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Part III

#12

Address of the Secretary of the Treasury, to be Delivered before the Academy of Political Science, at the Hotel Astor, New York City, Wednesday Evening, November 10, 1937

I am glad to accept the invitation of the Academy of Political Science to discuss before its members assembled here tonight the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was unbelievably costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government spent thirty-one billion dollars and sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war we bombed no cities; we

machine-gunned no trenches; we killed no human beings. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was superbly supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that certain of our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of a serious business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago. Many measures are required for their solution. One of these measures in the present juncture is a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This situation stands in sharp contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933. It also stands in contrast to the unhealthy excesses of 1929.

The basic need today is to foster the application of the driving force of private capital to the existing favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

In this connection, I should like to point out that the underlying technical conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb taxpayers' funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are again utilizing their credit resources for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes.

. . . .

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

We wish to preserve the financial power of the Federal Government to aid in restoring economic order in the future, if the need again arises. To preserve this power, we must liquidate during prosperity the debts incurred during periods of depression.

. . . .

I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year are estimated at about six billion six hundred millions, and our total net expenditures at about seven billion three hundred millions, leaving a net deficit of roughly seven hundred millions.

To seek an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement --, we must therefore accomplish a net improvement of seven hundred million dollars in our budgetary position. In estimating revenues, it is better to underestimate than to overestimate. We should not count on an increase in revenues next year from the existing tax structure, nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income; and then, if the tax receipts rise above those of this year, the excess should be used to reduce the national debt.

Let us stop at this point to consider the revenue side of the picture.

The Federal tax system affects every one in the country. We in the Treasury are constantly studying the tax problem with two objectives always before us: First, that the tax burden shall be distributed as fairly as possible and, second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we

have collected. The study has not been directed toward raising new revenue. Rather we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. Of course, tax policy cannot be determined from one individual case alone. We must look at the whole picture. We must take testimony and we must examine actual tax records and returns.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax

payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

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Our immediate goal, then, should be to reduce expenditures by seven hundred million dollars. In addition, every dollar that the Treasury realizes from the liquidation of revolving funds, and from other repayments of loans and capital advances, should be set aside for debt retirement. In no event, in my opinion, should we contemplate total net expenditures in excess of the level of this year's estimated receipts. That means that our expenditures must not exceed six billion six hundred fifty million dollars for the coming year.

Our problem is clear. Our expenditures must be cut seven hundred million dollars.

But where can cuts totaling this amount be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, little or no money can be saved in the regular operating expenses of the

Federal Government, including the national defense and interest on the public debt. Further, our expenditures under the Social Security Act will probably increase by a hundred million dollars or more in the next fiscal year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, public works, unemployment relief, and agriculture --, I am convinced that the necessary savings can be made.

Let me give you a rough idea of the possible savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are

estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditure that existed prior to the depression.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, it should be possible to make a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of business recovery, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The plight of agriculture in the depression called for emergency aid, not only in the farmers' interest, but in the interest of all of us. As many of you know, I have been deeply concerned for more than twenty years with the problems of agriculture, and I am most keenly interested in doing all that can be done to remove the economic disadvantages that the farmers have suffered. That very interest impels me to believe and to state with all the force at my command that agriculture cannot continue to rely on merely temporary expedients.

Besides the one hundred sixteen millions included in this year's budget for the general work of the Department of Agriculture, there are, among other items, estimated expenditures of four hundred seventy-five millions for the soil conservation program, thirty-three millions for rural electrification, fifty-five millions for the Federal land banks to provide lower interest rates, one hundred millions for commodity loans, and one hundred twenty-five millions for resettlement. These items total nine hundred three millions for this fiscal year.

Despite the magnitude of the sums we are now expending for agricultural purposes, you are all aware that discussion is taking place in Congressional committees of further measures in aid of agriculture that may involve large additional expenditures.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. That program cannot endure and cannot render lasting aid to the farmer unless it be soundly based. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

A sound program must take into consideration the farmer's opportunities in the foreign markets, as well as in those at home; and the character and cost of that program must be determined with full recognition of its effects upon our whole national economy and of the limitations imposed by the Federal finances.

Balancing the budget is in the interest of our agricultural as well as of other parts of our population; and it requires the cooperation of the farmer as well as other sections of the public.

With the solid support of the public, I believe that economies totaling seven hundred millions or more can be achieved in the four fields that I have cited. Since the estimated increased costs of our social security program are more than offset by estimated reductions in miscellaneous and supplemental items, it should be possible to achieve an ordinary balancing of the budget next year.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a substantial reduction in the public debt in the next fiscal year. There are serious objections to such a course.

We are definitely in a transition period between unbalanced and balanced Federal budgets. We are making great progress toward a balanced budget.

Relatively few persons realize the remarkable fact that the net improvement this year in the budgetary position of the Federal Government will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than twenty-seven hundred millions last year.

This net improvement of more than two billion dollars that is taking place in a single year provides the best answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget.

I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

The minimum goal that I propose will by no means be easy to achieve.

I have already indicated my belief that it would be unwise to raise taxes at this time solely to accumulate a surplus for debt retirement. More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures.

There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

In addition to these considerations, there is a new and important aspect of our budget that must now be considered in analyzing the economic effects of Federal expenditures and receipts. The Social Security Act has introduced new items into our budget. A major one of these, the annual appropriation for the Old-Age Reserve Account, calls for the investment of this appropriation in Government obligations. The same Act also provides for the investment in Government obligations of moneys paid by the States into the Unemployment Trust Fund.

The funds paid into both of these accounts operate just like payments made by an individual to a private insurance company. Such a company invests your premiums in Government obligations, in farm and urban mortgages, in railroad, industrial, and public utility bonds, and in other forms of investment approved by one or more of the forty-eight different State laws. All that the insurance company has when it has invested your premiums in this manner, are bundles of pieces of paper representing all kinds of promises to repay your money with interest to the insurance company.

The Federal Government, in connection with the Old-Age Reserve Account and the Unemployment Trust Fund, also invests your money in pieces of paper. But these pieces of paper are Government bonds and not private promises to pay. It is not overstating the case to say that your money is safer in Government bonds than in a multiplicity of private obligations, though, of course, I am in no way reflecting on the soundness of private insurance companies.

It is very clear that the credit of the Government is the soundest in the Nation. And if anything should happen to your Government, nothing else would have any value at all.

Now, when the Treasury invests your old-age taxes and your unemployment compensation taxes in Government bonds, it reduces the amount of the public debt held by private investors. This is obviously so if the Treasury buys bonds in the market directly for the accounts. However, the rates of interest which the Treasury is required by law to pay on funds invested for these accounts are higher than those which can be obtained by purchasing suitable Government obligations in the open market. Hence, the Treasury is issuing special Government bonds to these accounts, and is using the funds so obtained to reduce the amount of its obligations sold to or held by private investors.

Next year, as a result of the Social Security Act and the related State laws, it is estimated that the Federal Treasury will receive more than one billion dollars net for investment in Government obligations for these two accounts. With a balanced budget, this billion dollars will be used to retire public debt now in the hands of private investors. In other words, the Treasury next year will be adding one billion dollars to the supply of funds in the capital market.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions.

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction of seven hundred million dollars in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal services or by increasing the existing tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a large volume and healthy character of business activity, a maximum volume of employment at good wages in private industry, fair treatment for our agricultural population, adequate revenues to meet the increased services now demanded of the Federal Government, and the preservation of the credit and currency of the United States, on which depends the security of jobs, property values, and orderly business relations.

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machine-gunned no trenches; we killed no human beings. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

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In this connection, I should like to point out that the underlying conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb taxpayers' funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

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Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

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Our immediate goal, then, should be to reduce expenditures by seven hundred million dollars. In no event, in my opinion, should we contemplate total net expenditures in excess of the level of this year's estimated receipts. That means that our expenditures must not exceed six billion six hundred fifty million dollars for the coming year.

Our problem is clear. Our expenditures must be cut seven hundred million dollars.

But where can cuts totaling this amount be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, little or no money can be saved in the regular operating expenses of the

Federal Government, including the national defense and interest on the public debt. Further, our expenditures under the Social Security Act will probably increase by a hundred million dollars or more in the next fiscal year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you a rough idea of the possible savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are

estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, it should be possible to make a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of business recovery, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

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Besides the one hundred sixteen millions included in this year's budget for the general work of the Department of Agriculture, there are, among other items, estimated expenditures of four hundred seventy-five millions for the soil conservation program, thirty-three millions for rural electrification, fifty-five millions for the Federal land banks to provide lower interest rates, one hundred millions for commodity loans, and one hundred twenty-five millions for resettlement. These items total nine hundred three millions for this fiscal year.

Despite the magnitude of the sums we are now expending for agricultural purposes, you are all aware that discussion is taking place in Congressional committees of further measures in aid of agriculture that may involve large additional expenditures.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. That program cannot endure and cannot render lasting aid to the farmer unless it be soundly based. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

A sound program must take into consideration the farmer's opportunities in the foreign markets, as well as in those at home; and the character and cost of that program must be determined with full recognition of its effects upon our whole national economy and of the limitations imposed by the Federal finances.

Balancing the budget is in the interest of our agricultural as well as of other parts of our population; and it requires the cooperation of the farmer as well as other sections of the public.

With the solid support of the public, I believe that economies totaling seven hundred millions or more can be achieved in the four fields that I have cited. Since the estimated increased costs of our social security program are more than offset by estimated reductions in miscellaneous and supplemental items, it should be possible to achieve an ordinary balancing of the budget next year.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a substantial reduction in the public debt in the next fiscal year. There are serious objections to such a course.

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Relatively few persons realize the remarkable fact that the net improvement this year in the budgetary position of the Federal Government will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than twenty-seven hundred millions last year.

This net improvement of more than two billion dollars that is taking place in a single year provides the best answer to those who have publicly despaired of our ability to balance the Federal budget.

I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

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I have already indicated my belief that it would be unwise to raise taxes at this time solely to accumulate a surplus for debt retirement. More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures.

There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's increased responsibilities. But it would be clearly unwise, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by more than the amount I have indicated.

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The funds paid into both of these accounts are handled very much like payments made by an individual to a private insurance company. Such a company invests your premiums in Government obligations, in farm and urban mortgages, in railroad, industrial, and public utility bonds, and in other forms of investment approved by one or more of the forty-eight different State laws. The manner in which these funds must be invested is laid down by the State laws and embodies the very sound principle of diversified risks.

The Federal Government, in connection with the Old-Age Reserve Account and the Unemployment Trust Fund, also invests the money which it receives in the manner laid down by Congress in Government obligations. Government obligations, of course, represent the most diversified risk available in this country as they rest on the tax obligations of all industries and all individuals.

When the Treasury invests old-age receipts and unemployment compensation receipts in Government bonds, it reduces the amount of the public debt held by private investors. This is obviously so if the Treasury buys bonds in the market directly for the accounts. However, the rates of interest which the Treasury is required by law to pay on funds invested for the old-age reserve account are higher than those which can be obtained by purchasing suitable Government obligations in the open market. Hence, the Treasury is issuing special obligations to this account and is using the funds so obtained to reduce the amount of its obligations sold to or held by private investors.

Next year, as a result of the Social Security Act and the related State laws, it is estimated that the Federal Treasury will receive more than one billion dollars net for investment in Government obligations for these two accounts. With a balanced budget, this billion dollars will be used to retire public debt now in the hands of private investors. Through this operation the Treasury next year will be adding one billion dollars to the supply of funds in the capital market.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions.

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal responsibilities or by increasing the existing tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a large volume and healthy character of business activity, a maximum volume of employment at good wages in private industry, fair treatment for our agricultural population, adequate revenues to meet the increased services now demanded of the Federal Government, and the preservation of the credit and currency of the United States, on which depends the security of jobs, property values, and orderly business relations.

#14.

Address of the Secretary of the Treasury, to be Delivered before the Academy of Political Science, at the Hotel Astor, New York City, Wednesday Evening, November 10, 1937

I am glad to accept the invitation of the Academy of Political Science to discuss before its members and guests assembled here tonight the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was enormously costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government spent thirty-one billion dollars and sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war we bombed no cities; we

machine-gunned no trenches; we killed no human beings. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was superbly supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that certain of our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of a serious business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially

different from those which faced us four years ago. Many measures are required for their solution. One of these measures in the present juncture is a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This situation stands in sharp contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933. It also stands in contrast to the unhealthy excesses of 1929.

In this connection, I should like to point out that the underlying conditions that made deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb taxpayers' funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

A different situation prevails today. Our industrial recovery has created large new demands for private capital. Our commercial banks are again utilizing their credit resources for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending that takes place under these conditions must be financed in large part by capital funds that would otherwise be available for business purposes.

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The basic need today is to foster the application of the driving force of private capital to existing favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to balance the Federal budget.

I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year are estimated at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six millions, leaving a net deficit of roughly seven hundred millions.

To seek an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement --, we must therefore accomplish a net improvement of seven hundred million dollars in our budgetary position. In estimating revenues, it is better to underestimate than to overestimate. We should not count on an increase in revenues next year from the existing tax structure, nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income; and then, if the tax receipts rise above those of this year, the excess should be used to reduce the national debt.

Let us stop at this point to consider the revenue side of the picture.

The Federal tax system affects every one in the country. We in the Treasury are constantly studying the tax problem with two objectives always before us: First, that the tax burden shall be distributed as fairly as possible and, second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising new revenue. Rather we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government. Of course, tax policy cannot be determined from one individual case alone. We must look at the whole picture. We must take testimony and we must examine actual tax records and returns.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

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Our immediate goal, then, should be to reduce expenditures by seven hundred million dollars. In other words, we should not contemplate total net expenditures in excess of the level of this year's estimated receipts.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, little or no money can be saved in the regular operating expenses of the

Federal Government, including the national defense and interest on the public debt. Further, our expenditures under the Social Security Act will probably increase by a hundred million dollars or more in the next fiscal year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you a rough idea of the possible savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are

estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, it should be possible to make a further substantial reduction, though not a drastic one, in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

Balancing the budget is in the interest of our agricultural as well as of other parts of our population; and it requires the cooperation of the farmer as well as other sections of the public.

With the solid support of the public, I hope that economies totaling seven hundred millions can be achieved in the four fields that I have cited. Since the estimated increased costs of our social security program are more than offset by estimated reductions in miscellaneous and supplemental items, it should be possible to achieve an ordinary balancing of the budget next year without increased taxes.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to such a course.

I have already indicated that I believe it undesirable at this time to increase taxation. There are equally compelling considerations on the expenditure side. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities. But it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were suddenly to slash Government expenditures by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

Relatively few persons realize the remarkable fact that the net improvement this year in the budgetary position of the Federal Government will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred million as compared with more than twenty-seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who have publicly despaired of our willingness or our ability to balance the Federal budget.

More than two-thirds of this year's budgetary improvement comes from increased revenue, rather than from reductions in expenditures. Next year's balancing of the budget can properly be sought in a reduction of expenditures.

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In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. With a balanced budget, this billion dollars will be used to retire public debt now in the hands of private investors. While this operation by itself will not reduce the total amount of the public debt, it will result in adding roughly one billion dollars to the supply of funds in the capital market.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions.

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the underlying economic considerations that now demand a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures, and why a large surplus for debt retirement would be undesirable at this time if it must be achieved by eliminating essential Federal responsibilities or by increasing the existing tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a large volume and healthy character of business activity, a maximum volume of employment at good wages in private industry, fair treatment for our agricultural population, adequate revenues to meet the increased services now demanded of the Federal Government, and the preservation of the credit and currency of the United States, on which depends the security of jobs, property values, and orderly business relations.

Address of the Secretary of the Treasury, to be Delivered before the Academy of Political Science, at the Hotel Astor, New York City, Wednesday Evening, November 10, 1937

I am glad to accept the invitation of the Academy of Political Science to discuss before its members and guests the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was enormously costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government spent thirty-one billion dollars and sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war we bombed no cities; we

machine-gunned no trenches; we killed no human beings. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was superbly supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially

different from those which faced us four years ago. Many measures are required for their solution. One of these measures in the present juncture is a determined movement toward a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This situation stands in sharp contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933. It also stands in contrast to the unhealthy excesses of 1929.

In this connection, I should like to point out that the underlying conditions that made deliberate deficit spending the wisest kind of economic policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb taxpayers' funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the first six months of the present calendar year, the insured commercial banks of the country reduced their holdings of Government securities by six hundred eighty-five million dollars in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending taking place under these conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes.

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The basic need today is to foster the application of the driving force of private capital to existing favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that the bulk of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six millions, leaving a net deficit of roughly seven hundred millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement -- , it would therefore be necessary to acomplish a net improvement of seven hundred million dollars in our budgetary position, as last estimated. In estimating revenues, it is better to underestimate than to overestimate. We should not <u>count</u> on an increase in revenues next year from the existing tax structure, nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

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Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, it will be possible, I hope, to make a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

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We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

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#15 91

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I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially

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high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of

interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

But the underlying conditions that made deliberate deficit spending the wisest kind of policy during the depression no longer exist. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

A different situation prevails today. Our industrial recovery during the last year has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending under such conditions would have to be financed in large part by capital funds that would otherwise be available for business purposes.

