver seigniorage, the gold increment balance, and the reduction of that part of the Treasury working balance not kept in commercial banks, would increase bank reserves by about \$4,000,000,000. I do not believe that it would be advisable at this time to make recommendations to Congress which, if adopted, would commit this country to a policy of adding during the next eighteen months approximately \$4,000,000,000 to the reserves of the banking system. The money markets of the country are more liquid today than ever before. Interest rates are at the lowest levels in the history of this country. The volume of individual deposits, of currency in circulation, and of excess reserves of member banks are all at or close to record levels. It is clear, therefore, that none of the monetary conditions that might furnish an appropriate occasion to increase bank reserves through measures such as previously discussed is present at the moment. Our present monetary position already makes the effective use of credit controls

sufficiently difficult. Additions to banking reserves by such Treasury operations will add to the difficulty.

What changes in conditions may occur within the next eighteen months no one knows. It is important, therefore, to retain freedom of action in the monetary field. Commitment now to execute the monetary measures enumerated above would restrict such freedom of action and might have other grave consequences.

To sum up: I think it would be inconsistent with wise fiscal and monetary policy for you to announce in your budget message for the fiscal year 1941 that you propose to use the methods indicated above to prevent an increase in the public debt, much less that you propose thus to accomplish over the fiscal year 1941 an actual reduction of the nominal amount of the debt.

A reduction in the General Fund balance in an amount not to exceed one billion dollars between January, 1940 and June, 1941, will probably be entirely feasible, but I think that an announcement that this is to be done should be qualified to admit another decision if developments demand it.

I do not believe additional silver certificates should be issued (beyond the cost of the silver acquired) for merely budgetary reasons, but that any enlarged issue of this form of currency should have a strictly monetary justification.

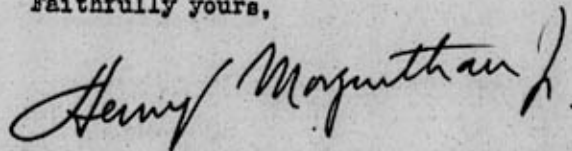
The gold earmarked for the Stabilization Fund is a cash resource that can be and should be ultimately used to reduce the

public debt, but both the commitments we have made to Congress and monetary considerations argue against its use at this time for the purpose of avoiding public debt borrowing. The same considerations apply to the remainder of the gold increment in the General Fund.

My recommendation therefore is that in that part of your budget message which deals with the means of financing the contemplated deficit for the fiscal year 1941 you indicate that the greater part of the deficit should be financed by an increase in the public debt.

It may be conceivable that conditions might arise in the next year and a half which would justify the use of any or all of the resources listed above, but to announce in advance that they are to be used whether or not the justifying conditions are present would seem to me to be a grave mistake, because it would hamper your freedom of action and might raise apprehensions with respect to our fiscal policy which would seriously damage the public credit and faith in the wisdom of the acts of this Administration.

Faithfully yours,

A handwritten signature in dark ink, appearing to read "Henry Magrath". The signature is fluid and cursive, with a large, stylized initial "H" and a long, sweeping underline.

The President,

The White House.

Notes on Secretary's letter

(I) Justification of large working balance

(a) Government security market is to relieve it of major financing questions during critical situations. ^{and} The market for short term securities is not much affected and can be relied upon for any pressing needs in such periods.

(b) Demand of liquidation - chances small that cash would be suddenly demanded at any time.

(1.) U. S. Savings Bonds

The large amount of these securities in the hands of small savers are unlikely to be presented suddenly for redemption.

The possible threat that large holders might call for redemption is an argument for reducing the maximum ^{yearly} purchases of each investor from \$7,500 to say 2,500.

(2.) Postal Savings Deposits

Are confined to small holders and were not run even in the banking crisis of 1933.

(3.) Unemployment trust funds,

There would be sufficient time to arrange financing for withdrawals by States.

(4.) Commitments of credit agencies.

While these are nominally demand obligations actually there is small chance that most of them will ever be disbursed.

II. Financing the Deficit.

Secy. cites large borrowing at reduced rates as a great accomplishment.

Actually the Treasury has not made full use of the low level of money rates.

The figure of reduction of av. rate on debt from 3.57% to 2.59% since 1933 is misleading. The rate in 1936 was 2.56% and has gone up since that time despite

the fact that open-market interest
rates have continued to decline,

BF Bureau of the Budget
THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

January 27, 1940.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

Will you speak to me
about this?

F. D. R.

Memo from Mrs. Roosevelt in
re Howard University budget --
attaches statement of Federal
appropriations for current expenses.

BF Bureau of the Budget
THE WHITE HOUSE
WASHINGTON

April 4, 1940.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET:

Please study these figures and speak to me about them.

On the first sheet, I notice that the Treasury has lowered its estimate of miscellaneous internal revenue over that made on January third. Perhaps this is right but I have no means of knowing.

Also, they figure employment taxes will be the same, whereas it seems to me probable that they will be greater.

On the second sheet for the fiscal year 1941, they have done the same thing in regard to miscellaneous internal revenue estimates and have kept, practically without change, the estimates for employment taxes.

You might analyze these figures and speak to me about them.

It is my own thought based wholly on guesswork that the total increase in taxes for the balance of this year, plus the fiscal year 1941 will run to five hundred million dollars over the January estimates.

What is your guess?

RECEIVED
F.D.R.

RECEIVED

APR 4 12 36 PM '40

BUREAU OF THE BUDGET

RECEIVED



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

April 2, 1940

MEMORANDUM TO THE PRESIDENT:

In compliance with your request for information on the effect the increase in tax returns for March would have upon the revenue estimates contained in the 1941 Budget, there are transmitted herewith two statements, one showing the revised estimates of revenue for the fiscal year 1940 as compared with the estimates of revenue made late last December and contained in the 1941 Budget, and the other showing revised estimate of revenue for the fiscal year 1941 as compared with the estimate contained in the 1941 Budget.

You will note that the revised estimates indicate a total revenue for the fiscal year 1940 of \$5,922,000,000, an increase of approximately \$218,000,000, or 3.8%, over the previous estimate; and that the revised estimate for 1941 indicates that the total revenue for that year will be \$6,261,000,000, an increase of \$110,000,000, or 1.8%, over the previous estimate.

I am transmitting similar statements to the Director of the Bureau of the Budget, who, I understand, has revised estimates of expenditures for 1940.

SWB

Estimates of receipts in fiscal year 1940
Comparison of the April 1940 revised estimates and the January 1940 Budget estimates
(money figures in thousands of dollars)

General and special accounts (on the basis of the daily Treasury statement (unrevised))	January 1940 Budget estimates	April 1940 revised estimates	Increase or decrease April 1940 over January 1940	Percent increase or decrease April 1940 over January 1940
1. Internal revenue:				
(1) Income taxes ^{1/}	1,959,000	2,152,000	+ 193,000	
(2) Miscellaneous internal revenue:				
Capital stock tax	132,300	132,300	0	
Estate tax	337,700	337,700	0	
Gift tax	33,000	33,000	0	
Alcoholic beverage taxes	515,525	521,625	- 21,900	
Tobacco taxes	615,250	608,950	- 6,900	
Stamp taxes	40,650	36,760	- 3,870	
Manufacturers' excise taxes	433,710	435,090	+ 1,320	
Miscellaneous taxes	145,060	145,060	- 2,060	
Total miscellaneous internal revenue (collection basis)	2,356,195	2,322,765	- 33,430	
Adjustment to daily Treasury statement basis	--	--	--	
Total miscellaneous internal revenue (daily Treasury statement basis)	2,356,195	2,322,765	- 33,430	
(3) Employment taxes:				
Taxes on employment by other than carriers:				
Federal Insurance Contributions Act	598,600	598,600	0	
Federal Unemployment Tax Act ^{2/}	104,800	106,100	+ 1,300	
Total	703,400	704,700	+ 1,300	
Taxes on carriers and their employees (Chap. 9, Subchap. B, of the Internal Revenue Code)	123,750	123,750	0	
Total employment taxes	827,150	828,450	+ 1,300	
Total internal revenue	5,142,345	5,303,215	+ 160,870	
2. Railroad Unemployment Insurance Act	4,950	4,950	0	
3. Customs	283,000	340,000	+ 57,000	
4. Miscellaneous revenues and receipts	273,500	273,500	0	
Total receipts, general and special accounts	5,703,795	5,921,665	+ 217,870	+ 3.8
Deductions:				
Net transfers to old-age reserve account (trust fund)	537,355	537,355	0	
Net receipts, general and special accounts	5,166,440	5,384,310	+ 217,870	+ 4.2

Treasury Department, Division of Research and Statistics.

April 2, 1940.

^{1/} Includes tax on unjust enrichment.

^{2/} Includes estimated receipts from the tax originally levied by Title II of the Social Security Act on carriers with respect to employment prior to July 1, 1939.