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The basic need today is to foster the application of the driving force of private capital to existing favorable circumstances. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement --, it would therefore be necessary to accomplish a net improvement of seven hundred million dollars in our budgetary position, as last estimated. In estimating revenues, it is better to underestimate than to overestimate. We should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security Act will increase next year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by some seven hundred eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

Balancing the budget is in the interest of our agricultural as well as of other parts of our population; and it requires the cooperation of the farmer as well as other sections of the public.

Only with the solid support of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far

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Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided completely to abandon many governmental activities -- in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, slowing up or abandoning flood control, soil erosion prevention, and security for the aged and unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities. (INSERT)

Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred million as compared with more than twenty-seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly despaired of our ability to balance the Federal budget.

Much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

The Federal tax system affects everyone in the country. We in the Treasury in studying tax problems have two objectives always before us: First, that the tax burden shall be distributed as fairly as possible, and second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we

have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addi~~tion, we~~ want to -- simplify collection and make the taxpayer's record-keeping less difficult.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government; provided that the taxpayer cooperates with his Government in carrying out the purpose and the spirit of the tax laws. Of course, tax policy cannot properly be determined from exceptional cases. We must look at the whole picture. We base our decisions on extensive information and upon analysis of actual tax records.

The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax

payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point of our policy that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

. . . .

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of

Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

The attainment of these ends demands the cooperation of private business. This Administration is going to do everything possible to promote the continuation of business recovery and to balance the budget by reducing expenditures. But, in any event, this Administration will let no one starve. We are confident that, with the full cooperation of the business world, our present difficulties will be speedily overcome; and that the aims that I have set forth above, which are properly those of private business no less than those of the National Government, will be achieved.

The attainment of these ends rests as much on private initiative and on the cooperation of private enterprise as it does upon any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. However, business has to do its share. Should business fail to do its share or should the combined efforts of Government and business not attain the full effect that we hope for, this Administration is not going to let the needy starve.

But we are confident that, with the full cooperation of the business world, our present difficulties will be speedily overcome.

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Address of the Secretary of the Treasury, to be Delivered before the Academy of Political Science, at the Hotel Astor, New York City, Wednesday Evening November 10, 1937

I welcome the opportunity to discuss before the members and guests of the Academy of Political Science the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was enormously costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war, we fought with jobs and

with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was magnificently supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially

different from those which faced us four years ago. Many measures are required for their solution. One of these measures, but only one, in the present juncture is a determined movement toward a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of

interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

But the underlying conditions that made deliberate deficit spending the wisest kind of policy during the depression have been altered during the progress of recovery. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

Our industrial recovery of the last year, however, has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending under conditions of active demand for private capital would have to be financed in large part by capital funds that would otherwise be available for business purposes.

The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-six millions, leaving an estimated net deficit of about seven hundred millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement --, it would therefore be necessary to accomplish a net improvement of seven hundred million dollars in our budgetary position, as last estimated. To be prudent, we should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal

Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security Act will increase next year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction regularly ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that available unspent appropriations for this purpose already exceed six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I sincerely hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by some seven hundred and eighty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

Balancing the budget is as much in the interest of farmers as in the interest of other parts of our population; and it requires the cooperation of the farmer as well as of other sections of the public.

Only with the solid backing of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities.

Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided to cripple many essential governmental activities -- in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, and slowing up or abandoning flood control, soil erosion prevention, and relief for the aged and the unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than two billion seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly despaired of our ability to balance the Federal budget.

True, much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was one billion three hundred fifty millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

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It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

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The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point of our policy that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

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My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden. But I have also shown that there is a limit to reductions and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national income. We are confident that, with the full cooperation of the business world, our present difficulties will be overcome; and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved.

Address of the Secretary of the Treasury, to be Delivered before the Academy of Political Science, at the Hotel Astor, New York City, Wednesday Evening, November 10, 1937

I welcome the opportunity to discuss before the members and guests of the Academy of Political Science the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was enormously costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war, we fought with jobs and

with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership — a leadership that was magnificently supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

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Of course, it is easily possible to criticize some of the detailed uses of the relief funds. Let us concede that there was some waste. In any expenditure program of such magnitude this is inevitable. But contrasted with the human and material values at stake, such waste as may have occurred shrinks to insignificance.

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially

different from those which faced us four years ago. Many measures are required for their solution. One of these measures, but only one, in the present juncture is a determined movement toward a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories,

high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of

interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

But the underlying conditions that made deliberate deficit spending the wisest kind of policy during the depression have been altered during the progress of recovery. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

Our industrial recovery of the last year, however, has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending under conditions of active demand for private capital would have to be financed in large part by capital funds that would otherwise be available for business purposes.

The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred fifty millions, and our total net expenditures at about seven billion three hundred forty-five millions, leaving an estimated net deficit of six hundred ninety-five millions.

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement --, it would be necessary to accomplish a net improvement of about seven hundred million dollars in our budgetary position, as last estimated. To be prudent, we should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal

Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security Act will increase next year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- public highways, public works, unemployment relief, and agriculture --, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction generally ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that there will be available from appropriations already made for this purpose about six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I sincerely hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by more than seven hundred and fifty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

Balancing the budget is as much in the interest of farmers as in the interest of other parts of our population; and it requires the cooperation of the farmer as well as of other sections of the public.

Only with the solid backing of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

. . . .

There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities.

Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided to cripple many essential governmental activities -- in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, and slowing up or abandoning flood control, soil erosion prevention, and relief for the aged and the unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than two billion seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly despaired of our ability to balance the Federal budget.

True, much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was about one billion three hundred millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

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Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

The Federal tax system affects every one in the country. We in the Treasury in studying tax problems have two objectives always before us: First, that the tax burden shall be distributed as fairly as possible, and second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government; provided that the taxpayer cooperates with his Government in carrying out the purpose and the spirit of the tax laws. Of course, tax policy cannot properly be determined from exceptional cases. We must look at the whole picture. We base our decisions on extensive information and upon analysis of actual tax records.

The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay individual Federal income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point of our policy that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

. . . .

My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden. But I have also shown that there is a limit to reductions; and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.

The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national income. We are confident that, with the full cooperation of the business world, our present difficulties will be overcome; and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved.

UPM DRAFT 101037 FOR SECRETARY'S SPEECH 111037

Mr. Chairman, Senator Byrd, Members and guests of the Academy:

You have asked me to speak to you tonight about the "Expenditures of the Federal Government." I note that your discussions this morning included an address on the budget of the United States during the past ten years. This afternoon you considered whether our present income will meet our present expenditures. I suspect your conclusion was that if current income is less than current outgo, we must either spend less or tax more. Perhaps you think we should do both.

In any consideration of the expenditures of the Federal Government, the most important concern to me as

Secretary of the Treasury has to do with the amount to be spent over the coming period of at least two or three years. Estimates are now being prepared for the expenditures of the fiscal year 1939, ending June 30th of that year. What is the trend going to be, both as respects the total of our expenditures and its relationship to tax receipts? That is of great interest to me, and I am sure it is of great interest to you.

During the last four fiscal years, the Federal Government has spent over thirty-one billion dollars. Its total revenue during the same four years, derived for the most part from taxes, has been sixteen billion dollars. The budget deficit for four years of operation reached a total of fifteen billion dollars on June 1st of this year -- four months ago. The current fiscal year will add another half billion to that total. It will increase the total still more if the Congress adds other appropriations and other expenses to those already authorized.

In every successive year from 1927 to 1937, with one single exception, the expenditures of the Federal Government have increased over those of the preceding year. (For the purpose of this statement the bonus prepayments of last year and this are excluded from the figures, as is debt retirement.)

Let us hastily run through the totals:

1927 -	2 billion 8
1928 -	2 billion 9
1929 -	3 billion 1
1930 -	3 billion 3
1931 -	3 billion 6
1932 -	4 billion 7
1933 -	4 billion 6
1934 -	6 billion 7

1935 -	6 billion 8
1936 -	6 billion 8
1937 -	7 billion 4

An editorial writer in the Evening Sun at Baltimore has formulated what he calls the Smoot Law of Government Costs, which is to the effect that regardless of the Party which may happen to be in power, the cost of government always rises. The history of the last decade, at least, would seem to bear this out.

It is frequently said that the way to reduce expenditures is to reduce them. You know as well as I do that it is easier said than done. I suspect your discussion this afternoon of Vested Interests in Government Spending brought out important angles of that situation. Each section and each group -- I almost said each individual -- wants total costs reduced, but not the costs of things of local interest. A business leader of the Southwest recently spoke in bitter condemnation of the Government public buildings program only to conclude with a guilty grin and the confession that he had joined the week before in a local Chamber of Commerce petition to Washington for the erection of a Federal building in his own city. Where is there a city that will fail to object if reducing Government costs means closing a CCC camp in the neighborhood?

What are we spending in the current fiscal year? What we call regular operating expenditures will total three and a quarter billion dollars. Nearly a billion dollars of this is being paid out in interest on the public debt. There can be no reduction there, except as we reduce the debt, and even then there is always the possibility that rising rates will keep the total interest charge at about the same figure.

Nearly a billion dollars of the 1938 budget goes for national defense. In the face of world conditions of today, can we make substantial cuts there? More than half a billion is being spent for veterans' pensions and benefits -- and this figure does not include bonus payments. There can be no cut there.

The only other item included among regular operating expenditures is the administrative costs of the Congress, the Federal Courts, and the Executive branch. This totals eight hundred million dollars. Some savings is being made here, and perhaps more can be saved. But that total is not excessive in comparison with past years, certainly not so when we consider the greatly expanded Governmental organization and overhead costs.

Public works account for nine hundred million of the current budget. And there has already been appropriated in addition to this amount another seven hundred million for public buildings, public highways, river and harbor improvements, flood control, PWA grants, soil erosion, emergency housing, and similar purposes. That means that without another dollar being appropriated by the Congress for these purposes, there will be available seven hundred million to be spent in 1939 (and later years).

During the current year there is being spent more than a billion and six hundred million dollars for the relief of unemployment and for the operation of the CCC camps. How much can that be reduced in subsequent years?

The Agricultural Adjustment (Soil Conservation (?)) program, the Social Security program and some minor miscellaneous items add one billion four hundred million to the expenditures of the current year. While these are partly offset by special taxes, they include certain items of expenditures and grants which are not so offset. They add a permanent burden to the budget of two hundred million next year, and in the course of the next few years five hundred million annually which is not offset by special taxes.

What may drought, flood, business recession, or war add to the expenditures of this and coming years? It is obvious that no matter how great our desire to reduce the cost of Government, there will be the greatest difficulty in making substantial reductions in regular or emergency costs. Here is a wheel to which we must all put our shoulders.

For I am confident that you are in agreement with me as to the necessity for promptly bringing our expenditures within our income, -- and well within it, -- so that not only will the budget be balanced, but our total debt reduced.

(Leaving out of consideration gold acquisitions, the debt in the hands of the public will be reduced in the current fiscal year by more than a billion dollars.)

As Secretary of the Treasury I must not speak to you with too great assurance about future expenditures of the Government. The Treasury does not determine how much money is to be spent or how it shall be divded among the various agencies and functions. The President and the Congress have that responsibility. In the final analysis, it is determined by the people. As you know, there are some who think Government expenditures have been too small rather than too large.

The Treasury does not spend the money, except the sums appropriated for its own administrative expenses. Its function is to raise the money which other agencies spend. Naturally enough, however, the fiscal department of the Gove rnment has some participation in and some responsibility for the determination of total costs. I do not seek to shirk that responsibility. We must collect the taxes and adjust the tax burden fairly. We must know the needs and the temper of the market through which we borrow. Together with the Federal Reserve System we must guard and protect the value of the American dollar.

For after all, in my view, dollar control is fully as important as crop control, or wages control, or hour control. The effects of the others are determined by the value of the dollar. Its value determines the farmers income or the industrial workers income just as surely as does control of production or control of working conditions. Of what account is a high price for farm products if the dollars paid are of less value. What a hollow victory is a high wage if paid in currency of low buying power. May it not very well be that more important than any of these things is a sound financial program for the coming years which will prevent any possibility of the dollar becoming unstable?

I do not insist that the budget be balanced every year. I do not agree with those who deplore the expenditures that this Government has made. They had to be made. Fortunate is he who accumulates a surplus in good times to carry him over bad times. But the unbalanced budget and increase in debt is familiar to us in our individual lives as well as in business life.

The young lawyer or doctor or dentist may go into debt for his education and to get his practice started. The farmer may borrow to buy his land, his machinery, and his seed. The new business enterprise goes into debt that it may expand and wisely grow. The head of a family will even incur a debt of staggering proportions if it is necessary to save the lives of members of his family.

I see no reason for defending or apologizing for the expenditures of past years. Intelligent men recognize that they were vital. I see no reason for harboring regrets about the purposes of the expenditures or the way in which the money was spent. For the most part, we have spent wisely and well.

Some of the expenditures of recent years are recoverable. They went for loans to various agencies and groups, and for capital stock in credit agencies and institutions. Our expenditure picture is going to be brightened by the winding up of many of these agencies. There is considerable molasses in some of those barrels. We shall scrape them well, and then break up the barrels so there will not be any temptation to fill them up again.

The expenditure of two and a quarter billion for the bonus would have been made in 1945 if it had not been made now. (The amount of an advance payment is frequently carried by a business concern as an asset.)

Our net deficit might have been less if we had done two things we did not do. To me these negative actions are as significant as any of our positive accomplishments. We have not used the major portion of the gold increment. It is still available for debt retirement. Even more important, in my opinion, we have not resorted to the use of greenbacks for the payment of current debt. Not a dollar of the authorized three million of so-called Thomas currency has been issued.

There are other reassuring items to brighten somewhat the black picture I have painted. Total expenditures are turning downward. With the exception of an almost negligible decrease in 1933 costs under those of 1932, the current fiscal year is the first since 1927 when Government expenditures were less than the preceding year. (If we include bonus payment, 1937 showed a decline and 1938 a still further decline.) The coming fiscal year should show a further reduction.

Moreover, our income is rising. It has increased every year since 1932. Let us run over the figures here also:

1932	2 billion 006
1933	2 billion 080
1934	3 billion 116
1935	3 billion 8
1936	4 billion 1
1937	5 billion 2
1938	6 billion 7

With increased business activity and a higher national income, naturally tax receipts grow. Improvements in the revenue laws has also contributed to this growth in receipts.

We have reached the place, it seems evident to me, where our costs must be met out of current taxes. That means that instead of fixing our expenditures and borrowing the excess over revenue, we determine what is a fair and just tax burden and then squeeze expenditures within that figure.

The young professional student who borrowed to pay for his education meets failure unless his practice pays well enough for him to wipe out his debt. The farmer is in distress if his crop does not bring him enough to pay for his seed, his production costs, and reduce the mortgage. The new business enterprise goes on the rocks if its sales do not permit the gradual retirement of its bonds or its floating debt. The householder becomes discouraged if his debt for the health of his family becomes a permanent saddle.

I do not mean to suggest that there is an exact parallel between these individuals and concerns and the Federal Government. Perhaps we can carry a permanent debt of considerable size. But the Government that continues too long with income above outgo is as surely headed for disaster as is the individual or corporation. The President of the United States recognizes that. He has stated it time and again. In 1932 he declared that liberal governments too often were wrecked on the rocks of financial excess. (Check statement and date.) In his 1937 budget message the President stated his belief that "it is the deficit of today that is making possible the surplus of tomorrow." In his last budget message, that for fiscal 1938, the President insisted that new expenditures authorized by Congress be matched by new revenue. He is taking effective action to bring costs within income. A percentage of appropriations is being impounded. Emergency agencies are being liquidated, stopping administrative expenses and restoring assets to the Treasury. The promise is being performed.

This does not mean at all that human needs are to be ignored or national development neglected. Never in the history of our country has there been as adequate and far-seeing a program for the development of natural resources as there is today. Never in our history has there been the provision that is now a permanent part of our plans for the future of the unemployed, the under-privileged and the sick. As we advance, these things will be improved.

There is much to be done that we cannot do, certainly not all at once. To continue longer with an unbalanced Treasury budget would endanger the whole program -- what has been done and what remains to be done. The way to balanced economy and a more abundant life is not to be found through an unbalanced Federal budget.

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Various tabulated material used in connection with writing the Secretary's speech for the Academy of Political Science.