PSF
Bu Budget

Estimates of receipts in fiscal year 1941
Comparison of the April 1940 revised estimates and the January 1940 Budget estimates

(money figures in thousands of dollars)

General and special accounts (on the basis of the daily Treasury statement (unrevised))		January 1940 Budget estimates	April 1940 revised estimates	Increase or decrease April 1940 over January 1940	Percent increase or decrease April 1940 over January 1940
1. Internal revenues:					
(1) Income taxes ^{1/}		2,306,000	2,478,000	+ 172,000	
(2) Miscellaneous internal revenues:					
Capital stock tax		136,600	134,800	- 1,800	
Estate tax		328,800	328,800	0	
Gift tax		33,000	33,000	0	
Alcoholic beverage taxes		647,300	614,400	- 32,900	
Tobacco taxes		663,950	635,950	- 28,000	
Stamp taxes		45,950	39,360	- 6,570	
Manufacturers' excise taxes		471,900	454,100	- 17,800	
Miscellaneous taxes		154,710	144,940	- 9,770	
Total miscellaneous internal revenue (collection basis)		2,482,210	2,385,370	- 96,840	
Adjustment to daily Treasury statement basis		--	--	--	
Total miscellaneous internal revenue (daily Treasury statement basis)		2,482,210	2,385,370	- 96,840	
(3) Employment taxes:					
Taxes on employment by other than carriers:					
Federal Insurance Contributions Act		632,500	638,400	+ 5,900	
Federal Unemployment Tax Act ^{2/}		93,900	96,100	+ 2,200	
Total		726,400	734,500	+ 8,100	
Taxes on carriers and their employees (Chap. 9, Subchap. B, of the Internal Revenue Code)		135,000	135,000	0	
Total employment taxes		861,400	869,500	+ 8,100	
Total internal revenue		5,649,610	5,732,870	+ 83,260	
2. Railroad Unemployment Insurance Act		6,750	6,750	0	
3. Customs		273,000	300,000	+ 27,000	
4. Miscellaneous revenues and receipts		221,400	221,400	0	
Total receipts, general and special accounts		6,150,760	6,261,020	+ 110,260	+ 1.8
Deduct:					
Net appropriation for Federal old-age and survivors insurance trust fund representing an amount equal to taxes collected and deposited under the Federal Insurance Contributions Act, less reimbursement to general fund for administrative expenses		602,800	608,700	+ 5,900	
Net receipts, general and special accounts		5,547,960	5,652,320	+ 104,360	+ 1.9

Treasury Department, Division of Research and Statistics.

April 2, 1940.

^{1/} Includes tax on unjust enrichment.

^{2/} Includes estimated receipts from the tax originally levied by Title IX of the Social Security Act on carriers with respect to employment prior to July 1, 1939.

PSF Bureau of the Budget

THE WHITE HOUSE

WASHINGTON

PERSONAL & CONFIDENTIAL

April 18, 1940.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

Will you speak to me
about this?

F. D. R.

Letter from the Secretary of
the Interior, dated April 10th,
in re Reorganization Order.

PSF
Bureau of Budget file
personal
THE WHITE HOUSE

WASHINGTON June 4, 1940

Memorandum For The President.

Comptroller General

At the Budget Director's request I am writing this memorandum, and I am also attaching a memorandum to you from him.

He tells me you are writing the Comptroller General, asking him to resign. In a previous memorandum to you I pointed out that the main difficulty would probably be Mrs. Brown who might prevent your letter from reaching the Senator.

A possible solution might be to offer, through Mrs. Brown, to put the Senator on the International Joint Commission. Last fall you began to replace this Commission with government officials who were to act ex-officio. However Judge Stanley still serves.

My suggestion is to replace Stanley with Brown, or to give Brown the position of Judge R. Walton Moore who serves as a member of the State Department. Judge Moore has not been well recently and might well not object to relinquishing some of his duties. The position pays \$7500 a year, is decidedly not arduous work, and would give Brown money to live on.

The memorandum from the Budget Director suggests candidates for the Comptroller Generalship.

JHR
James Rowe, Jr.

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C.

June 4, 1940.

MEMORANDUM FOR THE PRESIDENT:

Following up our talk yesterday concerning persons who might be considered, in the event of a vacancy, for Comptroller General, may I make these suggestions:

1. Ernest G. Draper, Member of the Federal Reserve Board, formerly Assistant Secretary of Commerce. Mr. Draper has an excellent record as an administrator in private business; he knows governmental methods and procedures; he gets along with people; he has an excellent understanding of the fundamental difficulties at the G.A.O., and undoubtedly would cooperate loyally with the Executive Branch in the operation of the Government.

2. John O. Walker, Director, Resettlement Division, Farm Security Administration. Mr. Walker has proved his ability as an administrator in the Army, in local government, and in the exceedingly difficult task that he has had as a trouble shooting manager in the Farm Security Administration and its predecessor, the Resettlement Administration. He is not widely known to the general public, but his knowledge of government and his outstanding managerial ability will more than compensate for that lack.

3. Herbert Emmerich, about whom I spoke to you yesterday, undoubtedly would be a good man for the position, were it not for two things that, I confess, did not occur to me yesterday. The first is that he assisted the President's Committee on Administrative Management in preparing its report, and actually drafted the sections on the Comptroller General, a fact which would make some of his relationships with the staff of the G.A.O. quite difficult. The second is his relationship as principal assistant to Brownlow, which might, in view of the old Congressional fight over the abolition of the Comptroller General, make it difficult for Emmerich to be confirmed in the Senate.

Of course you know Mr. Draper very well. I am not sure whether or not you know Mr. Walker. Mr. Blandford, who knows both men well, concurs in suggesting these two names.

To sum up, I believe that either of these two men, if put in this strategic position, would enable the Government to function without picayunish interference from the Comptroller General, and at the same time, insure the maintenance of the highest standards of accounting and auditing that are possible under the present defective laws.

Edward A. Tamm

July 1
Drkt

43.2

Bndg. Def- 2.9
600,000 - ~~4~~

Min. Taxes - 2.2
5

Def. 1.7
43.2

Calcl 1.5 Bal 1 45.3
2.3

47.6

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Draft No. 1

[1941]

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Budget Message of the President

Bureau of the
Budget

To the Congress of the United States:

I transmit herewith the Budget of the United States Government for the fiscal year ending June 30, 1941. Through the medium of this Budget I am ^{proposing} ~~preparing~~ for your consideration a Federal program requiring appropriations which total \$8,178,000,000. The corresponding figure for the current fiscal year is \$8,885,000,000.

To those whose concern for one reason or another is focused on the additions and subtractions of Federal finances I wish to report progress with respect to balancing the Federal Budget. To those with broader interest and understanding I wish to point out that I am presenting a Federal program balanced as to national needs and an estimate of expenditures to balance the national economy. The Federal Budget does not operate in a vacuum.

In subsequent tables and supporting schedules proposed appropriations and estimated expenditures are shown in full detail. As you and I know cash expenditures are to be distinguished from appropriations. Previous commitments for loans and grants by PWA will require expenditures this year and next. Apportionments of public roads monies are made in one year and the cash disbursed in another. The contract authorization of this year calls for payment in subsequent years. These are but examples. We are estimating cash disbursements for the fiscal year 1941 at approximately \$8,500,000,000. Our estimate for fiscal year 1940 is \$9,100,000,000.

I know of no better way for you and ^{me}~~I~~ to curb loose talk about cutting expenditures and to expose forensic budget balancing than to keep before the public the principal purpose for which Federal funds are spent. I offer such a summary for the fiscal year 1941, in terms of cash expenditures to meet major national needs.

National Defense	\$1,900,000,000
Unemployment Relief	1,200,000,000
Aid to Agriculture	900,000,000
Public Works and Investments	1,100,000,000
Pension, Retirements and Assistance	1,200,000,000
Interest on the Public Debt	1,100,000,000
Regular operating	<u>1,100,000,000</u>
Total	\$8,500,000,000

In the body of the Budget this program is presented at length and in detail. In this message of transmittal I wish to point out the principal topographic features of the Budget.

National Defense

Under this general heading I am including principally the expenditures for the Departments of War and Navy, exclusive of expenditures for military posts, flood control and river and harbor projects, and yards and docks for the Navy, all of which are included under public works. I have included also the emergency expenditures for War and Navy as well as those for the Coast Guard, the Department of Justice and the Panama Canal.

Initially I prepared the Budget for War and Navy ~~and~~
the general premise of carrying forward into 1941 our program
of gradual strengthening of our national defense. The Congress
in its last session made a special appropriation of ~~\$2,000,000,000~~ ^{\$300,000,000}
for this purpose. Then came the war in Europe and my procla-
mation of September eighth. There followed executive orders
increasing the strength of the regular army, the national
guard, the regular navy, the marine corps, the staff of the
Federal Bureau of Investigation, Department of Justice, ^{and} the
coast guard and authorizing additional facilities required by
the national emergency. For these purposes I have submitted
a 1940 supplemental estimate of \$271,999,523. The 1941
estimate includes under the heading "Emergency National Defense"
a total of \$302,151,361 for projecting these requirements ~~into~~ ^{through}
that year.

These emergency expenditures for national defense have
been segregated so that the Congress and the public may have

a clear picture of the nature and amount of these unusual expenditures.