Actual expenditures of the Government for fiscal years 1926-1937
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	Total 1926-1929	Total 1930-1933	Total 1934-1937	Aggregate 1926-1937
Regular operating expenditures:				
Legislative, judicial and civil establishments	2,816.0	3,256.7	2,749.1	8,821.8
National defense	2,466.8	2,775.9	3,096.9	8,339.6
Veterans' pensions and benefits (excluding bonus prepayment)	2,829.3	3,541.1	2,415.2	8,785.6
Interest on the public debt	3,029.0	2,559.6	3,193.3	8,781.9
Total	11,141.1	12,133.3	11,454.5	34,728.9
Public works:				
Public buildings	47.1	303.1	281.0	631.2
Public highways	377.9	651.8	1,179.7	2,209.4
Rivers and harbors	292.0	463.0	812.5	1,567.5
PWA (grants and admin. expenses)	-	-	574.6	574.6
Other	31.7	76.4	362.0	470.1
Total	748.7	1,494.3	3,209.8	5,452.8
Unemployment relief:				
Direct relief	-	350.7	3,355.4	3,706.1
Work relief	-	-	3,977.5	3,977.5
Civilian Conservation Corps	-	-	1,639.5	1,639.5
Total	-	350.7	8,972.4	9,323.1
Agricultural adjustment program	-	-	2,098.7	2,098.7
Social Security	-	-	476.2	476.2
Miscellaneous	-	-	36.6	36.6
Total nonrecoverable expenditures (excluding bonus and debt retirement)	11,889.8	13,978.3	26,248.2	52,116.3
Loans (net)	5.6	1,666.2	456.9	2,128.7
Subscriptions to capital stock	6.0	737.7	1,089.7	1,833.4
Total expenditures (excluding bonus and debt retirement)	11,901.4	16,382.2	27,794.8	56,078.4
Bonus prepayment	-	-	2,230.2	2,230.2
Debt retirement	2,096.9	1,868.2	1,440.7	5,405.8
Total expenditures	13,998.3	18,250.4	31,465.7	63,[illegible]

Actual expenditures of the Government for fiscal years 1926-1929
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1926	1927	1928	1929	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments	666.9	589.4	708.6	851.1	2,816.0
National defense	579.7	584.4	624.6	678.1	2,466.8
Veterans' pensions and benefits (excluding bonus prepayment)	650.5	721.8	723.9	733.1	2,829.3
Interest on the public debt	831.9	787.0	731.8	678.3	3,029.0
Total	2,729.0	2,682.6	2,788.9	2,940.6	11,141.1
Public Works:					
Public buildings	2.1	7.8	6.7	30.5	47.1
Public highways	98.8	92.5	91.1	95.5	377.9
Rivers and harbors	70.3	65.4	72.9	83.4	292.0
PWA (grants and admin. expenses)	-	-	-	-	-
Other	3.4	8.2	9.5	10.6	31.7
Total	174.6	173.9	180.2	220.0	748.7
Unemployment relief:					
Direct relief	-	-	-	-	-
Work relief	-	-	-	-	-
Civilian Conservation Corps	-	-	-	-	-
Total	-	-	-	-	-
Agricultural adjustment program	-	-	-	-	-
Social Security	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total nonrecoverable expenditures (excluding bonus and debt retirement)	2,903.6	2,856.5	2,969.1	3,160.6	11,889.8
Loans (net)	-	-	-	5.6	5.6
Subscriptions to capital stock	-	1.0	-	5.0	6.0
Total expenditures (excluding bonus and debt retirement)	2,903.6	2,857.5	2,969.1	3,171.2	11,901.4
Bonus Prepayment	-	-	-	-	-
Debt retirement	487.4	519.6	540.3	549.6	[illegible]
Total expenditures	3,391.0	3,377.1	3,509.4	3,720.8	13,998.3

Actual expenditures of the Government for fiscal years 1930-1933
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1930	1931	1932	1933	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments ...	789.5	790.9	978.8	697.5	3,256.7
National defense	701.3	699.2	707.6	667.8	2,775.9
Veterans' pensions and benefits (excluding bonus prepayments)	753.5	939.6	984.8	863.2	3,541.1
Interest on the public debt	659.3	611.6	599.3	689.4	2,559.6
Total	2,903.6	3,041.3	3,270.5	2,917.9	12,133.3
Public works:					
Public buildings	43.0	67.7	86.5	105.9	303.1
Public highways	89.3	174.4	209.9	178.2	651.8
Rivers and harbors	106.5	121.3	116.8	118.4	463.0
PWA (grants and admin. expenses)	-	-	-	-	-
Other	11.0	13.9	26.3	25.2	76.4
Total	249.8	377.3	439.5	427.7	1,494.3
Unemployment relief:					
Direct relief	-	-	-	350.7	350.7
Work relief	-	-	-	-	-
Civilian Conservation Corps	-	-	-	-	-
Total	-	-	-	350.7	350.7
Agricultural adjustment program	-	-	-	-	-
Social Security	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total nonrecoverable expenditures (excluding bonus and debt retirement)	3,153.4	3,418.6	3,710.0	3,696.3	13,978.3
Loans (net)	154.8	233.0	404.0	874.4	1,666.2
Subscriptions to capital stock	-	-	627.0	110.7	737.7
Total expenditures (excluding bonus and debt retirement)	3,308.2	3,651.6	4,741.0	4,681.4	16,382.2
Bonus Prepayment	-	-	-	-	-
Debt retirement	553.9	440.1	412.6	461.6	1,868.2
Total expenditures	3,862.1	4,091.7	5,153.6	5,143.0	18,250.4

Actual expenditures of the Government for fiscal years 1934-1937
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1934	1935	1936	1937	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments	572.5	597.7	781.1	797.8	2,749.1
National defense	540.3	709.9	911.6	935.1	3,096.9
Veterans' pensions and benefits (excluding bonus prepayment)	556.9	607.1	677.9	573.3	2,415.2
Interest on the public debt	756.6	820.9	749.4	866.4	3,193.3
Total	2,426.3	2,735.6	3,120.0	3,172.6	11,454.5
Public works:					
Public buildings	78.7	58.1	67.9	76.3	281.0
Public highways	267.9	317.3	243.9	350.6	1,179.7
Rivers and harbors	150.8	203.0	223.7	235.0	812.5
PWA (grants and admin. expenses)	18.8	48.9	233.9	273.0	574.6
Other	35.7	77.0	99.3	150.0	362.0
Total	551.9	704.3	868.7	1,084.9	3,209.8
Unemployment relief:					
Direct relief	715.8	1,914.1	591.7	133.8	3,355.4
Work relief	805.1	11.3	1,264.4	1,896.7	3,977.5
Civilian Conservation Corps	331.9	435.5	486.3	385.8	1,639.5
Total	1,852.8	2,360.9	2,342.4	2,416.3	8,972.4
Agricultural adjustment program	290.3	743.0	542.6	522.8	2,098.7
Social Security	-	-	28.4	447.8	476.2
Miscellaneous	8.7	21.1	6.8	-	36.6
Total nonrecoverable expenditures (excluding bonus and debt retirement)	5,130.0	6,564.9	6,908.9	7,644.4	26,248.2
Loans (net)	788.6	80.5	-175.2	-237.0	456.9
Subscriptions to capital stock	826.5	156.8	69.3	37.1	1,089.7
Total expenditures (excluding bonus and debt retirement)	6,745.1	6,802.2	6,803.0	7,444.5	27,794.8
Bonus prepayment	-	-	1,673.5	556.7	2,230.2
Debt retirement	359.9	573.6	403.2	104.0	1,440.7
Total expenditures	7,105.0	7,375.8	8,879.7	8,105.2	31,465.7

Proprietary Interest of the United States in Governmental Corporations and Credit Agencies, as of June 30, 1929 to 1937 1/
(In millions of dollars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Financed wholly from Government funds:									
Reconstruction Finance Corp.	-	-	-	780	1,498	2,452	2,035	1,804	1,491
Commodity Credit Corp.	-	-	-	-	-	206	154	244	123
Export-import Banks	-	-	-	-	-	14	14	18	17
Public Works Admin.	-	-	-	-	-	145	312	152	146
Regional Agric. Credit Corp.	-	-	-	-	150	51	77	35	27
Production Credit Corp.	-	-	-	-	-	106	121	121	121
Panama Railroad Co.	40	42	42	45	43	2/ 43	43	43	44
Shipping Board Merch. Fleet Corp.	210	207	217	233	224	143	182	151	67
War Emergency Agencies	14	11	10	10	10	10	9	9	5
Farm Loan Board - Corp. Loans	7	160	392	628	3/	-	-	-	-
Farm Credit Administration	-	-	-	-	556	2/ 74	193	175	191
Inland Waterways Corp.	20	21	24	24	25	2/ 24	24	25	25
Railroad Obligations	62	55	40	39	38	38	31	30	30
Tennessee Valley Authority	-	-	-	-	-	2/ 9	64	96	179
Subsistence Homesteads (R.A.)	-	-	-	-	-	2/ 3	24	80	128
Federal Housing Administration	-	-	-	-	-	-	29	30	30
R. F. C. Mortgage Corp.	-	-	-	-	-	-	4/	18	48
Rural Electrification Administration	-	-	-	-	-	-	-	1	12
Other	-	-	-	-	-	1	5	6	14
Total Group 1	353	496	725	1,759	2,544	3,319	3,317	3,038	2,721
Financed partly from Government and partly from private funds:									
Federal Land Banks	4/	4/	4/	125	125	161	257	256	292
Federal Intermediate Credit Banks	32	33	34	36	60	85	84	103	104
Federal Farm Mortgage Corp.	-	-	-	-	-	197	206	201	177
Banks for Cooperatives	-	-	-	-	-	111	129	156	154
Home Loan Banks	-	-	-	-	43	81	82	100	121
Home Owners Loan Corp.	-	-	-	-	1	144	70	13	68
Federal Savings & Loan Insurance Corp.	-	-	-	-	-	-	102	104	108
Federal Savings & Loan Associations	-	-	-	-	-	1	32	102	48
Federal Deposit Insurance Corp.	-	-	-	-	-	150	150	150	150
War Finance Corp.	1	1	1	1	1	4/	4/	4/	4/
Total Group 2	33	34	35	162	230	930	1,106	1,185	1,222
Grand Total	386	530	760	1,921	2,774	4,249	4,423	4,223	3,943

1/ Source: Annual Report of the Secretary of the Treasury, 1936; Daily Treasury Statement, July 31, 1937.
2/ Estimated. 3/ Transferred F.C.A. 4/ Less than one million.

RECEIPTS AND EXPENDITURES
Daily Treasury Statements
(In millions of dollars)

GENERAL AND SPECIAL ACCOUNTS	July and August 1937	July and August 1936	1937 as compared with 1936: Increase	Decrease
Receipts:				
Internal revenue:				
Income tax	$ 92.5	$ 71.2	$ 21.3	$ —
Miscellaneous internal revenue	552.1	454.7	97.4	—
Unjust enrichment tax	.6	—	.6	—
Taxes under Social Security Act	113.5	—	113.5	—
Taxes upon carriers and their employees	.1	—	.1	—
Customs	79.4	66.3	13.1	—
Miscellaneous receipts:				
Proceeds of Government-owned securities:				
Principal—foreign obligations	—	—	—	—
Interest—foreign obligations	—	—	—	—
All other	18.2	12.2	6.0	—
Panama Canal tolls, etc.	4.2	4.2	—	—
Seigniorage	7.2	9.1	—	1.9
Other miscellaneous	24.7	9.1	15.6	—
Total receipts	862.6	636.9	225.7	—
Expenditures:				
I. General:				
Departmental	102.6	94.2	8.4	—
Public buildings	7.6	3.1	4.5	—
Public highways	32.5	14.7	17.8	—
River and harbor work and flood control	28.9	17.7	11.2	—
Reclamation projects	6.1	—	6.1	—
Panama Canal	2.3	2.0	.3	—
Postal deficiency	9.4	2.5	6.9	—
Railroad Retirement Act	.9	.2	.7	—
Social Security Act	46.6	25.5	21.1	—
District of Columbia (U.S. share)	5.0	5.0	—	—
National defense:				
Army	67.8	66.5	1.3	—
Navy	90.3	77.4	12.9	—
Veterans' Administration	97.1	96.4	.7	—
Agricultural Adjustment Program	36.7	57.4	—	20.7
Civilian Conservation Corps	63.2	23.8	39.4	—
Farm Credit Administration	1.1	a 3.0	4.1	—
Tennessee Valley Authority	7.0	3.8	3.2	—
Interest on the public debt	28.0	30.8	—	2.8
Refunds:				
Customs	2.4	2.8	—	.4
Internal revenue	5.0	6.8	—	1.8
Processing tax on farm products	.9	.4	.5	—
Subtotal	647.0	533.1	113.9	—
II. Recovery and relief:				
Agricultural Aid:				
Federal land banks	9.9	11.8	—	1.9
Relief	.8	49.2	—	48.4
Public works (including work relief):				
Reclamation projects	5.4	3.5	1.9	—
Public highways	19.5	61.7	—	42.2
River and harbor work and flood control	6.6	28.4	—	21.8
Rural Electrification Administration	4.2	.7	3.5	—
Works Progress Administration	235.0	314.7	—	79.7
All other	44.1	67.7	—	23.6
Aid to home owners:				
Home loan system	1.5	2.5	—	1.0
Emergency housing	11.4	4.9	6.5	—
Federal Housing Administration	2.8	2.5	.3	—
Resettlement Administration	32.2	23.4	8.8	—
Subtotal	373.4	570.9	—	197.5
III. Revolving funds (net):				
Agricultural aid:				
Commodity Credit Corporation	a 1.1	a 66.4	65.3	—
Farm Credit Administration	a 5.9	a 5.7	—	.2
Public works:				
Loans and grants to States, municipalities, etc.	37.2	40.4	—	3.2
Loans to railroads	a .1	.2	—	.3
Miscellaneous:				
Export-Import Bank of Washington	a .1	a .5	.4	—
Reconstruction Finance Corporation—direct loans and expenditures	a 21.9	a 199.9	178.0	—
Subtotal	8.1	a 224.9	233.0	—
Total cash outgoing	1028.5	877.1	151.4	—
IV. Transfers to trust accounts, etc.:				
Old-age reserve account	85.0	—	85.0	—
Railroad retirement account	28.0	—	28.0	—
Adjusted service certificate fund	—	39.8	—	39.8
Government employees' retirement funds (United States share)	73.2	46.7	26.5	—
Subtotal	186.2	86.5	99.7	—
V. Debt retirements (sinking fund, etc.)	—	23.1	—	23.1
Total expenditures	1214.7	986.6	228.1	—
Excess of receipts	—	—	—	—
Excess of expenditures	352.1	349.7	2.4	—

a Excess credits, deduct.

ACCOUNTS AND DEPOSITS
September 8, 1937

983-A

September 20, 1937

STATEMENT OF THE PRESIDENT
ON SEPTEMBER 21, 1937.

The President announced today that he had just approved the allotment of a few border-line applications for PWA projects, which increases the number allotted under the new program to 1,253 projects, amounting to $113,034,735 in grants and $58,005,700 in loans.

This concludes the allotment of projects under the Public Works Administration Extension Act of 1937.

The President said that Administrator Ickes has withheld recommending for approval a large number of projects which have been passed by the examining divisions of the Public Works Administration because it was found that the applicant could finance the project without Federal aid. Considering the need to curtail the Federal Budget and the improved financial status of so many communities throughout the United States, the President said he believes this to be sound public policy. The limitations on the amount that may be allotted in the several categories under the new law has resulted in disappointment to many applicants because the total of applications filed greatly exceeded the limitations in some categories, which made it necessary for the Public Works Administration to select a limited number of applications for allotment. This situation was inevitable because the grant allotments requested on approved applications in hand amounted to $609,096,573 covering 4,315 projects and the appropriation was sufficient for only a fraction of them. "We have tried to apply equitable principles", the President stated.

He pointed out that the Public Works Administration was established to stimulate construction and employment during the depression and that it fulfilled its mission promptly and effectively. Under the various programs since 1933, allotments have been made for 10,605 useful non-Federal Public Works Administration projects costing $2,759,172,739. Of these projects, 7,845 costing $1,208,539,612 have been completed, creating to date 661,088,747 man-hours of direct employment on the project sites. The Bureau of Labor Statistics has found that for each hour of employment at the site, two and one-half hours of employment are created in industry. Because allotments for so many projects have recently been announced, it has not been possible to compile an estimate of the employment that will be created by the remainder of the program but there is every reason to expect that it will be proportionate to that of the past.

There has been a decreasing need for this stimulation with the passing of the economic extremity and the President feels that the Administration has fulfilled its obligation under the present law.

To: The Secretary
From: Gaston
Subject: Social Security Funds and the Budget

Ever since the President's budget came out last January various business and financial services have been calling attention to the great debt retirement possibilities in the Social Security trust funds and the added fact that from the actual cash income and cash outgo basis we would probably have a surplus in this fiscal year even though the budget would not be balanced on any bookkeeping basis. This expectation is supported by the budget summation, which shows:

Net estimated deficit		695	millions
Old age reserve account special investment	425		"
Unemployment trust fund receipts (estimated in annual report)	576		"
Total trust funds		1001	"
Cash surplus		306	millions

What this means is that of the total of expenditures (not including debt retirement) of 7,346 millions, going to make up the deficit of 695 millions, there is an amount of 425 millions for the old age reserve account which is not an actual cash expenditure but a book-keeping transaction consisting of the issue of special 3 % securities in this amount, leaving the cash in the Treasury. The unemployment trust fund receipts do not appear in the budget receipts or expenditures, but they do appear in the trust fund and public debt divisions of the Daily Treasury Statement. The Treasury receives the cash from the states and puts it in the General Fund after issung special 2½% securities for it. It has the same bookkeeping effect as the sale of bonds in that amount.

So the fact is that although we have a net defifit (or expect to have) this year of 695 millions, we are in fact receiving from the public 306 millions more than we expect to pay out. Ignoring gold sterilization, this amount would be available in cash to retire the same amount of public debt held by the banks and private investors. If we had been able to achieve the "layman's balance" that the President talked about earlier in the year we should have had more than a billion dollars ($1,001 millions) available for this purpose--again ignoring gold sterilization.

If you wished to limit debt retirement next year to these Social Security funds of more than a billion dollars it would mean simply arriving at a bookkeeping balance of revenue and expenditure with no deficit and no surplus. In other words, it would mean increase in revenue and/or decrease in expenditures amounting on both sides to 695 millions. I have not seen any late estimates, but it is probable our revenues will increase this much (if rates stay the same and we don't have a real depression) so that without any decrease in expenditures we could still do the trick.

In an uncertain state of the national economy there is something to be said for such a decision. The fact is that we are withdrawing in the form of taxes on payrolls (employers and employees) in this fiscal year, according to estimates, $1,182,035,000 and we are paying out in expenses and grants to states for social security only $182,759,000, making almost an even billion that we are taking out of possible consumption expenditure on this account. This must certainly be a far heavier drag to recovery and a far heavier deflationary action than the undistributed profits tax or the increases in income tax rates.

The justification for doing this is that in the Social Security Act we have assumed obligations which are accruing right now and that we must make provision now to meet them in the future. We do this by reducing the debt in the hands of the public to the amount of the contributions to the reserve funds, so that as the new special debt increases the old general debt decreases, so that we won't have a double load of liability in the future. The effect is just the same as if a private corporation were the custodian of these funds and invested them in government securities. The government as custodian can find no better or safer investment for these funds than to issue its own obligations and use the cash to reduce its own debt, thus placing itself in position to meet the obligations when they fall due.

It has been suggested by a good many people that it would have a better effect on the national economy if the necessary revenue to reduce the public debt quickly and thus ~~xxxtxthx~~ get the government in position to meet the social security obligations in the future were raised by general taxation instead of by the payroll taxes. These people suggest higher income tax rates as the right answer.

The objection urged against this is that now we are taxing only the people who are to be benefitted (this in fact is not quite true) and that if we taxed everybody we should have to spread the benefits more widely--take in everybody who may need retirement, old age and unemployment help in the future.

I think you suggested that it would be better bookkeeping if Social Security amounts were taken out of the general fund and we budgeted only the annual Social Security deficit. The difficulty with doing this is that, in order to make the law constitutional, the taxes were not levied for the special purpose of social security, but as general taxation which must go into the general fund.

To sum up;

We are taking 306 millions in cash more from the public than we are paying out in this fiscal year (1938). This is a big jump from last year, when we paid out at least two billions more than we took in.

This suggests a very careful examination of how much we should increase this net cash intake next year. A "layman's ~~xxxxxx~~ balance" would mean that we would take in about a billion more than we pay out--maybe as much as a billion and a quarter.

September 22, 1937.

MEMORANDUM FOR MR. BAILEY:

With respect to your inquiry as to the expenditures of the Resettlement Administration, particularly the excess of expenditures in August, 1937, over the corresponding month for 1936, you are advised that the program of the Administration reached a peak during the last four months of the fiscal year 1937 and started to decline in the present fiscal year. There will be a gradual decline in expenditures during the remaining months and it is anticipated that the total for this year will be about $135,000,000 as compared to approximately $210,000,000 in the past fiscal year. The following statement shows the monthly expenditures from the high point in March, 1937 to and including August:

March	$29.9 M
April	29.6 M
May	22.8 M
June	21.2 M
July	19.2 M
August	13.0 M

The expenditures for the first 18 days of September are $6.2 M or about 75% of the expenditures for the same period in the month of August, indicating the continuation of the decline. At the present time the Administration has an unexpended balance of $89.4 M and additional allocations will be made to complete programs now under way amounting to $50.0 M, which will leave an unexpended balance at the end of the fiscal year of approximately $40.0 M.

With respect to the increase in expenditures of Public Works Administration for loans and grants to States for the month of August, 1937, over the month of August, 1936, you will realize that these expenditures are on a net basis. The actual payments for the month of August, 1936, were $33.9 M, offset by repayments through liquidation of assets of $18.0 M, leaving a net expenditure of $15.9 M. For the month of August, 1937, the actual expenditures were $19.6 M, while repayments through liquidation of assets amounted to only $1.6 M, leaving a net expenditure of $18.0 M. It can be readily seen, therefore, that there has been a decline of $14.3 M. in the expenditures of the Public Works Administration. There has also been a decline of $16.4 M in repayments. These repayments are almost entirely through bond sales to the Reconstruction Finance Corporation. Two factors ordinarily govern the disposition of these bonds - first, the needs of the Public Works Administration for additional funds for the purpose of obligation, and, second, the type of bonds which the Public Works Administration holds in its portfolio. The Reconstruction Finance Corporation takes such bonds as are considered readily marketable. On August 31, 1937, Public Works Administration had on hand bonds to the value of $128.8 M, while the Reconstruction Finance Corporation held $86.8 M worth of securities.

FDL

BUREAU OF THE BUDGET

WASHINGTON

Sept 22, 1937

MEMORANDUM FOR THE SECRETARY:

The following tabulation indicates the amount made available by Congress for grants for Public Works Administration non-Federal projects from funds received from the sale of securities and projects approved by the President through September 20, 1937.

Public Works Administration		Amount
Grants authorized under ERA of 1936		$300,000,000
Additional grants authorized under PWA Extension Act of 1937		59,000,000
Total made available for grants		$359,000,000
Projects approved by the President		
Under ERA of 1936 to 6/30/37	$163,604,913	
Under PWA Extension Act to 9/20/37	113,168,756	276,773,669
Balance		$ 82,226,331
Less Administrative Expenses 1938		15,000,000
Available for additional projects and administration after 1938		$ 67,226,331

F. J. Bailey

Acting Administrative Assistant.

September 24, 1937.

MEMORANDUM FOR MR. BAILEY:

The balance of funds standing to the credit of the Public Works Administration is entirely obligated. To meet obligations under the program which the President has approved, it will be necessary to supplement the existing balance of P.W.A. funds by the sale of $61,000,000 of the total amount of $129,000,000 of bonds held by P.W.A.

It will also be necessary to sell bonds in the amount of about $8,000,000 to provide funds for administrative expenses for the fiscal year 1939.

Just how much of the remaining $60,000,000 in bonds can be converted into cash during 1938 could not be estimated without an examination of the portfolio of the Public Works Administration. Some of these securities are readily marketable; others by reason of the small size of the issue are only salable locally in the community where the project is under way; still others are payable from revenue produced by the project for the construction of which they are issued. This latter group could not be considered readily marketable until the project has been completed and begins to bring in revenue, and some of these projects will not be completed during the current fiscal year.

If the $60,000,000 in bonds is sold to the Reconstruction Finance Corporation, the cash would be deposited to the credit of the Public Works Administration. However, unless the Reconstruction Finance Corporation is able to dispose of these bonds the total of Government expenditures would not be affected, since Reconstruction Finance Corporation expenditures would increase in the same amount as the Public Works Administration expenditures were reduced by application of the proceeds of the sale to the Reconstruction Finance Corporation.

The proceeds of all bonds held to maturity by the Public Works Administration must be applied to the reduction of the public debt, but this amount will be small in 1938.

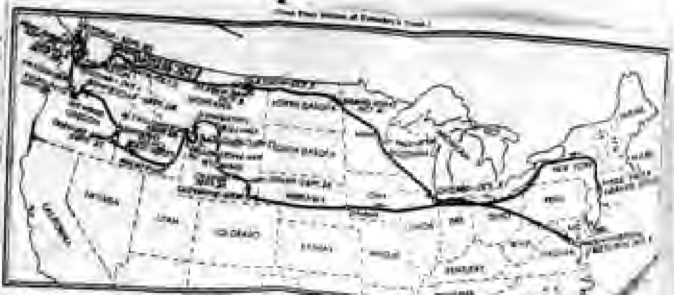
HMB

PRESIDENT SCOUTS 'POLITICS' ON TOUR

He Explains Schedule Brings Him Through States of Court Plan Opponents

TELLS WIND-UP OF PWA

No Word From Black on Klan. It Is Stated, as He Prepares to Start West Today



ROUTES WHICH PRESIDENT WILL FOLLOW TO AND FROM THE PACIFIC

New York Times

Sept. 22, 1937

198

September 24, 1937.

MR. KIELEY:

Here are two memoranda requested by the Secretary, in further explanation of my memorandum to him of September 22.

F.J. Bailey

September 24, 1937.

MEMORANDUM FOR THE SECRETARY:

In connection with the estimated unexpended balance of $40,000,000 under the allocations to the Farm Security (Resettlement) Administration, the estimate is based on two factors - first, the current rate of expenditure, and, second, the carry-over of unexpended balances at the close of the fiscal year 1936.

On June 30, 1937, the Resettlement Administration had outstanding unliquidated obligations in the amount of $34,000,000. It is estimated that somewhere in the neighborhood of $30,000,000 of obligations will be unliquidated on June 30, 1938, and that $10,000,000 will remain unobligated at that time. However, most of this latter amount will be needed for obligation to complete programs which will be under way during the present fiscal year.

The original amount which it was estimated that Resettlement would require from the 1937 relief appropriation was reduced by about $13,000,000 which was placed in the general reserve under the relief appropriation. It was assumed that this would be the maximum saving which could be made under the Resettlement program. It will probably be as much as we can expect if we maintain the reserve now established. The cash estimate for the year, of course, was based on the assumption that this reserve would be maintained.

FJBailey

September 22, 1937.

MEMORANDUM FOR MR. BAILEY:

With respect to your inquiry as to the expenditures of the Resettlement Administration, particularly the excess of expenditures in August, 1937, over the corresponding month for 1936, you are advised that the program of the Administration reached a peak during the last four months of the fiscal year 1937 and started to decline in the present fiscal year. There will be a gradual decline in expenditures during the remaining months and it is anticipated that the total for this year will be about $135,000,000 as compared to approximately $210,000,000 in the past fiscal year. The following statement shows the monthly expenditures from the high point in March, 1937 to and including August:

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The expenditures for the first 18 days of September are $6.2 M or about 75% of the expenditures for the same period in the month of August, indicating the continuation of the decline. At the present time the Administration has an unexpended balance of $89.4 M and additional allocations will be made to complete programs now under way amounting to $50.0 M, which will leave an unexpended balance at the end of the fiscal year of approximately $40.0 M.

With respect to the increase in expenditures of Public Works Administration for loans and grants to States for the month of August, 1937, over the month of August, 1936, you will realize that these expenditures are on a net basis. The actual payments for the month of August, 1936, were $33.9 M, offset by repayments through liquidation of assets of $18.0 M, leaving a net expenditure of $15.9 M. For the month of August, 1937, the actual expenditures were $19.6 M, while repayments through liquidation of assets amounted to only $1.6 M, leaving a net expenditure of $18.0 M. It can be readily seen, therefore, that there has been a decline of $14.3 M, in the expenditures of the Public Works Administration. There has also been a decline of $16.4 M in repayments. These repayments are almost entirely through bond sales to the Reconstruction Finance Corporation. Two factors ordinarily govern the disposition of these bonds - first, the needs of the Public Works Administration for additional funds for the purpose of obligation, and, second, the type of bonds which the Public Works Administration holds in its portfolio. The Reconstruction Finance Corporation takes such bonds as are considered readily marketable. On August 31, 1937, Public Works Administration had on hand bonds to the value of $128.8 M, while the Reconstruction Finance Corporation held $86.8 M worth of securities.

September 24, 1937.

MR. KIELEY:

This memorandum is responsive to a request from the Secretary for suggestions as to existing Federal Corporations the continuance of which might properly be considered unnecessary.

F.J.Bailey

September 24, 1937.

MEMORANDUM:

Re: Agencies which appear to have accomplished the purpose for which they were established and which might now be discontinued by Executive Order.

Export-Import Bank of Washington

This Agency was created by Executive Order 6581, dated February 2, 1934. By Public No. 1, approved January 31, 1935, it was recognized as an Agency of the United States. Under this Act provision was made for continuing the Corporation until June 16, 1937 or such earlier date as might be set by the President by Executive Order. Public No. 2, approved January 26, 1937 amended the Act of January 31, 1935, by striking out the date June 16, 1937 and inserting in lieu thereof June 30, 1939. The authority of the President to discontinue this Agency by Executive Order still remains.

The bank has never functioned as originally intended, that is, to promote and facilitate trade with the Soviet. It has engaged in the general development of foriegn trade. The volume of loans has never been very extensive and the need of continuing the Agency any longer is doubtful. The expenditures of this corporation in the present fiscal year up to September 21 amounted to only $41,676, while receipts amounted to $173,394.

Unless some real substantial reason can be found for continuing this Agency, and if there are no legal obstacles to its abolishment, the Agency should be discontinued by Executive Order and its assets transferred to the Reconstruction Finance Corporation.

Electric Home and Farm Authority

The present District of Columbia Corporation was authorized by Executive Order 7139, dated August 12, 1935. By Public No. 454, approved March 31, 1936, the Corporation was continued as an Agency of the United States until February 1, 1937. Under this Act the President was authorized to discontinue the Corporation at an earlier date. By the Act of January 26, 1937, Public No. 2, the extension date was changed to June 30, 1939, but the authority of the President to discontinue the Agency at an earlier date still remains.

When the authority was first organized, its activities were confined to the TVA area, later when its offices were moved to Washington and since then constant efforts have been made to extend operations all over the United States. Today the Corporation is carrying paper valued at more than $4,500,000 and is operating in such cities as Fort Wayne, Indiana; Lansing, Michigan; Los Angeles, California; Kansas City, Kansas; Springfield, Illinois; Hartford, Connecticut, etc.

The need for the continuance of this Corporation as an Agency of the United States may well be questioned. It can not very well point to any accomplishment in bringing about the reduction of interest rates because its own rates were reduced by the elimination of certain charges in order that it might successfully compete with other financing companies in Los Angeles.

As there is apparently no lack of facilities for financing the purchase of electrical equipment at reasonable rates it would seem that there is no sound reason why advantage should not be taken of the authority conferred on the President by the Act of March 31, 1936, and the Agency discontinued by Executive Order. If such action is taken, its assets should be transferred to the Reconstruction Finance Corporation.

JBailey

September 24, 1937.

MEMORANDUM:

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Unless some real substantial reason can be found for continuing this Agency, and if there are no legal obstacles to its abolishment, the Agency should be discontinued by Executive Order and its assets transferred to the Reconstruction Finance Corporation.

Electric Home and Farm Authority

The present District of Columbia Corporation was authorized by Executive Order 7139, dated August 12, 1935. By Public No. 484, approved March 31, 1936, the Corporation was continued as an Agency of the United States until February 1, 1937. Under this Act the President was authorized to discontinue the Corporation at an earlier date. By the Act of January 26, 1937, Public No. 2, the extension date was changed to June 30, 1939, but the authority of the President to discontinue the Agency at an earlier date still remains.

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JHB

abp

STATEMENT OF RECEIPTS, APPROPRIATIONS AND EXPENDITURES,
FISCAL YEARS 1938 AND 1939

	Fiscal Year 1938		Fiscal Year 1939		
RECEIPTS		$6,650,410,000		$6,650,410,000	
	Appropriations (including balances of emergency funds)	Estimated Expenditures	Estimates of appropriations as submitted	Estimated Expenditures	Increase (+) or decrease (-) between 1938 appropriations and 1939 appropriation estimates
Legislative, Civil Departments and Agencies and the Judiciary:					
1. Legislative establishment	$24,325,691.78	$23,500,000	$24,700,821.78	24	+ $375,130
2. Department of Agriculture	113,790,873	103,000,000	153,389,190	115	+ 39,648,317
Public highways	180,000,000	153,000,000	287,377,000	220	+ 107,377,000
Farm Tenancy	20,000,000	12,000,000	143,742,237	110	+ 123,742,237
3. Department of Commerce	43,363,342	39,000,000	61,006,994	40	+ 17,643,652
4. Department of the Interior	146,646,287.85	115,000,000	203,090,982.66	160	+ 56,444,694.81
U. S. Housing Authority	1,000,000	1,000,000	-	-	- 1,000,000
5. Department of Justice (including the Judiciary)	41,012,765	38,000,000	50,236,703	39	+ 9,223,938
6. Department of Labor	15,400,920	16,900,000	20,315,635	17	+ 4,914,715
7. Department of State	19,152,713.34	19,500,000	19,283,381.73	19	+ 130,668.39
8. Treasury Department	150,310,360	149,000,000	172,949,481	150	+ 22,639,121
Public buildings	35,432,065.94	45,000,000	15,000,000	40	- 20,432,065.94
9. War Department (nonmilitary)	183,819,697	149,000,000	181,522,999	130	- 2,296,698
Panama Canal	10,573,760	10,400,000	11,756,846	11	+ 1,183,086
10. Rural Electrification Administration	31,520,000	8,000,000	52,317,000	25	+ 20,797,000
11. Tennessee Valley Authority	40,166,270	43,000,000	42,000,000	40	+ 1,833,730
12. United States Maritime Commission	-	35,000,000	153,869,983	35	+ 153,869,983
13. Other independent offices and commissions	50,954,166	47,500,000	52,752,026	48	+ 1,797,860
14. Post Office Department, deficiency	29,748,053	-	18,515,363	- ?	- 11,232,690
15. District of Columbia, contribution	5,000,000	5,000,000	7,500,000	5	+ 2,500,000
Total, Legislative, civil departments and agencies and the judiciary	1,[illegible]126,966.91	1,060,400,000	1,674,186,645.17	1,238 (166)	+ 528,989,678.26
National Defense:					
1. Navy Department	526,543,308	540,000,000	629,665,104	560	+ 103,121,796
2. War Department	415,263,158	385,000,000	487,453,043	425	+ 72,189,885
Total, national defense	941,806,462	925,000,000	1,117,118,147	985	+ 175,311,685
Veterans' Administration	585,832,000	580,000,000	573,022,500	550	- 12,809,500
IV. Agricultural Adjustment Program:					
Sec. 32, Act 8/24/35 (30% of Customs)	108,894,150	475,000,000	125,097,214	140	+ 16,203,064
Other	[illegible]		488,100,000	440	- [illegible]
Total, Agricultural Adjustment Program	[illegible]	475,000,000	613,197,214	580	- [illegible]
V. Civilian Conservation Corps	350,000,000	310,000,000	325,006,383	290	- 24,993,617
VI. Social Security:					
1. Administrative expenses	23,631,000	20,000,000	25,799,229	20	+ 2,168,229
2. Grants	251,415,678	230,000,000	394,454,000	325	+ 143,038,322
Total, Social Security	275,046,678	250,000,000	420,253,229	345	+ 145,206,551
VII. Interest on the public debt	925,000,000	925,000,000	971,000,000	971	+ 46,000,000
VIII. Refunds:					
1. Customs	16,000,000	16,000,000	16,000,000	16	-
2. Internal Revenue	30,000,000	30,000,000	36,850,000	35	+ 6,850,000
Total, refunds	46,000,000	46,000,000	52,850,000	51	+ 6,850,000
IX. Recovery and Relief:					
1. Agricultural Aid:					
(1) Federal land banks	35,000,000 (39,322,786)	55,000,000	21,200,000 (26,322,786)	45	- 13,800,000
(2) Federal Farm Mortgage Corporation, reduction in interest rates	5,000,000		8,350,000		+ 3,350,000
Total, agricultural aid	40,000,000 (39,322,786)	55,000,000	29,550,000 (26,322,786)	45	- 10,450,000
2. Relief	(12,740,007)	2,000,000	(10,740,007)	2	