This segregation should also serve to facilitate the return to a normal defense program when the emergency has passed.

I am confident that the Congress will agree that this is a ^{additional} minimum provision for national security in the light of present-

day world conditions. To the extent that the increases in enlisted strength and the increased purchases of equipment and reserve materials represent additional employment the expenditures have been offset by reductions in other job-producing expenditures.

Unemployment Relief

For the purpose of this summary I have included the activities of the Works Projects Administration, the National Youth Administration, the Civilian Conservation Corps, as well as the grants of the Farm Security Administration. Some of this work has more permanent implications. Nevertheless it

is all directly proportionate to the need for unemployment relief.

In submitting estimates for these agencies I have taken into consideration the current increase in employment and have assumed that it will continue to pick up through 1941. (hope)

While the estimates are appreciably less than those for the current year, I am hopeful that they will prove adequate. Works Projects Administration will be able to provide employment for an average of 1,350,000. The National Youth Administration can assist American youths and the Civilian Conservation Corps will operate camps for more youths. Farm Security Administration will operate on about 75% of its 1940 level. These are all constructive programs and generally have achieved wide public support. If the prospective increase in private employment should not materialize, or if, on the other hand, it should exceed present expectations I will make further recommendations later. X

Aid to Agriculture

Aid to Agriculture has included agriculture adjustment benefits, the surplus removal program, commodity credit operations and parity payments. Despite a gratifying general increase in farm income, agriculture is still not receiving its proper share of the national income. With one exception *not in 1941*, I am, therefore, proposing substantially the same program as for the current year. The exception is the expenditure for parity payments. I have repeatedly recommended special financing for these payments. In the absence of such provision, I am not proposing any appropriation. Substantial expenditures, however, will continue in the fiscal year 1941 from previous appropriations. *(150 left over)*

Public Works and Investments

This broad class of expenditure represents the use of Federal capital for investment in useful public works, for ship construction and for loans largely of aid to agriculture. I have

included for 1941 the public works expenditures of all Federal departments and agencies, the expenditures for the Public Works Administration which continues into 1941, the U.S. Maritime Commission ship construction program and the requirements for loans to be made by such agencies as Farm Credit Administration, and the Farm Security Administration. Certain REA expenditures covered by previous appropriation will carry over into 1941. However, I am proposing to provide the necessary new money for this agency through Reconstruction Finance Corporation financing rather than through direct ~~appropriation~~ appropriation.

While the expenditures for these purposes in 1941 remain large it is to be noted that a large portion of the expenditures consists of loans which are reimbursable. Further, the total includes large expenditures for PWA and REA ^{from} ~~from~~ appropriations previously made and \$149,000,000 for the U.S. Maritime Commission. The expenditure for Federal public works is \$651,000,000.

This latter item of Federal public works should receive special comment. I have indicated above a figure for expenditures which represents in part a carryover from the appropriation of the previous year. A more significant figure is the proposed appropriation of \$498,000,000. This is to be compared with the 1940 appropriation of \$751,000,000. To obtain this relatively low figure the starting of new projects and the purchase of additional land have been rigidly limited. I realize that this program has been put on a minimum basis and that many important works will have to be postponed. Nevertheless, I believe it is justified in the light of the pressing need for additional appropriations for national defense, ~~and by the~~ ~~prospective pickup in private employment~~. This action brings the public works program down to ~~a more manageable basis~~ and conserves our storage of public ~~works~~ at a time when private construction is ~~increasing~~ increasing.

to carry on already authorized projects

marks the goal of \$500,000,000 a year by me

unrecorded previous decisions

Interest on the Public Debt and Regular Operating Expenses

An appreciable portion of the public works expenditures is

These items represent the basic financial requirements of for projects which are in whole or in part self-liquidating.

the government. We are not down to the bed-rock of traditional activities. These expenditures represent the operating cost portion of previous expenditures which is clearly self-supporting and restore to the Treasury this capital which is no longer needed. When this is done we will have a clearer picture of the cost of Federal government.

Pensions, Retirements and Assistance.

This category includes veterans' benefits, grants under the Social Security Act, railroad retirement benefits and federal employee retirement payments. It does not include benefits paid out of the Old Age and Unemployment Trust Funds. This general category affects the individual security and health of millions of citizens. Its growth mainly reflects the development of a substantial portion of the comprehensive social security program initiated in recent years.

Interest on the Public Debt and Regular Operating Expenses:

These items represent the basic financial requirements of the government. We are now down to the bed-rock of traditional activities. These expenditures represent the operating cost of service departments and regulatory commissions. Blue pencil inroads are not easy to make. ^{the face} In ~~fact~~ of large and appealing requests for increases I have held appropriations and estimates of expenditures generally to the 1940 level or below. Where legislation has added new activities I have offset the cost by reductions in old activities. I feel we have made in the last several years important advances along many fronts in the field of public service. Our job now is to hold those gains, consolidate our positions and resurvey the field.

x v x x

~~_____~~

I have carefully checked the individual estimates under these broad categories and I am satisfied that no lower figures can be attained except at the expense of impairing the efficiency with which laws are administered or of working undue hardship on individuals and economic groups. I refuse to accept the responsibility for adopting either alternative.

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Ber. Budget

THE OTHER SIDE OF THE BUDGET

Revenue Estimates

Total revenues, exclusive of miscellaneous receipts that will arise from payments to the Treasury by Government Corporations, are estimated at \$6,150 million. Revenues to apply to expenditures exclusive of appropriations to the Old Age Reserve Fund are estimated at \$5,547 million. Although revenue collections from usual sources for the fiscal year 1941 are estimated at over \$400 million in excess of estimated collections for the fiscal year 1940, the increase is not as large as might have been expected. This is partly owing to the inevitable lag of tax collections behind increasing incomes and also partly, it is feared, to a net loss of revenue arising from the revisions of corporate and individual income taxes, and taxes on capital gains, in 1938.

Return from Government Corporations

At various times in the past as emergencies have arisen, the Federal Government has established credit corporations and has invested substantial amounts in their capital structures. Although these expenditures were non-recurring and extraordinary costs, they have been reflected in the annual budgets as charges against current

receipts and have swollen the deficits of prior years. With the lessening need for loans and the growing surpluses of many of these corporations, it appears that some are now over-capitalized. Currently, in response to Senate Resolution 150, a comprehensive survey and appraisal of assets of government corporations is being carried out. On the basis of preliminary findings, I estimate that it will prove feasible to reduce the capital funds of certain corporations by an aggregate figure of \$700 million, without in any way impeding their operations.

In the case of certain agricultural lending agencies, any funds received from the retirement of stock will be credited to revolving funds in the Treasury and will be available for new subscriptions to stock when, as, and if needed. In these cases payments to the Treasury will appear as credits under certain expenditure items. In other cases, payments will be reflected in miscellaneous receipts.

National Defense Taxes

It is my firm conviction that specific tax legislation should

be enacted to finance the emergency national defense expenditures.

Although these expenditures appear unavoidable, they will not increase the ^{permanent wealth producing capacity} ~~productive capacity~~ of our plant or of our citizens

and I believe that it is the general sense of the community that

they should be currently financed through taxation. I strongly

recommend to the Congress, therefore, that additional taxes be

imposed to yield \$500 million for the ^{fiscal} ~~past calendar~~ year 1941.

This would cover the proposed additional expenditure for the fiscal years 1940 and 1941. In seeking additional sources of revenue,

I recommend that the Congress follow the accepted canon of good taxation of taxing according to ability to pay.

The Deficit

The deficit for fiscal year 1941 is estimated at \$2,210 million as contrasted with \$ million for the fiscal year 1940. It is proposed to meet the deficit partly by additional tax collections, (partly by drawing down cash balances) and partly by borrowing.

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Bu. Budget

The Public Debt

There is no subject on which there is more conscious or unconscious deception than the public debt. People who would never dream of assessing their own position solely in terms of their liabilities do so continually in discussing the Government's position. Those who state baldly that the Government's debt is \$42 billion and stop there, are stating a deceptive half-truth calculated to make our people apprehensive. It would be more honest and more honorable for them to say that while one line in the national budget shows a national debt of \$42 billion, other lines indicate that the Treasury has on hand \$3.5 billion of cash and of gold available for debt redemption, and a \$3.5 billion proprietary interest in Government corporations, which reduces the net debt to \$35 billion. In addition, of course, there are the billions of dollars' worth of durable, tangible assets constructed or purchased by Government which are a real offset to the debt, though never listed as such.

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From June 30, 1933 to June 30, 1940, the public debt of the federal government will have increased by approximately \$20 billion. During this period nearly \$14 billion of federal funds will have gone into recoverable loans and investments and durable improvements. The increase in the national income over 1932 for the year 1939 alone is far in excess of the total increase in the debt for the whole period since 1933. The interest on the public debt in the calendar year 1939 constituted only 1.45 percent of the national income as contrasted with a corresponding percentage of 1.62 percent for the year 1933. The burden of the combined total of public and private debts has greatly decreased. The credit of the federal government has never been higher. Debt, whether individual, corporate or governmental, cannot be judged in vacuo, but must be considered in light of earnings, assets and credit standing. When the increase in the national debt is viewed against the background of what was accomplished by the increase in useful physical assets, and in effective national earning power, and by the strengthening of the

nation's credit and morale, there is no economic ground for concern as to the nation's future.