STATEMENT OF RECEIPTS, APPROPRIATIONS AND EXPENDITURES,

FISCAL YEARS 1938 AND 1939

	FISCAL YEAR 1938		FISCAL YEAR 1939		
	Appropriations (including balances of emergency funds)	Estimated Expenditures	Estimates of appropriations as submitted	Estimated Expenditures	Increase (+) or decrease (-) between 1938 appropriations and 1939 appropriation estimates
IX. Recovery and Relief (cont'd):					
3. Public works:					
(1) Administrative expenses, Public Works Administration	(15,000,000)	15,000,000	-	10	
(2) Public highways	(139,188,326)	100,000,000	(39,188,326)	30	
(3) River and harbor work and flood control	(73,808,425)	30,000,000	(43,809,425)	30	
(4) Rural Electrification Administration	(50,247,231)	25,000,000	(85,247,231)	20	
	1,300,000,000	1,275,000,000	1,000,000,000	1,100	- 300,000,000
(5) Works Progress Administration	(151,078,597)		(216,078,597)		- 82,000,000
(6) Other public works (national defense, public buildings, etc.)	82,000,000 (149,339,421)	200,000,000	(67,339,421)	50	
Total, public works	1,382,000,000 (694,063,000)	1,645,000,000	1,000,000,000 (391,063,000)	1,220	- 382,000,000
4. Aid to home-owners:					
(1) Home-loan system	(5,041,074)	4,000,000	(1,041,074)	1	
(2) Emergency housing	(55,045,594)	35,000,000	(20,045,594)	15	
(3) Federal Housing Administration	(10,000,000)	10,000,000	-	7	
(4) Resettlement (Farm Security Administration	118,000,000 (99,011,778)	125,000,000	(92,011,778)	40	- 118,000,000
Total, aid to home-owners	118,000,000 (169,098,406)	174,000,000	(113,098,406)	64	- 118,000,000
5. Miscellaneous:					
(1) Administration for Industrial Recovery	(62,244)	-	(62,244)	-	
Total, recovery and relief	1,540,000,000 (675,286,443)	1,876,000,000	1,029,550,000 (539,286,443)	1,341	- 510,450,000
X. Revolving funds (net):					
1. Agricultural aid:				50	
(1) Commodity Credit Corporation	(211,988,637)	100,000,000	(111,988,637)	50	
(2) Farm Credit Administration	(69,431,298)	a/10,000,000	(79,431,298)	10	
Total, agricultural aid	(281,419,935)	90,000,000	(191,419,935)	40	
2. Public works:					
(1) Loans and grants to States, municipalities, etc.	(357,498,809)	200,000,000	(197,498,809)	150	
(2) Loans to railroads					
3. Miscellaneous:					
(1) Export-Import Bank of Washington	(28,083,425)	-	(28,083,425)	-	
(2) Reconstruction Finance Corporation (direct loans and expenditures)	1/	a/150,000,000	1/	5,100	
Total, miscellaneous	(28,083,425)	a/150,000,000	(28,083,425)	5,100	
Total, revolving funds	(707,002,169)	140,000,000	(417,002,169)	90	
XI. Transfers to trust accounts, etc.:					
1. Old-age reserve account	500,000,000	425,000,000	510,000,000	510	+ 10,000,000
2. Railroad Retirement account	144,310,077	138,000,000	121,000,000	121	- 23,310,077
3. Government employees' retirement funds (United States share)	73,255,000	73,255,000	73,254,600	73	- 400
Total, transfers to trust accounts, etc.	717,565,077	636,255,000	704,254,600	704	- 13,310,477
XII. Supplemental items		180,000,000		100 (50)	
Total (excluding debt retirement)	7,193,[illegible].91 (1,582,283,612)	7,345,655,000	7,496,938,718.17 (956,288,612)	7,245	+ 297,[illegible]
Net deficit		695,265,000		594.6	
XIII. Debt retirement	582,515,000	300,000,000	591,515,000	592	+ 9,000,000
Total	7,776,[illegible].91 (1,582,288,612)	7,645,655,000	8,088,453,718.27 (956,288,612)	7,837	+ 305,[illegible]
Gross deficit		895,265,000		1,186.6	

a/ Excess of credits, deduct.

1/ The Reconstruction Finance Corporation is authorized to borrow from the Treasury to supply its requirements.

COMPARISON OF EXPENDITURES FOR THE FIRST TWO MONTHS OF THE FISCAL YEAR 1938 WITH THE CORRESPONDING PERIOD IN THE FISCAL YEAR 1937 (GENERAL AND EMERGENCY FUNDS COMBINED WHERE POSSIBLE.)

	July 1 to Aug. 31, 1936	July 1 to Aug. 31, 1937	Increase (+) Decrease (-)
Civil Departments and Agencies	103,983,925.61	120,181,316.19	+ 16,197,390.58
Social Security Act	25,523,482.27	46,583,075.29	+ 21,059,593.02
National defense:			
Army	66,548,676.91	67,796,868.49	+ 1,248,191.58
Navy	77,447,433.21	90,312,548.47	+ 12,865,115.26
Veterans' Administration	96,399,322.22	97,070,652.92	+ 671,330.70
Agricultural Adjustment Program	57,774,703.58	37,607,587.05	- 20,167,116.53
Civilian Conservation Corps	23,806,529.79	63,231,634.84	+ 39,425,105.05
Farm Credit Administration	a 8,726,011.68	a 4,757,800.42	+ 3,968,211.26
Interest on the public debt	35,787,357.67	32,970,157.67	- 2,817,200.00
Refunds	9,599,738.01	7,967,674.89	- 1,632,063.12
Federal land banks	11,844,262.51	9,917,190.88	- 1,927,071.63
Relief	49,202,191.14	839,567.17	- 48,362,623.97
Public works (including work relief):			
Reclamation projects	3,524,366.01	11,541,013.66	+ 8,016,647.65
Public buildings	3,052,009.56	7,585,533.24	+ 4,533,523.68
Public highways	76,366,372.03	52,048,363.74	-24,318,008.29
River and harbor work and flood control	46,128,071.90	35,472,514.05	- 10,655,557.85
Rural Electrification Administration	650,299.83	4,244,973.76	+ 3,594,673.93
Works Progress Administration	314,680,469.65	235,034,721.01	- 79,645,748.64
Tennessee Valley Authority	3,789,614.02	7,025,954.37	+ 3,236,340.35
Loans and grants to States, etc.	45,415,298.19	37,167,593.60	- 8,247,704.59
Loans to railroads	157,950.78	a 76,579.88	- 234,530.66
All other	67,674,731.32	44,084,719.54	- 23,590,011.78
Home loan system	2,495,751.19	1,516,640.58	- 979,110.61
Emergency housing	4,957,692.67	11,362,745.74	+ 6,405,053.07
Federal Housing Administration	2,346,018.61	2,647,806.25	+ 301,787.64
Resettlement Administration	23,429,757.05	32,231,280.23	+ 8,801,523.18
Administration for Industrial Recovery	5,006.34	a 5,425.74	- 10,432.08
Commodity Credit Corporation	a 66,406,100.51	a 1,129,304.07	+ 65,276,796.44
Export-Import Bank of Washington	a 466,446.60	a 95,119.48	+ 371,327.12
Reconstruction Finance Corporation	a199,961,994.75	a21,900,175.32	+178,061,819.43
Transfers to trust accounts, etc:	877	1025.5	151.5
Old age reserve account	—	83,000,000.00	+ 83,000,000.00
Railroad retirement account	—	30,000,000.00	+ 30,000,000.00
Adjusted service certificate fund	39,753,332.48	—	- 39,753,332.48
Government employees' retirement funds (U.S. Share)	46,735,300.00	73,255,000.00	+ 26,519,700.00
Subtotal	963,519,111.01	1,214,732,728.72	+251,213,617.71
Debt retirements	23,128,350.00	30,550.00	- 23,097,800.00
Total expenditures	986,647,461.01	1,214,763,278.72	+228,115,817.71

a Excess of credits, deduct.

Telephone conversation between Mr. Mulligan, Treasurer of the Reconstruction Finance Corporation, and Mr. Bartelt. September 27, 1937.

Mr. Bartelt: I was just down with the Secretary of the Treasury and he told me that he is going to have a conference with Mr. Jones tomorrow. He wanted to know if you would have Mr. Jones bring with him commitments outstanding against your balances. In connection with that I would like to ask you a question or two.

You expect to make payments this year of about $400,000,000 and your receipts from figures we have are estimated at $550,000,000, leaving net receipts over payments of $150,000,000.

Mr. Mulligan: I am going over the thing again today and I'll be able to give you a better idea of it then. That was made sometime ago and I want to go over the figures before I say anything.

Mr. Bartelt: Will Mr. Jones have that?

Mr. Mulligan: I don't know. If he wants it he will. I'm going to start right now.

Mr. Bartelt: Will you have him bring it with him?

Another thing, Mr. Mulligan, do you know of any way in which the Reconstruction Finance Corporation can turn the proceeds of its sales into the Treasury so as to avoid respending the money by the Public Works Administration?

Mr. Mulligan: I don't know of any way. We can buy securities from them.

Mr. Bartelt: Do you know of any way in which they would not be able to use the money?

Mr. Mulligan: I know of no way it could be done. We buy from the Public Works Administration. We have no control over the money from that point on. Mr. Claude Hamilton, the General Counsel, may be able to help you.

Mr. Bartelt: When you sell those securities can the money be turned into the Treasury?

Mr. Mulligan: It is turned into the Treasury.

Mr. Bartelt: It goes to your account?

Mr. Mulligan: You get it all. The only difference is our debt to you. When we sell to the Public Works Administration it increases our debt to you.

Mr. Bartelt: Would that be available for expenditure again?

Mr. Mulligan: Under the original law we were authorized to buy from the

Public Works Administration but not over $250,000,000. This was later increased to $400,000,000. Beyond that we can't go.

Mr. Bartelt: When you buy the securities from Ickes you give him a check and when you sell the securities you deposit that in the Treasury. I was wondering if there was some step in there that I had overlooked.

Mr. Mulligan: I don't think so. You seem to have a good idea of the thing.

Mr. Bartelt: The Secretary would like for Mr. Jones to bring those figures.

date?
Sept 27 ✓
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Receipts and Expenditures estimated by the
Reconstruction Finance Corporation
compared with actual

(In millions of dollars)

Fiscal year 1936	1936 Budget	1937 Budget	Actual
Receipts	327.0	656.1	1,164.1
Expenditures	712.1	1,222.6	925.4
Excess of receipts	---	---	238.7
Excess of expenditures	385.1	566.5	---

Fiscal year 1937	1937 Budget	1938 Budget	Actual
Receipts	290.6	715.8	739.4
Expenditures	806.1	514.6	405.5
Excess of receipts	---	201.2	333.9
Excess of expenditures	515.5	---	---

Fiscal year 1938 July and August	Cash withdrawal statement	Actual
Receipts	57.2	167.2
Expenditures	91.9	145.3
Excess of receipts	--	21.9
Excess of expenditures	34.7	--

Based upon estimates contained in President's Message of April 20, 1937.

COMPARATIVE ANALYSIS OF RECEIPTS AND EXPENDITURES.
(Arranged according to classification shown on page 2 of daily Treasury statements).

	July and August, 1937.			Fiscal Year - 1938.		
	Payments.	Repayments and collections.	Net Expenditures.	Payments.	Repayments and collections.	Net Expenditures.
GENERAL AND SPECIAL ACCOUNTS.						
Expenditures:						
1. General:						
Departmental	$ 106,566,799	$ 5,950,872	$ 100,615,927	$ 641,195,100	$ 8,550,100	$ 632,645,000
Public buildings	7,585,533	—	7,585,533	45,000,000	—	45,000,000
Public Highways	32,528,861	—	32,528,861	155,000,000	—	155,000,000
River and harbor work and flood control	28,868,610	—	28,868,610	142,000,000	—	142,000,000
Reclamation projects	6,115,417	—	6,115,417	40,000,000	—	40,000,000
Panama Canal	2,309,843	—	2,309,843	10,400,000	—	10,400,000
Postal deficiency	9,365,734	—	9,365,734	30,000,000	—	30,000,000
Railroad Retirement Act	871,812	—	871,812	2,200,000	—	2,200,000
Social Security Act	46,582,075	—	46,582,075	306,000,000	—	306,000,000
District of Columbia (U. S. share)	5,000,000	—	5,000,000	5,000,000	—	5,000,000
National defense:						
Army	67,796,868	—	67,796,868	393,000,000	—	393,000,000
Navy	90,312,546	—	90,312,546	560,000,000	—	560,000,000
Veterans' Administration	97,070,653	—	97,070,653	580,000,000	—	580,000,000
Agricultural Adjustment Program	36,717,827	—	36,717,827	496,500,000	—	496,500,000
Civilian Conservation Corps	63,221,635	—	63,221,635	350,000,000	—	350,000,000
Farm Credit Administration	3,990,714	2,873,931	1,116,783	54,567,000	10,567,000	44,000,000
Tennessee Valley Authority	7,028,954	—	7,028,954	49,000,000	—	49,000,000
Interest on the Public Debt	38,970,158	—	38,970,158	880,000,000	—	880,000,000
Refunds:						
Customs	2,377,093	—	2,377,093	17,000,000	—	17,000,000
Internal revenue	5,090,582	—	5,090,582	36,000,000	—	36,000,000
Processing tax on farm products	889,760	—	889,760	42,000,000	—	42,000,000
Subtotal	655,799,477	8,824,803	646,974,674	4,834,862,100	19,117,100	4,815,745,000
11. Recovery and relief:						
Agricultural aid:						
Federal land banks	9,917,191	—	9,917,191	24,000,000	—	24,000,000
Relief	839,567	—	839,567	—	—	—
Public works (including work relief):						
Reclamation projects	5,425,597	—	5,425,597	15,000,000	—	15,000,000
Public highways	19,209,808	—	19,209,808	180,000,000	—	180,000,000
River and harbor work and flood control.	6,803,904	—	6,803,904	80,000,000	—	80,000,000
Rural Electrification Administration	4,244,974	—	4,244,974	5,000,000	—	5,000,000
Works Progress Administration	235,034,721	—	235,034,721	1,300,000,000	—	1,300,000,000
All other	44,102,694	17,974	44,084,720	162,040,000	40,000	162,000,000
Aid to home owners:						
Home loan system	1,516,641	—	1,516,641	2,000,000	—	2,000,000
Emergency housing	11,362,746	—	11,362,746	30,000,000	—	30,000,000
Federal Housing Administration	3,844,778	1,196,972	2,647,806	25,000,000	10,000,000	15,000,000
Resettlement Administration	38,251,280	—	38,251,280	131,000,000	—	131,000,000
Miscellaneous:						
Administration for Industrial Recovery	a 5,426	—	a 5,426	—	—	—
Subtotal	374,626,169	1,214,946	373,411,223	1,842,040,000	10,040,000	1,832,000,000
111. Revolving funds: (net)						
Agricultural aid:						
Commodity Credit Corporation	1,730,736	2,860,040	a 1,129,304	10,000,000	40,000,000	a 30,000,000
Farm Credit Administration	b 3,305,505	2,569,078	a 5,874,583	182,687	15,182,687	a 15,000,000
Public Works:						
Loans and grants to States, municipalities, etc.	41,376,856	4,209,262	37,167,594	280,500,000	100,000,000	180,500,000
Loans to railroads	10,590	87,170	a 76,580	—	500,000	a 500,000
Miscellaneous:						
Export-Import Bank of Washington	20,217	115,337	a 95,120	2,000,000	1,000,000	1,000,000
Reconstruction Finance Corporation - direct loans and expenditures	146,340,573	167,240,748	a 20,900,175	400,000,000	550,000,000	a 150,000,000
Subtotal	186,173,466	177,081,635	9,091,831	692,682,687	704,682,687	a 12,000,000
IV. Transfers to trust accounts, etc.:						
Old-age reserve account	93,000,000	—	93,000,000	540,000,000	—	540,000,000
Railroad retirement account	20,000,000	—	20,000,000	25,000,000	—	25,000,000
Adjusted service certificate fund	—	—	—	50,000,000	—	50,000,000
Government employees' retirement funds (U. S. share)	73,255,000	—	73,255,000	73,255,000	—	73,255,000
Subtotal	186,255,000	—	186,255,000	688,255,000	—	688,255,000
Total expenditures excluding debt retirements	1,402,854,112	187,121,384	1,215,732,728	8,057,839,787	733,839,787	7,324,000,000
Deficit	—	—	302,114,110	—	—	418,000,000

a Excess credits, deduct.
b Counter entry, deduct.

ACCOUNTS AND DEPOSITS,
September 27, 1937.

PUBLIC WORKS EXPENDITURES 1938

	Amount available for cash withdrawal in 1938	Cash Withdrawal Estimates April 20	Sept. 1	Present	Balance available for cash withdrawal in 1939	Unliquidated obligations carried into 1939
1. General Public Works Program items.............						
Public Buildings..............................	130,197,066	45,000,000	45,000,000	45,000,000	85,197,066	72,619,257
Public Highways..............................	186,151,000	153,000,000	153,000,000	153,000,000	33,151,000	225,239,500 1/
Rivers and Harbors & Flood Control (improvement)..............................	218,000,000	127,000,000	105,000,000	105,000,000	113,000,000	81,921,942
Other..	185,573,314	115,000,000	100,000,000	96,000,000	89,573,314	81,951,775
Total, General Public Works Program	719,921,380	440,000,000	403,000,000	399,000,000	320,921,380	461,732,474
2. Emergency Fund expenditures supplemental to above -						
Public Buildings..............................	26,805,824	10,000,000	15,000,000	10,000,000	16,805,824	16,069,957
Public Highways..............................	155,906,700	130,000,000	100,000,000	100,000,000	55,906,700	55,906,700
Rivers and Harbors and Flood Control.........	60,794,415	20,000,000	30,000,000	25,000,000	35,794,415	6,109,065
Other..	31,139,898	15,000,000	15,000,000	15,000,000	16,139,898	16,108,808
Total, Emergency......................	274,646,837	175,000,000	160,000,000	150,000,000	124,646,837	94,194,530
3. Additional public works included in statement of Mr. Haas -						
Rivers and Harbors Maintenance..............	45,765,000	35,000,000	38,000,000	38,000,000	7,765,000	3,650,000
Emergency Housing..........................	55,034,074	30,000,000	35,000,000	35,000,000	20,034,074	19,000,000
P.W.A. grants and administrative expenses..	405,791,064	225,000,000	250,000,000	215,000,000	190,791,064	190,791,064
Total Additional....................	506,590,138	290,000,000	323,000,000	288,000,000	218,590,138	213,441,064
Total items 1 to 3..................	1,501,158,355	905,000,000	886,000,000	837,000,000	664,158,355	769,368,068
4. Other items in nature of public works -						
Soil erosion..............................	23,075,550	19,000,000	18,000,000	18,000,000	5,075,550	5,075,550
Army construction..........................	9,878,000	9,000,000	8,000,000	8,000,000	1,878,000	1,695,000
Navy - Yards and Docks....................	9,387,000	6,000,000	6,000,000	6,000,000	3,387,000	7,165,000
P.W.A. loans..............................	2/21,000,000	3/35,000,000	3/35,000,000	- - -	21,000,000	- - -
Total other items....................	63,340,550	3/ 1,000,000	3/ 3,000,000	32,000,000	31,340,550	13,934,550
Grand Total..........................	1,564,498,805	904,000,000	883,000,000	869,000,000	695,498,905	783,302,618

1/ The 1939 authorization of $216,000,000 will also be an outstanding obligation under the highway act.

2/ Also $129,000,000 in bonds.

3/ Excess of credits deduct.

PUBLIC WORKS ADMINISTRATION REVOLVING FUND

Cash Account

		(Millions)
Cash balance June 30, 1937		$ 246
Cash to be received from sales to Reconstruction Finance Corporation:		
1938	$ 150	
1939	100	250
		496
Payments for grants:		
1938	$ 88	
1939	128	
Payments for administrative expenses:		
1938	15	
1939	9	240
Available for loans		256
Payments for loans:		
1938	148	
1939	62	210
Cash balance (estimated June 30, 1939) .		46

Accounts and Deposits
September 29, 1937

PUBLIC WORKS ADMINISTRATION REVOLVING FUND

Summary

	Cash	Securities
On hand June 30, 1937	246	+ 129
Sale of Securities to RFC		
1938	+ 150	- 150
1939	+ 100	- 100
Total funds available	496	
Disbursements		
Grants -		
1938	88	-
1939	128	-
Administrative expenses		
1938	15	-
1939	9	-
Loans		
1938	148	+ 148
1939	62	+ 62
Total disbursements	450	
On hand June 30, 1939:		-
Cash	46	
Securities	-	89
		46
		135

Accounts & Deposits
September 29, 1937.

Major Construction Items

(In millions of dollars)

	Present estimate (Sept. 1939)	April 20, 1937 Estimate	Increase (+) Decrease (-)
General:			
Public buildings	45.0	45.0	—
Public highways	153.0	153.0	—
Rivers and harbors	105.0	127.0	- 22.0
Reclamation	35.0	40.0	- 5.0
National Park service	4.0	4.5	- .5
Indian ~~service~~	5.0	5.5	- .5
Tennessee Valley Authority . . .	40.0	49.0	- 9.0
Sub-total	387.0	424.0	- 37.0
All other	12.0	16.0	- 4.0
Total general	399.0	440.0	- 41.0
Emergency:			
Public buildings	10.0	10.0	—
Public highways	100.0	130.0	- 30.0
Rivers and harbors	25.0	20.0	+ 5.0
Reclamation	15.0	15.0	—
Total emergency	150.0	175.0	- 25.0
Grand total	549.0	615.0	- 66.0

MAJOR CONSTRUCTION APPROPRIATIONS

Cash Withdrawals — General Funds

Public Buildings:

1. Admiral Peoples' memorandum of September 16 to the Secretary of the Treasury shows present estimated cash withdrawals of $3,800,000, or about 16 per cent of the appropriation. This is a kind of appropriation that does not call for large expenditures during the year for which the appropriation is made. The purchase of sites and preparation of plans and specifications require some time and represent a relatively small percentage of the total appropriations for the buildings. As a matter of fact, only about 12 per cent of the appropriation of $60,000,000 for 1937 was expended during that year; and only about 9 per cent of the same appropriation for 1936 was expended during that year.

In addition to the $23,000,000 appropriation for 1938, there was available at the beginning of the present fiscal year $90,000,000 of previous year appropriations for this purpose.

2. This appropriation in the amount of $2,325,000 is for completion of the Bureau of Engraving and Printing annex. The contractor is well up with his schedule and it is now expected that the building will be completed in April; and that this progress makes necessary a revised estimate of cash withdrawals on this account of $2,000,000 by June 30, next.

3. A check for $10,107,066 has already been drawn and cashed.

Public Highways:

4, 5, 6, 7, and 8. On the basis of the present departmental estimates of expenditure, all this $180,000,000 will be paid out by June 30, 1938, and there will also be paid out by that date $100,000,000 of emergency funds. (This $100,000,000 represents payments to the States in the amount of $120,000,000 less return of $20,000,000 previously advanced to the States).

On this basis there would remain on June 30, 1938, unliquidated obligations incurred during that year by the States under the Highway Acts of $177,000,000 out of the general funds, and $23,000,000 out of emergency funds. (By January first, next, an additional $216,500,000 will be by law apportioned for obligation by the States on account of the 1938 authorization).

The present budget estimate of expenditures for the fiscal year 1938 is $253,000,000, or $27,000,000 less than the departmental estimate of expenditures under both the general and emergency funds. It is not believed that the departmental estimate can be safely discounted in an amount greater than $27,000,000.

Rivers and Harbors, and Flood Control:

9, 10 and 11. Out of a total availability for cash withdrawal in 1938 of $218,000,000, the Department had estimated actual cash withdrawals of $127,000,000, which figures our present Budget survey place at $105,000,000. This present estimate of $105,000,000 represents $60,000,000 in cash withdrawals from unliquidated obligations brought into 1938 and $45,000,000 of cash withdrawals from the 1938 appropriations of $142,500,000. The proposed reduction of $22,000,000 from the department's estimate of cash withdrawals for 1938 is based upon the assumptions that reserves of $34,000,000 can be maintained and that there will be considerable delay in the flood control construction program in connection with the securing of rights-of-way, in particular, those that are to be supplied by local interests.

Of a cash withdrawal availibility of $61,000,000 in emergency funds for river and harbor, and flood control, work in 1938, the department has estimated withdrawals of $31,000,000. Our present Budget estimate of cash withdrawals of emergency funds for this purpose for 1938 is now placed at $25,000,000, or $6,000,000 less than the departmental estimate. This is due in part to our belief of probable delays in securing rights-of-way for flood control construction, and in part to the inability to meet relief labor requirements of the Works Progress Administration.

Reclamation Service:

12 and 13. The possibilities with respect to delaying construction work, and hence reducing cash withdrawals for 1938, on the larger reclamation projects, are somewhat limited by the fact that these projects have been started in previous years and are now under way. There are, however, some possibilities along this line that are dependent upon securing rights-of-way and the signing of repayment contracts.

Of a total amount of $83,784,000 available for cash withdrawal for 1938, which includes unexpended balances of previous years' appropriations as well as the 1938 appropriation, the Department had estimated cash withdrawals in 1938 of $48,328,000. In our present survey of lower cash withdrawal possibilities for 1938, we have placed the figures at $35,000,000. Of this amount $20,000,000 would be on account of cash withdrawal balances brought into 1938, and $15,000,000 would be out of the 1938 appropriations of $39,215,000.

These present Budget cash withdrawal figures are low figures. To realize them will require, it is thought, a further going over of the figures with the Reclamation Service under instructions to that service to somewhat delay its construction program.

The Reclamation Service has a 1938 available cash withdrawal amount in emergency funds of $31,139,000, and while it originally estimated a cash withdrawal from these funds of $26,765,000, our present Budget estimate of cash withdrawals of emergency funds for 1938 is down to $15,000,000. The same comment with respect to our present estimate of cash withdrawals from general funds applies to our ability to realize as low a cash withdrawal amount of emergency funds as $15,000,000.

National Park Service:

14. It is now estimated that of this 1938 appropriation of $10,500,000 for National Park roads and parkways, there will be cash withdrawals by the end of the year of about $2,500,000.

Indian Service:

15. On the basis of a revised estimate of cash withdrawals under these roads and construction appropriations for the Indian Service for 1938, it is believed that not more than $5,000,000 will be paid out by the end of the year.

Tennessee Valley Authority:

16. Of the amount of $52,233,000 available for cash withdrawal during the fiscal year 1938, the Authority had estimated withdrawals of $45,000,000 for the year. The lowest figures that we could now estimate for 1938 cash withdrawals would be $40,000,000, of which $35,000,000 would represent a cash withdrawal amount from the 1938 appropriations of $40,166,000.

FDB.

MAJOR CONSTRUCTION APPROPRIATIONS

Cash Withdrawals - General Fund

	Amount available for cash withdrawal 1938	Estimated Cash Withdrawal 1938: By departments (Form A)	Estimated Cash Withdrawal 1938: Current Budget estimate Sept 1937	April 1937 Est.	Appropriated for 1938	Estimated cash withdrawal from 1938 appropriations: By departments	Estimated cash withdrawal from 1938 appropriations: Current Budget estimate	
Public Buildings:								
Outside the District of Columbia	113,569,000	62,000,000)			23,000,000	15,000,000	3,800,000	1
In the District of Columbia	6,521,000	3,860,000)	45,000,000	46	2,425,000	1,448,000	2,000,000	2
Grand Central Station, P. O., New York	10,107,066	10,107,066)			10,107,066	10,107,066	10,107,066	3
Total	130,197,066	75,967,066	45,000,000		35,532,066	26,555,066	15,907,066	
Public Highways:								
Federal Aid Highway System	154,647,000	150,000,000)			150,000,000	150,000,000	125,000,000	4
Secondary or feeder roads	5,000,000	5,000,000)			5,000,000	5,000,000	4,500,000	5
Elimination of grade crossings	10,000,000	10,000,000)	153,000,000	153	10,000,000	10,000,000	9,000,000	6
Public land highways	3,004,000	2,500,000)			2,500,000	2,500,000	2,500,000	7
Forest roads and trails	13,500,000	13,500,000)			12,500,000	12,500,000	12,000,000	8
Total	186,151,000	181,000,000	153,000,000		180,000,000	180,000,000	153,000,000	
Rivers and harbors and flood control:								
Improvement of rivers and harbors	150,000,000	73,000,000)			90,000,000	20,000,000	18,000,000	9
Flood Control Act June 22, 1936	30,000,000	25,000,000)	105,000,000		30,000,000	25,000,000	15,000,000	10
Flood Control Mississippi River	38,000,000	29,000,000)			22,500,000	13,500,000	12,000,000	11
Total	218,000,000	127,000,000	105,000,000	127	142,500,000	58,500,000	45,000,000	
Reclamation:								
Boulder Canyon project	13,601,863	9,000,000)	35,000,000	40	4,050,000	0}	15,000,000	12
Other	70,183,075	39,328,000)			35,165,000	19,000,000}		13
Total	83,784,938	48,328,000	35,000,000		39,215,000	19,000,000	15,000,000	
National Park Service	14,000,000	6,500,000	4,000,000	4.5	10,500,000	3,000,000	2,500,000	14
Indian Service	7,401,775	6,877,775	5,000,000	5.5	7,216,775	6,692,775	5,000,000	15
Tennessee Valley Authority	52,233,000	44,978,990	40,000,000	49.	40,166,270	32,912,260	35,000,000	16
GRAND TOTAL	691,767,779	490,651,831	387,000,000	428.	455,130,111	326,660,101	271,407,066	
all other			12.	16				
			399	440				

MAJOR CONSTRUCTION ALLOCATIONS

Cash Withdrawals - Emergency Funds

	Amount available for cash withdrawal 1938	Estimated cash withdrawal 1938 — By departments (Form A)	Estimated cash withdrawal 1938 — Current Budget estimate	
Public buildings:				
Act June 19, 1934	$ 15,726,742	$ 10,000,000		
N.I.R. funds including New Interior Building	6,543,084	4,000,000	$ 10,000,000	10
P.W.A. allotments	4,535,998	2,536,564		
Total	26,805,824	16,536,564	$ 10,000,000	
Public highways:				
N.I.R. highway funds	$ 14,111,100	$ 11,171,500	100,000,000	120
N.I.R. Forest highways	44,100	44,100		
Emergency relief, Highways, grade crossing elimination	133,537,000	101,000,000		
Emergency relief, Highways, roads and streets	8,214,500	8,214,500		
Total	155,906,700	120,430,100	100,000,000	
Rivers and harbors and flood control				
Emergency relief, flood control, Miss. River and tributaries, 1938	15,000,000		-	
Emergency relief, rivers and harbors, and flood control, 1935 - 1937	7,686,709	7,686,709		
Emergency relief, flood control, general (Act 7/19/37) 1938	30,000,000	15,000,000	25,000,000	20
Emergency relief, flood control and other conservation	632,933	632,933		
N.I.R. flood control, 1933 - 39	7,474,773	7,474,773		
Total	60,794,415	30,794,415	25,000,000	
Reclamation:				
N.I.R. Boulder Canyon project, inc. All American Canal	994,381	994,381		
P.W.A. Boulder Canyon	578,506	575,000		
N.I.R. Parker Gila project	31,090	-	15,000,000	15
N.I.R. Reclamation, 1933 - 39	10,200,000	9,000,000		
Emergency relief, Boulder Canyon	2,995,921	2,995,921		
Emergency relief, other reclamation	16,340,000	13,200,000		
Total	31,139,898	26,765,302	15,000,000	
Grand Total	274,646,837	194,526,381	150,000,000	175

PUBLIC WORKS ADMINISTRATION REVOLVING FUND

Securities Account

		(Millions)
Securities on hand, June 30, 1937		$ 129
Securities to be purchased from public bodies:		
1938	$ 148	
1939	62	210
Total securities		339
Securities to be sold to Reconstruction Finance Corporation:		
1938	150	
1939	100	250
Securities which will be on hand June 30, 1939		89