E The debt accumulated since 1933 represents a far more prudent and productive use of our people's savings than the enormous private debts piled up in the Twenties. The billions that were borrowed for speculation, for foreign loans, for second and third mortgages on overproduced office buildings and hotels, hardly represented the most prudent use of our people's savings. [It is true that isolated private debts can be defaulted without great harm to the general economy. But this is not true when, as in 1933, a large part of our private debt was in danger of default, and the savings of the whole community, as well as the general credit of industry and agriculture, were imperilled.]

F. In considering the growth of the federal debt, it must be borne in mind that in recent years the federal government has had to take over some of the burdens which have heretofore fallen upon our states and municipalities. By 1933 the strain of the

depression upon the finances of local governments had become unbearable. From June 1929 to June 1933, states and municipalities had to increase their net debt by over \$4 Billion and their credit in many cases had approached the breaking point. By 1933 there was an insistent demand that the national government come to the financial aid of local governments. Consequently between June, 1933 and June, 1940 the federal government will have made available for local relief, work relief and local public works the sum of \$17,409,000,000. In addition, during this same period, the federal government increased its grants for public roads by \$1,071,000,000 over the preceding seven years. By reason of these federal expenditures it became possible for the states and municipalities during this period to rehabilitate their credit, and even to reduce slightly their aggregate indebtedness. If they had continued to discharge the responsibilities that were formerly theirs to a degree commensurate with the federal government's effort, the aggregate indebtedness of our states and municipalities would have been increased by not less than \$18,000,000,000 and their taxes

would have been enormously increased.

Last year, in the interests of more accurate and intelligible statements of the financial operations of the Government, I invited the attention of the Congress to the desirability of capitalizing certain capital expenditures of the Government that have proved to be self-liquidating. I renew that recommendation at this time. As before, I would confine this principle to projects that have been completed and are yielding revenues sufficient to defray, with interest, their cost of construction.

As a further move in placing the Government's operations on a more businesslike basis, I believe that many activities of the Government should be made more self-sustaining. For example, I am forced to budget for an increased deficit for the Post Office for the fiscal year 1941. Yet as everybody knows, the Post Office actually carries itself exclusive of the cost of carrying the mail sent out by members of the House and the Senate and by the Government departments.

I have always believed that many facilities made available to our citizens by the Government should be paid for, at least in part, by those who use them. For example, I believe that in the case of parks, national forests, historic monuments, etc., small fees, as low as five or ten cents per person, should be charged to those who enjoy them. In such a way a substantial part of the annual cost of maintenance of roads, trails, forests and grounds would come back to the Treasury and reduce the annual cost of government. Another example is the \$60 or \$70 million the Government spends annually in the maintenance of dredged channels, lighthouses, life saving stations, etc. It would seem reasonable that some portion of these annual expenditures should come back in the form of small fees from the users of our lakes, channels and harbors. I should be glad to have the Congress make a special study of the possibilities along these lines and to make available for such a study material from various departments.

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Bu. Budget

REVIEW OF FISCAL POLICY

The Budget of the United States Government is a statement that reflects in money terms what the government does for the people and what the people do for the government.

In these figures over a course of years are mirrored the changing attitudes of the people towards the growing needs which they expect their government to meet. The relatively low and constant level of expenditures throughout the Twenties accurately reflected the relatively minor role played by Government in those years. The substantial increase in the past decade is a reflection of the degree to which the community, in response to changing economic and international conditions and changing attitudes, has turned to Government to meet its urgent needs. Nowhere are our democratic processes so

faithfully depicted.

In the early Thirties—prior to 1933—fiscal policy was exceedingly simple in theory and extraordinarily disastrous in practice. It consisted in trying to keep expenditures as low as possible in face of shrinking national income. Persistence in this attempt came near to bankrupting both our people and our government.

Following 1933 the fiscal policy of government was more realistically adapted to the needs of the people. All about were idle men, idle factories and idle funds, and yet the people were in desperate need of more goods than they had the purchasing power to acquire. The government deliberately set itself to correct these conditions by borrowing idle funds to put idle men and idle factories to work.

The deliberate use of government funds and of government credit to energize private enterprise—to put purchasing power in the hand of those who needed it and to create a demand for the products of factory and farm—had a profound effect both on

government revenues and private incomes. The national income in four years rose 69 percent, from \$42 billion in 1933 to \$72 billion in 1937, the largest absolute rise for any four-year period in our history, not even excepting the rise during the World War. Tax revenues rose from \$2 billion in the fiscal year 1933 to over \$5 billion in the fiscal year 1937, primarily because the people had more income out of which to pay taxes. The people paid \$3 billion more in taxes but they had nearly ten times more, or \$30 billion, to spend on other things. By the calendar year 1937 excess of government cash outgo over government cash income had dropped to \$331 million.

Unfortunately just at the time when it seemed that the Federal Government would be able safely to balance its budget on the basis of a national income of approximately \$75 billion, maladjustments in the economic system again began to appear and caused a recession in economic activity. The recession was due to a variety of causes stemming in the main from over-optimism which led government to

curtail its net expenditures too abruptly, and business to expand production and raise prices too sharply for consumers' purchasing power to keep pace. A large volume of unsold goods piled up.

If the recession was not to feed on itself and become another depression, the buying power of the people, which constitutes the market for the products of industry and agriculture, had to be maintained. To this end, I recommended a further use of government credit and the Congress acted on my recommendation.

The soundness of this realistic approach to a fiscal policy related to economic need was again strikingly demonstrated. In place of the \$42 billion decline in national income that occurred from 1929 to 1932, the decline from 1937 to 1938 scarcely exceeded \$8 billion. In place of a four-year period of liquidation and deflation, productive activity turned up within nine months. By 1939, in terms of dollars, the national income closely approached, and, in terms of real production and consumption, making allowance for the somewhat lower level of prices, was equal to that of 1937.

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The experience of 1938-39 should remove any doubt as to the effectiveness of a fiscal policy related to economic need. The wise exercise of such a fiscal policy imposes grave responsibility on Government. Government must have the wisdom to use government credit to sustain economic activity in periods of economic recession and the courage to withhold it and retire debt in periods of economic prosperity. And let us not forget that the withholding of government credits for political advantage in time of need is not less reprehensible than its profligate use at any time.

Considerations Underlying the Budget for Fiscal Year 1941.

In approaching the budget for the fiscal year 1941 I have sought, as in the past, to relate fiscal policy to probable economic necessities. As the budget is being prepared we are achieving the highest levels of production and consumption in our history. The extent to which recovery has progressed, and the degree to which speculation and price increases have on the whole been kept in check, have made it possible for us to consider a substantial lessening

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of government expenditures on activities not immediately essential for national defense. On the other hand employment still lags considerably below the levels of 1929. Many of our younger workers have not found employment, and many others have been displaced by the machine. We must not only guard the gains we have made but we must press on to attain full employment which will make possible a higher standard of living for our people. We must, therefore, keep in mind the danger of too drastic or too sudden a curtailment of government support.

Against this background of aims substantially yet not fully attained, I propose in the field of fiscal policy that we steer a middle course. We should count upon a natural increase in receipts from current taxes and a decrease in current expenditures, and we should try to offset the unavoidable increase in expenditures for national defense by special tax receipts, and thus hope to secure, for the overall picture, a gradual tapering off, rather than an abrupt cessation, of the deficit.

In the proposed budget I have tried to interpret the wishes of our people. They want to strengthen our national defenses and are prepared to pay additional taxes for this purpose. They wish to attain, if possible, an overall decrease in expenditures. They would like to see a reduction in the deficit but not of a magnitude that would imperil the progress of recovery.

Federal Administration

Effective execution of the Federal program for the fiscal year 1941 and the prospect of economies to be reflected in the estimates for future years is directly related to the quality of Federal administration. The economies reflected in the 1941 estimates are the result of the cooperative effort of the entire administrative service. Generally we are prepared to move forward on reduced rations. In two important agencies of administration I have recognized a condition of definite undernourishment. I have accordingly provided increases for the Bureau of the Budget and the Civil Service Commission. I believe in each we will be making a modest investment which will pay much larger dividends.

Reorganization has proceeded in accordance with plans 1 and 2. As a result \$11,000,000 of savings ^{already} have been impounded this year and deducted from the base for 1941. Reorganization has also brought the Bureau of the Budget into the Executive

Office. With the additional appropriation our budgetary procedure can be greatly strengthened. We are looking forward to more effective review of estimates. With the help of Congress we can make further progress in improving our accounting and appropriation procedures. This is a necessary prelude to better budgetary control. The Bureau of the Budget is preparing itself to be increasingly helpful in the supplying of information to the Appropriation Committees of Congress.