Accounts and Deposits
September 29, 1937

no date

Actual expenditures of the Government for fiscal years 1926-1937
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	Total 1926-1929	Total 1930-1933	Total 1934-1937	Aggregate 1926-1937
Regular operating expenditures:				
Legislative, judicial and civil establishments	2,816.0	3,256.7	2,749.1	8,821.8
National defense	2,466.8	2,775.9	3,096.9	8,339.6
Veterans' pensions and benefits (excluding bonus prepayment)	2,829.3	3,541.1	2,415.2	8,785.6
Interest on the public debt	3,029.0	2,559.6	3,193.3	8,781.9
Total	11,141.1	12,133.3	11,454.5	34,728.9
Public works:				
Public buildings	47.1	303.1	281.0	631.2
Public highways	377.9	651.8	1,179.7	2,209.4
Rivers and harbors	292.0	463.0	812.5	1,567.5
PWA (grants and admin. expenses)	-	-	574.6	574.6
Other	31.7	76.4	362.0	470.1
Total	748.7	1,494.3	3,209.8	5,452.8
Unemployment relief:				
Direct relief	-	350.7	3,355.4	3,706.1
Work relief	-	-	3,977.5	3,977.5
Civilian Conservation Corps	-	-	1,639.5	1,639.5
Total	-	350.7	8,972.4	9,323.1
Agricultural adjustment program	-	-	2,098.7	2,098.7
Social Security	-	-	476.2	476.2
Miscellaneous	-	-	36.6	36.6
Total nonrecoverable expenditures (excluding bonus and debt retirement)	11,889.8	13,978.3	26,248.2	52,116.3
Loans (net)	5.6	1,666.2	456.9	2,128.7
Subscriptions to capital stock	6.0	737.7	1,089.7	1,833.4
Total expenditures (excluding bonus and debt retirement)	11,901.4	16,382.2	27,794.8	56,078.4
Bonus prepayment	-	-	2,230.2	2,230.2
Debt retirement	2,096.9	1,868.2	1,440.7	5,405.8
Total expenditures	13,998.3	18,250.4	31,465.7	63,714.4

Actual expenditures of the Government for fiscal years 1926-1929
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1926	1927	1928	1929	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments	666.9	589.4	708.6	851.1	2,816.0
National defense	579.7	584.4	624.6	678.1	2,466.8
Veterans' pensions and benefits (excluding bonus prepayment)	650.5	721.8	723.9	733.1	2,829.3
Interest on the public debt	831.9	787.0	731.8	678.3	3,029.0
Total	2,729.0	2,682.6	2,788.9	2,940.6	11,141.1
Public Works:					
Public buildings	2.1	7.8	6.7	30.5	47.1
Public highways	98.8	92.5	91.1	95.5	377.9
Rivers and harbors	70.3	65.4	72.9	83.4	292.0
PWA (grants and admin. expenses)	-	-	-	-	-
Other	3.4	8.2	9.5	10.6	31.7
Total	174.6	173.9	180.2	220.0	748.7
Unemployment relief:					
Direct relief	-	-	-	-	-
Work relief	-	-	-	-	-
Civilian Conservation Corps	-	-	-	-	-
Total	-	-	-	-	-
Agricultural adjustment program	-	-	-	-	-
Social Security	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total nonrecoverable expenditures (excluding bonus and debt retirement)	2,903.6	2,856.5	2,969.1	3,160.6	11,889.8
Loans (net)	-	-	-	5.6	5.6
Subscriptions to capital stock	-	1.0	-	5.0	6.0
Total expenditures (excluding bonus and debt retirement)	2,903.6	2,857.5	2,969.1	3,171.2	11,901.4
Bonus Prepayment	-	-	-	-	-
Debt retirement	487.4	519.6	540.3	549.6	2,096.9
Total expenditures	3,391.0	3,377.1	3,509.4	3,720.8	13,998.3

Actual expenditures of the Government for fiscal years 1930-1933
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1930	1931	1932	1933	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments ...	789.5	790.9	978.8	697.5	3,256.7
National defense	701.3	699.2	707.6	667.8	2,775.9
Veterans' pensions and benefits (excluding bonus prepayments)	753.5	939.6	984.8	863.2	3,541.1
Interest on the public debt	659.3	611.6	599.3	689.4	2,559.6
Total	2,903.6	3,041.3	3,270.5	2,917.9	12,133.3
Public works:					
Public buildings	43.0	67.7	86.5	105.9	303.1
Public highways	89.3	174.4	209.9	178.2	651.8
Rivers and harbors	106.5	121.3	116.8	118.4	463.0
PWA (grants and admin. expenses)	-	-	-	-	-
Other	11.0	13.9	26.3	25.2	76.4
Total	249.8	377.3	439.5	427.7	1,494.3
Unemployment relief:					
Direct relief	-	-	-	350.7	350.7
Work relief	-	-	-	-	-
Civilian Conservation Corps	-	-	-	-	-
Total	-	-	-	350.7	350.7
Agricultural adjustment program	-	-	-	-	-
Social Security	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total nonrecoverable expenditures (excluding bonus and debt retirement)	3,153.4	3,418.6	3,710.0	3,696.3	13,978.3
Loans (net)	154.8	233.0	404.0	874.4	1,666.2
Subscriptions to capital stock	-	-	627.0	110.7	737.7
Total expenditures (excluding bonus and debt retirement)	3,308.2	3,651.6	4,741.0	4,681.4	16,382.2
Bonus Prepayment	-	-	-	-	-
Debt retirement	553.9	440.1	412.6	461.6	1,868.2
Total expenditures	3,862.1	4,091.7	5,153.6	5,143.0	18,250.4

Actual expenditures of the Government for fiscal years 1934-1937
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1934	1935	1936	1937	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments	572.5	597.7	781.1	797.8	2,749.1
National defense	540.3	709.9	911.6	935.1	3,096.9
Veterans' pensions and benefits (excluding bonus prepayment)	556.9	607.1	677.9	573.3	2,415.2
Interest on the public debt	756.6	820.9	749.4	866.4	3,193.3
Total	2,426.3	2,735.6	3,120.0	3,172.6	11,454.5
Public works:					
Public buildings	78.7	58.1	67.9	76.3	281.0
Public highways	267.9	317.3	243.9	350.6	1,179.7
Rivers and harbors	150.8	203.0	223.7	235.0	812.5
PWA (grants and admin. expenses)	18.8	48.9	233.9	273.0	574.6
Other	35.7	77.0	99.3	150.0	362.0
Total	551.9	704.3	868.7	1,084.9	3,209.8
Unemployment relief:					
Direct relief	715.8	1,914.1	591.7	133.8	3,355.4
Work relief	805.1	11.3	1,264.4	1,896.7	3,977.5
Civilian Conservation Corps	331.9	435.5	486.3	385.8	1,639.5
Total	1,852.8	2,360.9	2,342.4	2,416.3	8,972.4
Agricultural adjustment program	290.3	743.0	542.6	522.8	2,098.7
Social Security	-	-	28.4	447.8	476.2
Miscellaneous	8.7	21.1	6.8	-	36.6
Total nonrecoverable expenditures (excluding bonus and debt retirement)	5,130.0	6,564.9	6,908.9	7,644.4	26,248.2
Loans (net)	788.6	80.5	-175.2	-237.0	456.9
Subscriptions to capital stock	826.5	156.8	69.3	37.1	1,089.7
Total expenditures (excluding bonus and debt retirement)	6,745.1	6,802.2	6,803.0	7,444.5	27,794.8
Bonus prepayment	-	-	1,673.5	556.7	2,230.2
Debt retirement	359.9	573.6	403.2	104.0	1,440.7
Total expenditures	7,105.0	7,375.8	8,879.7	8,105.2	31,465.7

Proprietary Interest of the United States in Governmental Corporations and Credit Agencies, as of June 30, 1929 to 1937 1/
(In millions of dollars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Financed wholly from Government funds:									
Reconstruction Finance Corp.	-	-	-	780	1,498	2,452	2,035	1,804	1,491
Commodity Credit Corp.	-	-	-	-	-	206	154	244	123
Export-import Banks	-	-	-	-	-	14	14	18	17
Public Works Admin.	-	-	-	-	-	145	312	152	146
Regional Agric. Credit Corp.	-	-	-	-	150	51	77	35	27
Production Credit Corp.	-	-	-	-	-	106	121	121	121
Panama Railroad Co.	40	42	42	45	43	2/ 43	43	43	44
Shipping Board Merch. Fleet Corp.	210	207	217	233	224	143	182	151	87
War Emergency Agencies	14	11	10	10	10	10	9	9	8
Farm Loan Board - Corp. Loans	7	160	392	628	3/	-	-	-	-
Farm Credit Administration	-	-	-	-	555	2/ 74	193	175	191
Inland Waterways Corp.	20	21	24	24	25	2/ 24	24	25	25
Railroad Obligations	62	55	40	39	38	38	31	30	30
Tennessee Valley Authority	-	-	-	-	-	2/ 9	64	96	179
Subsistence Homesteads (R.A.)	-	-	-	-	-	2/ 3	24	80	128
Federal Housing Administration	-	-	-	-	-	-	29	30	30
R. F. C. Mortgage Corp.	-	-	-	-	-	-	4/	18	48
Rural Electrification Administration	-	-	-	-	-	-	-	1	12
Other	-	-	-	-	-	1	5	6	14
Total Group 1	353	496	725	1,759	2,544	3,319	3,317	3,038	2,721
Financed partly from Government and partly from private funds:									
Federal Land Banks	4/	4/	4/	125	125	161	251	256	292
Federal Intermediate Credit Banks	32	33	34	36	60	85	84	103	104
Federal Farm Mortgage Corp.	-	-	-	-	-	197	206	201	177
Banks for Cooperatives	-	-	-	-	-	111	129	156	154
Home Loan Banks	-	-	-	-	43	81	82	100	121
Home Owners Loan Corp.	-	-	-	-	1	144	70	13	68
Federal Savings & Loan Insurance Corp.	-	-	-	-	-	-	102	104	108
Federal Savings & Loan Associations	-	-	-	-	-	1	32	102	48
Federal Deposit Insurance Corp.	-	-	-	-	-	150	150	150	150
War Finance Corp.	1	1	1	1	1	4/	4/	4/	4/
Total Group 2	33	34	35	162	230	930	1,106	1,185	1,222
Grand Total	386	530	760	1,921	2,774	4,249	4,423	4,223	3,943

1/ Source: Annual Report of the Secretary of the Treasury, 1936; Daily Treasury Statement, July 31, 1937.
2/ Estimated. 3/ Transferred F.C.A. 4/ Less than one million.

PUBLIC HIGHWAYS

Authorizing Act of June 16, 1936		
Apportioned in December, 1936	$216.5 M	
To be apportioned in Dedember 1937	216.5	
Total authorizations on books		433.0 M
Appropriated -		
In Act of June 29, 1937		24.5
Balance not yet appropriated		408.5
To be appropriated -		
In next deficiency bill	$ 2.0	
In 1939 appropriation bill	281.5	
In 1940 appropriation bill	a/125.0	408.5
To be expended -		
In fiscal year ending June 30, 1938 -		
Under Dec. 1935 and prior apportionments	157.0	
Under Dec. 1936 apportionments	41.5	198.5
In fiscal year ending June 30, 1939 -		
Under Dec. 1936 apportionments	175.0	
Under Dec. 1937 apportionments b/	91.5	266.5
In fiscal year ending June 30, 1940 -		
Under Dec. 1937 apportionments b/		a/ 125.0

Note. From the foregoing it will be noted that the budgets for 1939 and 1940 are already committed to "expenditures" of $266.5 M and $125.0 M, respectively, under authorizations already enacted by Congress, making a total of $391.5. This will be further increased by the amount expended in 1940 under any new program authorized by Congress.

a/ This will be increased by amount appropriated and expended under any new program authorized by Congress during the coming session.

b/ Not yet made.

Accounts and Deposits
October 4, 1937.

PUBLIC HIGHWAYS

	Prior year apportionments	Fiscal year 1938	Fiscal year 1939	Total
I. Authorizing Act - - - - -		6/16/36	6/16/36	
II. Apportionment - Date - - - - -		12/29/36	12/ -/37	
III. Apportionment - Amount - - - - -		$216.5	$216.5	433.0
IV. Appropriated by Congress - - (Deduct) Act June 29, 1937		24.5	- -	24.5
V. To be appropriated - - - - - - - - - - - - -		192.0	216.5	408.5
In the next deficiency bill		2.0	- -	2.0
In the 1939 annual supply bill		190.0	91.5	281.5
In the 1940 annual supply bill		- -	a/125.0	125.0
		192.0	216.5	408.5
VI. To be expended (estimated) - - - - - - - -				
In fiscal year 1938 (July 1/37 - June 30/38)	157	41.5	- -	198.5
In fiscal year 1939 (" 1/38 - " 30/39)	-	175.0	91.5	266.5
In fiscal year 1940 (" 1/39 - " 30/40)	-	- -	125.0	a/ 125.0
	157	216.5	216.5	590.0

a/ This will be increased by the amount to be expended under any new program authorized by the Congress during the next session.

CONFIDENTIAL

Treasury Department
Division of Research and Statistics

Date 10/5 1937

To: Secretary Morgenthau

From: Mr. Haas

The total receipts figure for the fiscal year 1938-39 (estimated), about which you just called me, is

$7,172,711,000.

Actual expenditures of the Government for fiscal years 1926-1937, and Tentative Revised Estimates for 1938
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Regular operating expenditures:													
Legislative, judicial and civil establishments	666.9	589.4	708.6	851.1	789.5	790.9	978.8	697.5	572.5	597.7	781.1	783.0	796.6
National defense	579.7	584.4	624.6	678.1	701.3	699.2	707.6	667.8	540.3	709.9	911.6	935.1	950.0
Veterans' pensions and benefits (excluding bonus prepayment)	650.5	721.8	723.9	733.1	733.5	939.6	984.8	863.2	556.9	607.1	677.9	573.3	570.0
Interest on the public debt	831.9	787.0	731.8	678.3	659.3	611.6	599.3	689.4	756.6	820.9	749.4	866.4	925.0
Total	2,729.0	2,682.6	2,788.9	2,940.6	2,903.6	3,041.3	3,270.5	2,917.9	2,426.3	2,735.5	3,120.0	3,157.8	3,241.6
Public works:													
Public buildings	2.1	7.8	6.7	30.5	43.0	67.7	86.5	105.9	78.7	58.1	67.9	76.3	60.0
Public highways	98.8	92.5	91.1	95.5	89.3	174.4	209.9	178.2	267.9	317.3	243.9	350.6	253.0
Rivers and harbors	70.3	65.4	72.9	83.4	106.5	121.3	116.8	118.4	150.8	203.0	223.7	235.0	173.0
PWA (grants and admin. expenses)	-	-	-	-	-	-	-	-	18.8	48.9	233.9	273.0	250.0
Other	3.4	8.2	9.5	10.6	11.0	13.9	26.3	25.2	35.7	77.0	99.3	150.0	150.0
Total	174.5	173.9	180.2	220.0	249.8	377.3	439.5	427.7	551.9	704.3	868.7	1,084.9	886.0
Unemployment relief:													
Direct relief	-	-	-	-	-	-	-	350.7	715.8	1,914.1	591.7	133.8	80.0
Work relief	-	-	-	-	-	-	-	-	805.1	11.3	1,264.4	1,896.7	1,275.0
Civilian Conservation Corps	-	-	-	-	-	-	-	-	331.9	435.5	486.3	385.8	310.0
Total	-	-	-	-	-	-	-	350.7	1,852.8	2,360.9	2,342.4	2,416.3	1,665.0
Agricultural adjustment program	-	-	-	-	-	-	-	-	290.3	743.0	542.6	533.6	475.0
Social Security and Railroad Retirement	-	-	-	-	-	-	-	-	-	-	28.4	451.8	813.0
Miscellaneous and supplemental items	-	-	-	-	-	-	-	-	8.7	21.1	6.8	-	100.0
Total nonrecoverable expenditures (excluding bonus and debt retirement)	2,903.6	2,856.5	2,969.1	3,160.6	3,153.4	3,418.6	3,710.0	3,696.3	5,130.0	6,564.9	6,908.9	7,644.4	7,180.6
Loans (net)	-	-	-	5.6	154.8	233.0	404.0	874.4	788.6	80.5	-175.2	-237.0	0.0
Subscriptions to capital stock, etc.	-	1.0	-	5.0	-	-	627.0	110.7	826.5	156.8	69.3	37.1	35.0
Total expenditures (excluding bonus and debt retirement)	2,903.6	2,857.5	2,969.1	3,171.2	3,308.2	3,651.6	4,741.0	4,681.4	6,745.1	6,802.2	6,803.0	7,444.5	7,215.6
Bonus prepayment	-	-	-	-	-	-	-	-	-	-	1,673.5	556.7	30.0
Debt retirement	487.4	519.6	540.3	549.6	553.9	440.1	412.6	461.6	359.9	573.6	403.2	104.0	200.0
Total expenditures	3,391.0	3,377.1	3,509.4	3,720.8	3,862.1	4,091.7	5,153.6	5,143.0	7,105.0	7,375.8	8,879.7	8,105.2	7,445.6

473
5,613

7180
5613
1,567

Confidential

Actual receipts of the Government for the fiscal years 1926-1937 and estimates for 1938
(In millions of dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Estimated 1938
Income and profits taxes:													
Corporation	1,095	1,308	1,292	1,236	1,263	1,026	630	394	397	572	738	1,057	1,340
Individual	879	912	883	1,095	1,147	834	427	353	420	527	674	1,092	1,496
Excess profits	-	-	-	-	-	-	-	-	3	7	15	25	29
Total income and profits taxes	1,974	2,220	2,175	2,331	2,410	1,860	1,057	747	820	1,106	1,427	2,174	2,865
Miscellaneous internal revenue:													
Estate and gift taxes	119	101	60	62	65	48	47	34	113	212	379	306	417
Capital stock tax	97	9	9	6	2/	-	-	-	80	92	95	137	142
Alcoholic beverage taxes	27	21	15	13	11	11	9	43	259	411	505	594	657
Tobacco taxes	371	376	396	434	450	444	399	403	425	459	501	552	548
Manufacturers' excise taxes	150	67	52	6	3	1/	2/	244	385	342	383	451	463
Stamp and sundry taxes	98	72	84	87	101	65	46	149	219	151	158	168	204
Total miscellaneous internal revenue	862	646	616	608	630	568	501	873	1,481	1,667	2,021	2,208	2,431
Processing taxes	-	-	-	-	-	-	-	-	371	526	72	-	-
Social Security taxes:													
Title VIII	-	-	-	-	-	-	-	-	-	-	-	207	549
Title IX	-	-	-	-	-	-	-	-	-	-	-	58	77
Railroad retirement	-	-	-	-	-	-	-	-	-	-	2/	2/	158
Total social security taxes	-	-	-	-	-	-	-	-	-	-	-	265	784
Unjust enrichment tax	-	-	-	-	-	-	-	-	-	-	-	6	9
Total internal revenue (collection basis)	2,836	2,866	2,791	2,939	3,040	2,428	1,558	1,620	2,672	3,299	3,520	4,653	6,065
Adjustment to daily Treasury statement	2	4	4	- 1	- 1	2	3	- 16	- 31	- 21	- 7	- 55	-
Total internal revenue (Treasury statement basis)	2,838	2,870	2,795	2,938	3,039	2,430	1,561	1,604	2,641	3,278	3,513	4,598	6,065
Customs 1/	579	605	569	602	587	378	328	251	313	343	387	486	499
Miscellaneous receipts	546	654	678	493	552	382	117	225	162	179	216	210	210
Total receipts (daily Treasury statement basis)	3,963	4,129	4,042	4,033	4,178	3,190	2,006	2,080	3,116	3,800	4,116	5,294	6,774

1/ Figures for the years 1926-1931, inclusive, include tonnage tax, later covered in Miscellaneous Receipts of the Treasury.
2/ Less than $500,000.