BF
Bu. Budget

BUDGET MESSAGE

INSERT A

This table presents in a simple form which any layman can understand the principal divisions into which government expenditure falls. I constantly marvel at the glib generalities to the effect that if one has but the will to do so anybody can reduce government expenditures by vast sums sufficient immediately to "balance the budget". It costs nothing to make such statements and they can be decorated to fit into the applause of many audiences.

But it is the old, old story of the man who loves to utter generalities and changes the subject abruptly when he is pinned down to hard facts.

In these headings, for example, I do not believe that the majority of the people in this country want to reduce the budgeted estimate of \$1,900,000,000 for national defense. This is an increase, of course, over the current year but it is far less than many experts on national defense think should be spent, though it is in my judgment a sufficient amount for the coming year.

I do not believe that the majority of people in this country want to see the work relief program for the coming year reduced below \$1,200,000,000. This sum, in itself, covering the

activities of the Works Progress Administration, the National Youth Administration, the Civilian Conservation Corps and a part of the Farm Security Administration is large -- perhaps too large -- a reduction of current expenditures.

I do not believe that the majority of people feel that the assistance to agriculture should be reduced below the figure of \$900,000,000 because this figure, in itself a great reduction over the current year, will be barely sufficient to carry out soil protection, surplus removal, and commodity credit operations.

I do not believe that the majority of people think the item for public works and investments of \$1,100,000,000 can be further reduced because this amount contains practically no money for new projects in any part of the country.

I do not believe that the majority of people feel that the government can possibly reduce, by any substantial sum, the figure of \$1,200,000,000 for pensions, retirements, and assistance of many kinds, including public health work and aid for dependent children and the blind.

The item of \$1,100,000,000 for interest on the public debt cannot, of course, be reduced at all and we should remember that the rate of interest paid by the government is today lower than at any time in all our history.

All of these items amount to estimated expenditures of \$7,400,000,000 and there remains only one other item -- the relatively small one -- of \$1,100,000,000 for the operating costs of the regular departments of the government. These are down to the bedrock of the legal activities and functions ordered by the Congress, by law. If further savings are to be made in these operating costs, the Congress will have to direct by statute the elimination of many functions and even if they should do so, the total amount saved in this budget could only be a small percentage of the total.

Therefore, those who call for further cuts should have the courage and the honesty to specify where they should be made.

PSF. Bureau of the Budget
THE WHITE HOUSE
WASHINGTON

October 17, 1940.

PERSONAL

MEMORANDUM FOR

DIRECTOR, BUREAU OF THE BUDGET:

Do please stop biting into my
fund. It is disappearing just as
fast by this nibbling process as if
we were doing it by big chunks.

F. D. R.

file personal

PSF Bureau of the Budget

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C.

October 21, 1940

MEMORANDUM TO THE PRESIDENT:

This is in response to your inquiry concerning the political situation in Michigan. I have no way of evaluating the points listed below. In addition to these factors, I am informed that the campaign has been very quiet, and that it would probably be advisable to send some outsiders into Michigan.

(1) The national ticket is not getting as much play as it might on billboards, etc.

(2) Third term argument is being used with some effect in press and on billboards, accompanied by reference to the Constitution and George Washington. No effective answer is made; e.g., Michigan went for Theodore Roosevelt in 1912, on a third term candidacy.

(3) Unpleasant, unfriendly reception accorded Willkie at factories under C. I. O. influence has revived memories of 1938 strikes and radical activities. In Lansing, Willkie avoided C. I. O. plants because of this hostile attitude.

(4) Fruit throwing has evoked a reaction sympathetic to Willkie.

(5) The purge of certain elements in the Republican Party Convention is considered beneficial to the Republican cause and its gubernatorial candidate.

(6) Many persons believe there is an understanding between the McKay and Van Wagoner forces to help Vandenberg and Van Wagoner. Comstock is supporting Willkie and Van Wagoner. Democratic State Chairman has handled legal matters for utility interests.

(7) It is said that the Democratic cause was not helped any by a statement (by Charles Hemans, Democratic Regent) that the Grand Jury was going to indict a number of Republicans. I am told the Grand Jury will not report until after the election. This statement, however, made it look like a political inquiry.

—
*Full
Personal*

OFFICE OF
THE DIRECTOR

PSF Bureau of the Budget

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

November 25, 1940.

MEMORANDUM FOR THE PRESIDENT:

I have noticed Doughton's statement with respect to the financing of the regular Budget versus National Defense and we have started to do some work along the line of your suggestion for classifying the Budget.

While we do not have all the figures carefully assembled I wish to call your attention to the fact that it appears rather clear that the current conservative estimate of revenue for 1942 will cover the regular Budget and no small part of National Defense.

Pending more detailed study of the subject I wish to call this to your attention because if it is true Doughton's statement is without point. In other words, I think we can do very much better than Doughton indicates and perhaps much better than your statement to me would indicate if I understood you correctly.

11

Budget Folder
2-41

THE WHITE HOUSE
WASHINGTON

PSK

PRIVATE AND
~~CONFIDENTIAL~~

Hyde Park, N. Y.,
July 1, 1941.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

What can I tell Mr. Flynn
about this? Please return the
enclosures with your reply.

F. D. R.

Memorandum to the President
from Hon. Edward J. Flynn, dated
June 30, 1941, recommending that
that the various Departments
should put in the category of
"policy making positions" all
those who make \$4,500 and over.

DECLASSIFIED
By Deputy Archivist of the U.S.
By W. J. Stewart Date JAN 19 1973

THE WHITE HOUSE
WASHINGTON

October 29, 1942.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

In regard to armed forces, what would you think of the following:

1. Average enlisted strength of Army for fiscal year 1944 -- 6,500,000.

Average enlisted strength of Navy for fiscal year 1944 -- 1,500,000.

Average enlisted strength of Marine Corps for fiscal year 1944 -- 310,000.

Average enlisted strength of Coast Guard for fiscal year 1944 -- 160,000.

2. In regard to allocation of material and equipment and for planning purposes, I would include the necessary money for personnel about 10% above the above figures. Where material and equipment has

THE WHITE HOUSE
WASHINGTON

-2-

to be ordered well in advance, we should figure on not the average for the fiscal year 1944 but for the highest point, which would be at the end of the fiscal year 1944.

This is a rule of thumb but I think you will find it will work out satisfactorily.

F. D. R.

Bf Budget folder 2-42
SECRET

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

OCT 27 1942

MEMORANDUM FOR THE PRESIDENT

It has been determined, with your approval, that Army and Navy estimates for the fiscal year 1944 will not be submitted for consideration until about March 15, 1943. For Budget purposes, however, it will be necessary to have by December 1, 1942, for inclusion in the regular Budget, total estimated figures of appropriations and expenditures of the War and Navy Departments for the fiscal year 1944. The basis of these estimates is the average number of men who will be in the armed forces during that fiscal year and a determination of the numbers to be used in the calculations is therefore essential at the earliest possible date.

Insofar as I have been advised, you have approved to date enlisted strengths for the armed forces as follows: Army, 5,000,000 by December 31, 1942; Navy, 1,000,000 by June 30, 1943; Marine Corps, 285,000 by June 30, 1943; and Coast Guard, 150,000 by February 28, 1943.

By endorsement on memorandum from Admiral Leahy as of September 30, 1942, you have approved only for the allocation of material and equipment and for planning purposes for personnel, enlisted strengths as follows: Army, 7,533,000; Navy, 2,000,000; Marine Corps, 334,500; Coast Guard, 164,560. It is not clear from Admiral Leahy's memorandum or your endorsement whether these numbers represent proposed strengths at the beginning of the calendar year 1943, at the end of that year, or an average for the year.

In order that we may have a basis for the preparation of estimates for the 1944 Budget, what numbers for the average enlisted strength for the fiscal year 1944 and the strength to be reached by June 30, 1944 shall we use for the Army, Navy, Marine Corps, and Coast Guard?

Wm. L. French
Director

THE WHITE HOUSE

WASHINGTON

November 10, 1942

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

Will you speak to me about
this?

F. D. R.

Enclosure

Memorandum for the President from Hon. Harold D. Smith, Director, Bureau of the Budget, 11/9/42, in re implications of the size of the armed forces indicated in the President's recent memorandum to Mr. Smith establishing numbers of enlisted men for the Army, Navy, Marine Corps, and Coast Guard as a basis for the Army and Navy budgets for the fiscal year 1944. Copy of memorandum retained for our files.

NOV 9 1942

MEMORANDUM FOR THE PRESIDENT

I have considered the implications of the size of the armed forces indicated in your recent memorandum to me establishing numbers of enlisted men for the Army, Navy, Marine Corps, and Coast Guard as a basis for the Army and Navy budgets for the fiscal year 1944. It is impossible to appraise precisely the net contribution to the war effort of the United Nations or the effect on our own economy of an armed force this size. However, as we move nearer to the realities of a total war, it becomes increasingly evident that this one will tax to the utmost our own resources of manpower, materials, and productive capacity. As you know, the program which we have already committed ourselves to carry out is unprecedented in size. We are simultaneously undertaking to (1) recruit, train, and equip the largest Army in our history; (2) recruit, construct, train, and operate the largest Navy in the world; (3) construct, train, and operate the largest merchant marine in the world; (4) serve as the Arsenal of Democracy; and (5) maintain our civilian economy on a scale which will permit the accomplishment of these four objectives.

I am convinced that all of these objectives can be obtained. However, in order to be assured that we are developing the maximum contribution that this country is capable of toward winning the war, we must evaluate each of these items collectively as well as individually. This means that we must consider all of these objectives whenever a major decision is to be made in connection with any one of them. We will develop our maximum strength and striking power only when the most effective balance between these objectives has been reached.

I believe it is clear that our programs for the Army, the Navy, the Maritime Commission, and the Lend-Lease Administration, which are the agencies charged respectively with the first four of our main lines of endeavor, must be in balance with each other and be within that share of civilian effort which can safely be devoted to the war. Until this is accomplished and clearly understood, reports on the progress of the war effort will be confusing and misleading. Failure to meet a schedule is only serious if the requirements of that schedule are essential to meet other schedules. To take an extreme example, if a production schedule for guns, tanks, or some other item is 200 percent of the number which can be used, then a failure to meet the schedule by 25 percent will still result in a production

of 50 percent in excess of needs, and the real cause for alarm would not be the failure to meet the schedule but the actual amount of production.

While there are limits to our resources of manpower, materials, and productive ability and our ability to transport supplies and equipment, these limits present no difficulty as long as the requirements of the armed forces, shipbuilding, and lend-lease can be met by reducing the civilian economy. However, our civilian economy should not be reduced below the lowest level consistent with the maximum output of munitions. The requirements, as set forth in the first four objectives, are now so large as to draw upon the civilian economy to such an extent that any major change in any one of them must necessarily affect the others.

For example, the proposed strength for the armed forces immediately raises questions which may at first seem to be extraneous but which must be answered. In passing, it must be pointed out that some of these questions are outside the province of the Joint Chiefs of Staff and matters about which they could not be expected to be familiar. Any increase in the armed strength must clearly be taken from the supply of men available for military and naval production, shipbuilding, lend-lease production, and civilian supply. The manpower so lost to the armed forces may be replaced to a degree by utilizing women, retired personnel, and youth; but to whatever extent it is not completely and immediately replaced in kind, there must be a reduction in output. But this is not the whole picture. The increases in the armed forces require additional equipment, food, and other supplies and additional marine tonnage over previously scheduled requirements if they are to be transported to and maintained on the fighting fronts; and, therefore, it is not only necessary that they be replaced in production but that additional personnel be found to provide additional production for their support. Unless our economy can produce the equipment needed for their training and subsequent use in actual warfare, the shipping required to transport them and their equipment to the fighting zones, the navy required to support their movement, the food and other supplies which they will require, and do these things without lessening the flow of goods to our Allies and without breaking down our home front, then the increase in the armed forces will have been useless.

Similarly, an increase in the merchant marine shipbuilding program would be possible only at the expense of other programs, primarily naval shipbuilding. The airplane program is limited not alone by manpower, raw materials, and productive capacity, but in its effectiveness in the war effort by our ability to train pilots and by our ability to transport planes, pilots, parts, and fuel to distant points. The effectiveness of our tank program is similarly limited by our ability to transport the finished tanks to the war zones,

and this involves shipbuilding. If the ships are provided, they must, in turn, be manned, and this reduces the manpower available to the armed forces.

We all remember the nursery jingle that for the want of a nail the battle was lost. What I am attempting to bring out in the foregoing discussion is the application of that principle to our war effort and the consequent necessity of balancing the accomplishment of our objectives. Trained men are a waste if they cannot be equipped, transported to the battle zones, and maintained in fighting trim. Tanks and aircraft are a waste unless they can be placed where they can fight and be supported with fuel and ammunition. Transports and cargo vessels are a waste unless troops and material are available to be transported.

Under our form of government, the President is the only one who can decide the demands of those in charge of various segments of the war effort, each of whom will tend to accentuate the importance of his particular contribution, and no one wants to be in a position where he might be pointed out as failing in his assigned task. Yet the success of the whole effort can be endangered by overemphasis on some one feature. If we try to maintain our civilian economy on a business-as-usual basis, if we place too many men in the armed forces, if we produce vessels, planes, ammunition, and other equipment which cannot be used, if we produce for lend-lease purposes more than we can ship, then we will have defeated our purpose and endangered the entire war effort.

You should know, when you are called upon to make a decision on a major issue, that manpower and production plans have been coordinated and balanced with Army and Navy requirements and that these, in turn, have been fitted into the war pattern we are developing with our Allies and that our plans are within the limits of our resources. I believe that you should have directly responsible to you a staff of key individuals, military and civilian, with no operating responsibilities, to assist you in evaluating problems which come before you that relate to the war effort. Such a staff, after weighing and balancing the many interrelated factors, would provide you with briefs of alternative solutions in order that you might act promptly and directly, unhampered by the need to clear with several individuals and agencies. It would be the responsibility of such a staff to bring to your attention all of the major elements that might be affected by your decision and an evaluation of these effects.

I should like to discuss this matter further with you.

(Signed) HAROLD D. SMITH
Director

(1319)

hm

THE WHITE HOUSE
WASHINGTON

November 19, 1942.

that the best refuge during this war
MEMORANDUM FOR Job. It will not
hurt morale to put into the service
THE DIRECTOR OF THE BUDGET

Please speak to me about yours of November 18th. The simple fact is that sometimes a large dose of castor oil is necessary for a very slight cold. We have in the Government an enormous number of men who ought to be with the fighting forces. The only way to get at this problem is to reconsider the whole matter of exemptions from active military or naval service.

Think over this one: I will make you a good sized bet that in the hundreds of Government office people, young men without a lot of children are running mimeograph machines or blue-printing machines where the work could be done just as well by women or older men. That is just one example of dozens of cases which must be disclosed. The fact remains that it is being said by thousands throughout the country

THE WHITE HOUSE
WASHINGTON

-2-

that the best refuge during this war
is a Government job. It will not
hurt morale to put into the service
men who ought to be in the service.

F. D. R.

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C.

November 18, 1942

Personal and Confidential

MEMORANDUM FOR THE PRESIDENT:

I dislike to write you a note in this vein, but I know no other way of getting the issue immediately before you. After reading your release on deferment yesterday, I confess that I went home last night literally mumbling, I was so dumfounded.

After months of struggle with Civil Service and Manpower, we finally developed a procedure and a deferment policy for the Government. This is one of many things we have tried to do without taking your time. This morning the situation is complete chaos, and that is not too extravagant a word.

On the face of it, the release seems to deny - which I know you did not intend - the whole basis of occupational deferment. It seems to deny, too, the importance of civilian government. I am sure that you do not want the military to run this country. Yet, the effect may be just that, if we must attempt to maintain a Federal Service composed of inexperienced, untrained, older persons. As a result of the dilution which has already occurred with the expansion of the Service, it is most important that we retain experienced personnel. I can cite innumerable instances where in this office we have been able to be of great service to the military because we are civilians and, as such, can cut through the military hierarchy. The person who drafted this release - and as near as I can find, cleared it with no one who has really been working with this problem - could not possibly have had any clear view of what he was doing. I state that categorically and unequivocally.

While this is somewhat beside the point at issue, I may say also that I know many persons who have worked in the civilian government with such a sense of defeat that they are seeking refuge in the military services, where they take orders and are free from the impact of much of the interdepartmental conflict. Their point of view seems to be that they would prefer to face machine guns rather than be destroyed by degrees.

In short, the morale in the civil service, with all of the sniping against "bureaucracy" that is going on, is as low

- 2 -

as a snake's belly. I think we need to do something fast to recover morale, rather than do anything that would lower it further. I am in the position of insisting on clearance between the Departments in matters of mutual interest. We struggle to get agreement on various issues, Executive Orders, and so forth. Yet, as between the White House staff and the Executive Office staff, we seem to have about the worst possible situation on clearance.

I do not wish this memorandum to be a matter of record. If you will tear it up, I will destroy the carbon. Nevertheless, it comes from the bottom of my heart.

Handwritten signature
Director

(149)

hm

PSF

*Budget folder
2-42*

THE WHITE HOUSE
WASHINGTON

November 19, 1942.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

Please talk with me about a suggestion that the State Department is trying to horn in on Milo Perkins' work -- trying to set up a similar organization.

Please also speak with me about the thought of putting BEW under the State Department when peace comes, but not before.

"F.D.R."

F. D. R.

No papers accompanied the original of this memorandum to the Director of the Budget.

Bureau of the Budget PSF
EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL RESOURCES PLANNING BOARD
WASHINGTON, D. C.

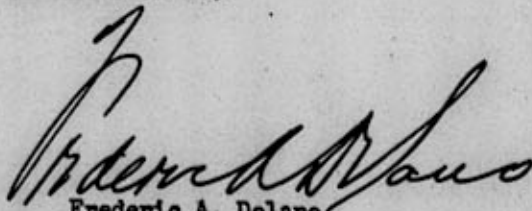
DEC 16 1942

The President,
The White House.

My dear Mr. President:

We take pleasure in transmitting herewith the report, "Public Works and Rural Land Use". It is not desired that this be transmitted to the Congress, but, because of some public interest in this subject, we would like to release the report on or after December 20. If this meets with your approval, we shall arrange the releasing procedure with your secretaries.

Sincerely yours,


Frederic A. Delano
Chairman

Att.

PSF: Budget Bu. ~~Handwritten~~ folder
2-43

file
penn

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

FEB 8 1943

MEMORANDUM FOR THE PRESIDENT

Since our recent discussion about the War Production Board, control of several industry divisions has been transferred from Program Vice Chairman Eberstadt to Production Vice Chairman Wilson. Mr. Wilson feels it is necessary for him to have control of more divisions to fulfill his responsibilities.

In any case, however, these transfers of certain divisions do not resolve the fundamental issue: Should production programs be determined by the scheduling decisions of Mr. Wilson or by the materials allocations decisions of Mr. Eberstadt? Nor do they resolve the lack of unity, vigor, and definite policy by WPB as a whole.

The realignment enables Mr. Wilson better to perform his tasks, yet it creates new difficulties in that the control of closely related operations are divided between two strong personalities lacking in mutual confidence. Feelings are running high in WPB and the morale of the organization is depressed.

The transfer of divisions back and forth within WPB can not, in my opinion, solve present difficulties.

Handwritten signature
D. M. ...

PSF Budget folder

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

OFFICE OF
THE DIRECTOR

File
February 19, 1943

PERSONAL AND ~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT:

This memorandum is in the nature of a progress report on the War Production Board.

Nelson's action in releasing Eberstadt and unifying WPB's role in the production picture under the direction of Charles Wilson has had most satisfactory results. For the first time in a year, we have the opportunity to get a clean-cut organization and administration of WPB. The Bureau is already at work with the WPB to effect needed changes. Preliminary discussions indicate that duplicating functions within the organization can be eliminated with great saving in personnel. *I hope!*

There is only one disturbing note to report. Washington is full of stories that Baruch is to succeed Nelson. It seems to me that at this particular time any further changes in WPB would be unwise. Nelson's removal in favor of anyone other than Wilson would indicate that he had been removed because of his dismissal of Eberstadt.

It is necessary that undivided attention be given to the reorganization of WPB right now for the reason that the estimate for 1944 must be prepared within the next 30 days. Any changes which will result in a loss of time will seriously handicap WPB in making an adequate presentation of its needs to the Congress.

Charles Wilson
Director

(935)

BF

H. D. Smith folder

from Bureau of the Budget

THE WHITE HOUSE

WASHINGTON

COPY - Longhand memo on the
President's handwriting sent to
Director Smith 4/10/43

"H. D. S.

\$1,000,000 new well for Alaska.

F. D. R."

Budget folder 2-43
THE WHITE HOUSE
WASHINGTON *PSF*

July 3, 1943.

MEMORANDUM FOR
THE DIRECTOR OF THE BUDGET

Please take this up in great confidence with the Secretary of State and, if he and Mr. Byrnes and you agree, you may prepare the papers and I will then call in the Vice President and Secretary Jones.

F. D. R.

Memorandum to the President from the Director of the Budget, dated Feb. 6, 1943, re Unification of Our International Economic Operations, together with memo of recommendations from Judge Rosenman, dated March 18, 1943, and letter from Director Byrnes with recommendations, dated July 1, 1943.

PSF: Budget Bureau
[Signature]

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

OFFICE OF
THE DIRECTOR

*file
personal*

September 29, 1939.

MEMORANDUM TO THE PRESIDENT:

Mr. Brownlow asks me to tell you that agreeable to your suggestion he has seen Senator Norris and has told the Senator that a certain matter is in the ice-box and will not be taken out until after further talks with the Senator. The Senator was much pleased.

[Signature]
Director.

Harold D. Smith

PS F: Budget & Bign.

December 7, 1939.

Harold Smith
for

Memorandum for Director of the Budget-Harold Smith
from the President, asking him to speak to him about the
enclosed memorandum from Louis Johnson regarding funds
necessary to be included in the budget for a well balanced
program of National Defense.

See: War Department folder-Raw File-Drawer 4-1939

*file
Confidential*

*Budget Folder
242*

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

WASHINGTON, D. C.

JUN 1 1942

MEMORANDUM FOR THE PRESIDENT:

We have been deferring action for several weeks on the 1943 appropriation requests of the several agencies of the Government dealing with war information in anticipation of your approval of the Executive Order consolidating several of such agencies. Since the time for presentation of these estimates to Congress is now growing short, I should like to bring to your attention several of the problems raised by the estimates of these agencies which in many cases are carrying on parallel activities. The estimates involved are:

(1) Division of Information	\$ 5,424,773
(2) Office of Facts and Figures	4,345,800
(3) Office of Civilian Defense	1,000,000
(4) Coordinator of Information	20,000,000
(5) Coordinator of Inter-American Affairs	11,000,000

I have wished to avoid transmitting to Congress estimates of this character in view of the obvious duplication of functions and conflict of information policies and objectives which are involved in these budget requests. Some of the apparent weaknesses inherent in these estimates and basic issues which Congress will undoubtedly raise are:

- (1) Taken together they represent a wasteful use of media, particularly in the field of radio. There is still no authoritative and over-all policy with reference to Government use of radio facilities. Three separate domestic and two foreign programs are proposed by the estimates. Thus OFF requests funds for a daily radio program on war activities; similarly, the Division of Information requests \$436,000 for a weekly radio program to report on the war program. The Coordinator of Information proposes \$8,300,000 for short-wave broadcasts and Nelson Rockefeller has a similar program for South America. It seems to me that all of these radio programs must be presented to the Congress as parts of a unified whole rather than as unrelated segments.
- (2) Likewise in the field of movies, all of the above agencies are planning their own programs with little relationship to the others. Thus the Division of Information proposes a total of 38 movie releases for next year covering a wide variety of subjects. OCD has a program involving 27 movies, many of which

directly overlap with those of the Division of Information in such fields as rationing and salvage programs. Likewise in the foreign field, Nelson Rockefeller has been allowed \$2,600,000 and OOI requests \$1,053,000 for the production of shorts, news reels and feature pictures, which will be released not only in foreign countries but in the United States as well.

- (3) All of the estimates entail a blizzard of news releases, news pictures, and special subjects. Thus the CIAA now has a picture magazine "Enguardia" for distribution in Latin America and the Coordinator of Information proposes a similar magazine for distribution in the rest of the world. All of the offices are planning elaborate poster campaigns. Many other evidences of direct duplication could be cited.
- (4) In the field of intelligence, OFF requests \$2,000,000 for the purpose of keeping in touch with public opinion in this country and has ignored the existing facilities of the Office of Government Reports and similar agencies. OFF also proposes to keep in touch with foreign propaganda, thus duplicating the fields already covered by OOI and CIAA.

The result of submitting these estimates to Congress for separate appropriations would be to continue the present chaotic war information situation. I don't believe it advisable to give Congress the opportunity to raise the storm which would inevitably follow the submittal of these estimates which so obviously indicate a lack of integrated policy.

Handwritten signature
 Director

(1786)

Budget folder
2-43

THE WHITE HOUSE
WASHINGTON

September 21, 1943

MEMORANDUM FOR

HON. JAMES F. BYRNES:

This goes with the other
recommendation I sent you.

F.D.R.

Memorandum for the President from Hon. Harold
Smith, Director, Bureau of the Budget, 9/16/43,
in re foreign economic set-up. Copy of
memorandum retained for our files.

SEP 16 1943

MEMORANDUM FOR THE PRESIDENT

The situation in our foreign economic set-up has gotten so bad that great harm is being done to the war and to our national prestige.. Bureau staff members, who have been following the work of the State Department and the foreign economic agencies for months, come back every day now with new evidence of bogging-down, confusion, and despair. The fact that every man and his uncle is peddling reorganization plans around the town has tended to demoralize agency personnel and generate more confusion.

What is more, we are presenting the world with a spectacle of administrative incompetence in the one area of civilian affairs in which our leadership is most needed and expected.

I repeat all of this because I am convinced that only two courses of action are open, either: (1) to consolidate OLLA, OEW, and OFFERO into a single agency, or (2) to remove from civilian agencies all responsibility with respect to liberated areas leaving the Army unfettered for the complete job. I know that the latter course is contrary to our policy as reiterated in your letters of June 3 to Secretaries Stimson and Hull, and I too believe it most undesirable policy. Yet failure to consolidate will end up in the military continuing to take over by default, with all the attendant confusion and controversy that that entails. A clear-cut decision is imperative.

The present time appears ripe for consolidation. Everyone will not be pleased, but in my opinion, most of the principals involved will utter sighs of relief should you order a merger. I should like to discuss this with you.

(Signed) HAROLD D. SMITH

Director

Budget Folder

May 20, 1941.

Dear Harold:-

I have your confidential memorandum about Lubin and, as you have requested, I have destroyed it.

I think you are under a misunderstanding about Lubin because he is not to act as a liaison or a coordinating person in any way. He is going to do some purely personal statistical work for me. I, of course, have known Lubin for many years and have great confidence in his ability and integrity.

I appreciate your thoughtfulness in writing me as frankly as you did, and I hope I have relieved your mind of any misconception you may have had of his work here.

Always sincerely,

Honorable Harold D. Smith,
Director of the Budget,
Washington, D. C.

(2135)

hms

Budget Folder
2-43

PSF

MEMORANDUM FOR THE FILES:

Memorandum for the President, from Hon. Harold D. Smith, Director, Bureau of the Budget, 11/10/43, in re Troop Bases for All Services for 1944, marked "Secret", and on which is notation "O.K. FDR", secret memorandum "Total Active Duty Military Personnel of the Armed Forces Actual on June 30, 1943 and Estimated to June 30, 1945", secret memorandum for the President from Admiral William D. Leahy, 11/9/43, in re Troop Bases for All Service for 1944, on which is notation "O.K. FDR", returned to Hon. Harold D. Smith, Director, Bureau of the Budget.

11/13/43

hms

(Note - On the memorandum "Total Active Duty Military Personnel of the Armed Forces Actual on June 30, 1943 and Estimated to June 30, 1945", the President changed the figures on "Est. June 30, 1945" from 3,554,038 for the Navy, to 3,000,000, and of the Marine Corps from 547,000 to 450,000.)

THE WHITE HOUSE
WASHINGTON

November 10, 1943.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET:

What were the previous and
present estimates? Please let me know
by tomorrow morning.

F.D.R.

Secret memo Nov. 9 from Admiral Leahy
re: Troop bases for all services for 1944

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By Deputy Archivist of the U.S.
By W. J. Stewart Date JAN 19 1973

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2-43

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

file

DEC 8 1943

MEMORANDUM FOR THE PRESIDENT

For some time I have felt that the Bureau of the Budget could be more effective if it were better informed concerning actual conditions in theatres of operation. Despite staff limitations, I believe we have done a fairly good job of field inspection in continental United States. However, aside from maintaining an observer in London and conducting a field investigation of economic operations in North Africa, we have been almost totally without facilities for obtaining first-hand knowledge of conditions in the various theatres. I feel that such knowledge would enable us to do much better work on the 1945 War Agencies' budget, to have a sounder basis for giving advice upon war and post-war legislation, and to be of greater assistance to the War and Navy Departments, especially.

Accordingly, with your approval, I plan to have two members of the staff of the Bureau of the Budget visit the major theatres, covering substantially the same ground as that covered by the Senate Committee. The men making the trip will be Lt. Col. D. L. Robinson, Jr., who is detailed in charge of the unit that handles War Department estimates, and Mr. L. W. Hoelscher, assistant chief of our Division of Administrative Management.

Harold G. Smith
Director

(2322)

PSF Budget folder
2-44

**THE WHITE HOUSE
WASHINGTON**

January 5, 1944.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET:

I think Henry Morgenthau, Jr. is right, and that I agree with him. Please speak to me about this before anything like what he says goes into print.

F.D.R.

Transmitting copy of letter which the President received from the Secretary of the Treasury, 1/5/44, in re proposed Budget Message. Original letter retained for our files.

THE SECRETARY OF THE TREASURY
WASHINGTON

January 5, 1944

My dear Mr. President:

The Bureau of the Budget has submitted to the Treasury its first draft of the proposed Budget Message which, I understand, you contemplate sending to Congress the middle of next week. In this draft of the Message there is a recommendation that Congress provide legislation which would inaugurate a program of compulsory savings.

You and I have for some time been publicly opposed to such a program. I am still opposed to it and so far as I know you are also. I believe that we have demonstrated beyond doubt our ability to raise the necessary funds with which to finance the war through voluntary means.

On the assumption that you are still in favor of the voluntary method of raising funds, I would appreciate it if you will advise the Director of the Bureau of the Budget to this effect. I know that you appreciate the importance of this matter in view of the Fourth War Loan Drive which will commence on January 18.

Faithfully yours,

Henry M. Thaw

The President,
The White House.



file

March 30, 1944.

The President directed me to telephone to the Director of the Budget and tell him that he was sorry he could not see him just now and suggest to him that he send this information to the President in writing. This I have done.

G. G. T.

Budget folder 2-44
PSF

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C. (25)

OFFICE OF
THE DIRECTOR

March 29, 1944

MEMORANDUM FOR THE PRESIDENT

On account of the delicate administrative balance which Joe Eastman rather successfully maintained between ICC and ODT and because his death creates two vacancies - the filling of either one of which presents some touchy administrative problems - I would like very much to have the opportunity of talking over the situation with you before you take action.

I make this suggestion because you may not have from other sources the information I have in mind, and because, without troubling you, I have during the past year helped, in at least a small way, to keep a small controversy from developing into one of proportions.

Wm. A. R. Smith
Director

PSF: Budget Bureau ~~Case 11-8~~

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C. (25)

OFFICE OF
THE DIRECTOR

May 2, 1944

file
Personal and Confidential

MEMORANDUM FOR THE PRESIDENT

If I were just a citizen of this country with no official responsibility in the Government and if the President of the United States were to ask my advice in the matter, I would have a suggestion with respect to filling the position of Secretary of the Navy.

While I am not in the hypothetical position mentioned above, I do know something of the problem which the President must face in choosing Republicans for the Cabinet. So I am prompted to suggest that you might consider as first choice a man whose name begins with "W" and as second choice one whose name begins with "S" - and the latter name is not Smith.

Edward P. Smith
Director

PSF; Budget folder
2-44

December 2, 1944.

Dear Harold:-

It is only now that I have got down (or rather I should say up) to your letter of November nineteenth. Every once in a while it is good to realize that I am Commander-in-Chief. Your case is an example.

I would no more accept your resignation than fly by jumping off a roof. You are essentially persona grata and doing a grand job. If you talk any more about resigning I will not. A Marine Guard from Quantico will be stationed at your side during every minute of every twenty-four hours. Enough said!

I will have a little more time after January first and I do want to talk with you some more about the organization of the Executive Office. That is really a good idea on your part -- though the other one is bum.

Always sincerely,

"F.D.R."

Honorable Harold D. Smith,
Director of the Budget
Washington, D. C.

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C. (25)

Personal and Confidential

November 9, 1944

My dear Mr. President:

I am sensitive to the burdens of the Presidency at any time and I am particularly conscious of the load that the President must carry during war. Therefore I am reluctant to congratulate you upon your re-election, but I feel strongly that the people of the country are to be congratulated upon their decision. All along I believed that the decision was of tremendous importance not only to this country but to the whole world, and its importance increased in my mind as the campaign went on. Now the decision is overwhelmingly made. And it is at this time that I want to reaffirm my sincere loyalty to you and my great confidence in your leadership.

In my judgment it is very important to the country, because it is essential to the full success of your administration during the next four years, that you realign top personnel. None of us can be a judge of his own merits although we may be critical of others. Much can and should be done to improve Federal administration and thus increase the confidence of the people in the effectiveness of their democratic government.

One critical need is a thorough reexamination of the Executive Office of the President. For several years you have not been able to give this matter careful consideration because of the many other pressing problems before you. Now, however, the conflicting delegations and assumptions of authority are compounding trouble for you. The prestige of both the White House and the Executive Office, in their relations with the operating agencies, is involved. The agencies complain increasingly and sometimes use Executive Office fumbling as an excuse for going their own way, thus in part creating the atmosphere of disunity about which there is complaint. Central executive direction is not only important during the war but will be more important than ever before in the postwar period when the Government will be called upon to solve pressing domestic problems.

I assume that every top official in the Executive Office is as reluctant as I am about bringing these matters to your attention for fear that in doing so we may disparage in some way our fellow-workers. There are times, however, when organization puts an unnecessary strain on personnel. I believe that history will show that your greatest contribution to Federal administration was the conception and establishment of the Executive Office of the President. The great contribution which can be made during the next four years is to organize that Office in such a way that it will be an effective instrument of management.

- 2 -

Because I feel that every top-ranking Presidential appointee should submit his resignation at this time so that your hands will be perfectly free to make new choices and in order to clear the way for reorganization of the Executive Office, I herewith submit my resignation to be accepted at your pleasure.

Sincerely yours,

Donald D. Smith
Director

The President

The White House

4363

Harold D. Smith folder

THE WHITE HOUSE
WASHINGTON

PSF


April 9, 1945.

MEMORANDUM FOR
THE DIRECTOR OF THE BUDGET

Please treat this memo from Mr. Byrnes as secret. I wish you would have a talk with him as quickly as possible and I will take it up when I get back. He and you know more about it than any other people in Washington.

F. D. R.

Memo of 4/8/45 for the President from Hon. James F. Byrnes, and memo of 3/14/45 from Hon. Harold D. Smith, attaching copy of ltr of 3/3/45 from Sen. Robert F. Wagner, re planning for 60 million postwar jobs; copy of Second Report of the Director of War Mobilization and Reconversion encl.

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By Deputy Archivist of the U.S.

By W. J. Stewart Date JAN 19 1973

PRESIDENT'S SECRETARY'S FILE
Subject File
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