Item No.	Appropriation Title	Actual Obligations 1937	Appropriations 1938	Estimates of Appropriations, 1939: As submitted by department	Estimates of Appropriations, 1939: Allowed by Budget	Increase (+) or decrease (-), Budget allowance compared with estimates as submitted by department.	Increase (+) or decrease (-), Budget allowance compared with 1938 appropriations.
	Annual Appropriations:						
	Office of the Secretary	$ 352,251,356	$ 541,237,300	$ 539,792,900	$ 464,784,300	-$75,008,600	-$76,453,000
	Division of Research and Statistics	156,356	130,000	130,000	223,000	+ 93,000	+ 93,000
	Office of General Counsel	157,712	153,000	152,000	146,500	- 5,500	- 5,500
	Office of Chief Clerk	706,984	770,000	479,560	400,600	- 78,960	- 369,300
	Office of Superintendent of Treasury Buildings	0	0	332,008	327,800	- 4,208	+ 327,800
	Division of Printing	1,350,047	1,319,240	1,715,520	1,569,240	- 146,280	+ 250,000
	Office of Commissioner of Accounts and Deposits	2,361,477	3,112,500	2,063,820	2,044,000	- 19,820	- 264,500
	Public Debt Service	2,723,391	2,816,900	3,742,184	3,590,700	- 151,484	+ 773,800
	Division of Appointments	44,317	44,440	44,500	44,500	0	+ 60
	Bureau of Customs	35,855,889	36,636,060	38,372,166	37,016,000	- 1,356,166	+ 379,940
	Office of Treasurer of the United States	1,353,311	1,239,000	1,322,250	1,271,620	- 50,630	+ 32,620
	Bureau of Internal Revenue	114,709,941	103,301,420	99,786,800	94,649,500	- 5,137,000	- 8,651,920
	Federal Alcohol Administration	474,913	450,000	450,000	450,000	0	0
	Bureau of Narcotics	1,325,000	1,267,600	1,412,600	1,367,000	- 45,600	+ 99,400
	Coast Guard	24,176,590	24,648,840	30,970,131	25,865,627	- 5,104,504	+ 1,216,787
	Bureau of Engraving and Printing	7,268,430	7,500,000	9,970,500	9,700,000	- 270,500	+ 2,200,000
	Secret Service Division	1,026,102	1,013,810	1,495,258	1,345,650	- 149,608	+ 331,840
	Office of the Comptroller of the Currency	293,927	275,980	275,000	268,840	- 6,240	- 7,140
	Public Health Service	19,292,901	21,146,980	23,580,137	22,037,200	- 1,540,937	+ 890,220
	Bureau of the Mint	4,859,600	2,473,560	2,900,495	2,656,920	- 243,575	+ 183,360
	Procurement Division:						
	Public Buildings Branch	4,654,961	5,850,220	5,776,820	5,750,720	- 26,100	- 99,500
	Branch of Supply	343,205	500,000	500,000	500,000	0	0
	Promoting Education of the Blind	65,000	115,000	115,000	115,000	0	0
	Total, Annual Appropriations	558,505,352	750,000,890	766,967,809	676,905,097	- 89,062,712	- 73,075,793
	Permanent Appropriations:						
	Office of the Secretary	1,100,000	2,417,572	2,780,072	2,780,072	0	+ 362,500
	Public Debt Service	4,056,239	2,978,000	4,354,000	4,000,000	- 354,000	+ 1,022,000
	Office of the Treasurer of the United States	5,008	5,270	3,600	3,600	0	- 1,670
	Total, Permanent Appropriations	5,161,097	5,400,842	7,137,672	6,783,672	- 354,000	+ 657,830
	Trust Accounts:						
	Office of Commissioner of Accounts and Deposits	16,487	13,700	16,700	15,700	- 1,000	0
	Bureau of Customs	284	5,000	5,000	5,000	0	0
	Bureau of Internal Revenue	10,891,308	10,895,500	10,893,500	10,893,500	0	- 2,000
	Public Health Service	60,151	50,600	50,600	50,600	0	0
	Promoting Education of the Blind (Interest)	10,000	10,000	10,000	10,000	0	0
	Total, Trust Accounts	10,972,130	10,980,800	10,981,800	10,976,800	- 5,000	- 2,000
	Interest on the Public Debt	868,000,000	925,000,000	971,000,000	971,000,000	0	+ 46,000,000
	Sinking Fund	103,733,050	581,023,191	590,000,000	590,000,000	0	+ 8,916,809
	Retirements	14,000	1,515,000	1,515,000	1,515,000	0	0
	Grand Total, Treasury Department exclusive of Bureau of Budget and Public Works Program	$1,551,847,050	$2,267,980,785	$2,356,622,281	$2,256,202,569	-$89,419,712	-$28,778,154
	Bureau of the Budget	197,118	198,000	204,000	204,000	0	+ 2,000
	GENERAL PUBLIC WORKS PROGRAM						
	Construction of Public Buildings	51,782,[illegible]	15,432,065.94	15,000,000	11,000,000	- 4,000,000	- 4,432,065.94

	CLASSIFICATION						
	General operating	$150,406,893	$160,612,852	$180,941,481	$168,373,969	- 12,567,512	+ 7,761,137
	Refunds	78,279,776	61,010,900	52,858,800	51,008,800	- 1,850,000	- 10,002,100
	Old Age Reserve Account	265,000,000	500,000,000	510,000,000	435,000,000	- 75,000,000	- 65,000,000
	Reduction in interest and paid-in surplus (Federal Land Banks)	66,978,748	40,000,000	29,550,000	29,550,000	0	- 10,450,000
	General Public Works (public buildings)	51,782,033	35,432,065.94	15,000,000	11,000,000	- 4,000,000	- 24,432,065.94
	Interest on the Public Debt	868,000,000	925,000,000	971,000,000	971,000,000	0	+ 46,000,000
	Debt Retirements	103,747,050	582,598,191	591,515,000	591,515,000	0	+ 8,916,809
	Total, General	$1,584,274,500	$2,304,653,988.94	$2,350,865,281	$2,257,447,769	-$93,417,512	-$47,206,219.94
	Trust Accounts	18,972,150	18,980,800	18,981,000	18,978,800	- 2,200	- 2,000
	Grand Total	$1,603,246,650	$2,323,634,788.94	$2,369,846,281	$2,[illegible],426,569	-$93,419,712	-$47,208,219.94

Bureau of the Budget.

October , 1937.

Item No.	Appropriation Title	Actual Obligations 1937	Appropriated 1938	Estimates of Appropriations, 1939: As submitted by department	Estimates of Appropriations, 1939: Allowed by Budget	Increase (+) or Decrease (-), Budget allowance compared with estimates as submitted by department	Increase (+) or Decrease (-), Budget allowance compared with 1938 appropriations
	Office of Secretary of the Treasury						
1.	Salaries, Office of Secretary of the Treasury..	$ 205,272	$ 207,300	$ 212,900	$ 207,300	- $ 5,600	$ 0
2.	Expenses, Emergency Banking, Gold Reserve and Silver Purchase Acts, Office of the Secretary	47,136	30,000	30,000	27,000	- 3,000	- 3,000
3.	Old Age Reserve Account, Social Security Act...	265,000,000	500,000,000	510,000,000	435,000,000	- 75,000,000	- 65,000,000
4.	Subscriptions to Paid-In Surplus, Federal Land Banks	34,445,806	20,000,000	0	0	0	- 20,000,000
5.	Payments to Federal land banks on account of reduction in interest rates on mortgages	32,532,942	15,000,000	21,200,000	21,200,000	0	+ 6,200,000
6.	Payments to Federal Farm Mortgage Corp. reduction in interest rates on mortgages	0	5,000,000	8,350,000	8,350,000	0	+ 3,350,000
7.	Capital Stock, United States Housing Authority..	0	1,000,000	0	0	0	- 1,000,000
8.	Payment of Interest on Deposits, Philippine Islands (Indefinite)........................	1,100,000	2,417,572	2,780,072	2,780,072	0	+ 362,500
	Total, Office of Secretary of the Treasury, general fund	333,331,156	543,654,872	542,572,972	467,564,372	- 75,008,600	- 76,090,500
	Division of Research and Statistics						
9.	Salaries, Division of Research and Statistics..	68,324	60,000	60,000	160,000	+ 100,000	+ 100,000
10.	Expenses, Emergency Banking, Gold Reserve and Silver Purchase Acts, Division of Research and Statistics	86,032	70,000	70,000	63,000	- 7,000	- 7,000
	Total, Division of Research and Statistics...	154,356	130,000	130,000	223,000	+ 93,000	+ 93,000
	Office of General Counsel						
	Salaries, Office of General Counsel	100,669	97,000	97,000	97,000	0	0
	Expenses, Emergency Banking, Gold Reserve and Silver Purchase Acts, Office of General Counsel	67,043	55,000	55,000	49,500	- 5,500	- 5,500
	Total, Office of General Counsel	167,712	152,000	152,000	146,500	- 5,500	- 5,500
	Office of Chief Clerk						
13.	Salaries, Office of Chief Clerk	515,564	520,000	129,580	129,120	- 460	- 390,880
14.	Salaries, Emergency Banking, Gold Reserve and Silver Purchase Acts, Office of Chief Clerk..	34,746	25,000	25,000	22,500	- 2,500	- 2,500
15.	Contingent Expenses, Treasury Department	150,203	170,000	270,000	200,000	- 70,000	+ 30,000
16.	Contingent Expenses, Emergency Banking, Gold Reserve and Silver Purchase Acts	66,011	55,000	55,000	49,000	- 6,000	- 6,000
	Total, Office of Chief Clerk	766,564	770,000	479,580	400,620	- 78,960	- 369,380
	Office of Superintendent of Treasury Buildings						
17.	Salaries, Office of Superintendent of Treasury Buildings	0	0	332,008	327,800	- 4,208	+ 327,800
	Division of Printing						
18.	Salaries, Division of Printing	69,047	69,240	70,520	69,240	- 1,280	0
19.	Printing and Binding, Treasury	806,000	775,000	1,025,000	950,000	- 75,000	+ 175,000
20.	Stationery, Treasury Department	475,000	475,000	620,000	550,000	- 70,000	+ 75,000
	Total, Division of Printing	1,350,047	1,319,240	1,715,520	1,569,240	- 146,280	+ 250,000
	Office of Commissioner of Accounts and Deposits						
21.	Salaries, Office of Commissioner of Accounts and Deposits	277,168	290,000	378,620	373,000	- 5,620	+ 83,000
22.	Salaries and Expenses, Division of Disbursement	1,359,480	1,427,500	1,431,700	1,417,500	- 14,200	- 10,000
23.	Contingent Expenses, Public Moneys	227,394	200,000	158,500	158,500	0	- 41,500
24.	Recoinage of Minor Coins	22,383	25,000	25,000	25,000	0	0
25.	Recoinage of Silver Coins	446,146	600,000	600,000	600,000	0	0
26.	Relief of Indigent Persons in Alaska	19,841	20,000	20,000	20,000	0	0
27.	Refunding Moneys Erroneously Received and Covered	9,067	50,000	50,000	50,000	0	0
28.	Government Losses in Shipment	0	500,000	200,000	200,000	0	- 300,000
	Total, Office of Commissioner of Accounts and Deposits, General Fund	2,361,479	3,112,500	2,863,820	2,844,000	- 19,820	- 268,500
	Trust Accounts						
29.	Payment of Unclaimed Moneys	9,207	12,000	15,000	12,000	- 3,000	0
30.	Return of Proceeds assets of Liberty Loan Associations, N. Y.	1,287	1,600	1,600	1,600	0	0
31.	Return of Proceeds Undelivered Liberty Loan Bonds	53	100	100	100	0	0
	Total, Office of Commissioner of Accounts and Deposits, General and Trust Funds	2,372,086	3,126,200	2,880,520	2,857,700	- [illegible]	- [illegible]

FISCAL YEAR 1939

Appropriation Title	Actual Obligations 1937	Appropriated 1938	Estimates of Appropriations, 1939: As submitted by department	Estimates of Appropriations, 1939: Allowed by Budget	Increase (+) or Decrease (-), Budget allowance compared with estimates as submitted by department	Increase (+) or Decrease (-), Budget allowance compared with 1938 appropriations
Public Debt Service						
Public Debt Service	$ 1,997,042	$ 2,100,000	$ 2,592,640	$ 2,441,700	- $ 150,940	+ $ 341,700
Distinctive Paper for United States Securities	726,349	716,900	1,149,544	1,149,000	- 544	- 432,100
Total, Public Debt Service proper, annual appropriation	2,723,391	2,816,900	3,742,184	3,590,700	- 151,484	+ 773,800
Expenses of Loans (Act Sept. 24, 1917 A & E) (Indefinite)	4,056,239	2,978,000	4,354,000	4,000,000	- 354,000	+ 1,022,000
Total, Public Debt Service proper (exclusive of interest and cumulative sinking fund)	6,779,630	5,794,900	8,096,184	7,590,700	- 505,484	+ 1,795,800
Division of Appointments						
Salaries, Division of Appointments	44,317	44,480	44,560	44,560	0	+ 80
Bureau of Customs						
Collecting the Revenue from Customs	20,515,558	20,636,060	22,372,166	21,016,000	- 1,356,166	+ 379,940
Refunds and Drawbacks	15,340,331	16,000,000	16,000,000	16,000,000	0	0
Total, Bureau of Customs, general fund	35,855,889	36,636,060	38,372,166	37,016,000	- 1,356,166	+ 379,940
Philippine Trust Fund	284	5,000	5,000	5,000	0	0
Total, Bureau of Customs, general and trust funds	35,856,173	36,641,060	38,377,166	37,021,000	- 1,356,166	+ 379,940
Office of Treasurer of the United States						
Salaries, Office of Treasurer of the United States	1,136,668	1,150,000	1,248,250	1,200,000	- 48,250	+ 50,000
Salaries, Office of Treasurer of the United States (BCR)	100,356	85,000	74,000	71,620	- 2,380	- 13,380
Transportation and Insurance of Gold Coin and Gold Certificates, Gold Reserve Act of 1934	6,287	4,000	0	0	0	- 4,000
Total, Office of Treasurer of the United States, annual	1,243,311	1,239,000	1,322,250	1,271,620	- 50,630	+ 32,620
Contingent Expenses, National Currency Reimbursable (Indefinite)	5,668	5,270	3,600	3,600	0	- 1,670
Total, Office of Treasurer of the United States	1,248,979	1,244,270	1,325,850	1,275,220	- 50,630	+ [illegible]
Bureau of Internal Revenue						
Collecting the Internal Revenue	51,803,735	58,240,520	62,878,000	59,596,000	- 3,282,000	+ [illegible]
Salaries and Expenses, Silver Purchase Act, 1934, Internal Revenue	46,761	50,000	50,000	45,000	- 5,000	- 5,000
Refunding Internal Revenue Collections	32,253,803	30,000,000	36,850,000	35,000,000	- 1,850,000	+ 5,000,000
Salaries and Expenses, Refunding Processing Taxes		Bal. cont'd. available	Bal. cont'd. available	Bal. cont'd. available		
Refunds and Payments of Processing Taxes, etc., Cotton Tobacco and Potato Acts, 1936	30,682,542	15,000,000	0	0	0	- 15,000,000
Additional Income Tax on Railroads in Alaska	3,100	10,900	8,800	8,800	0	- [illegible]
Total, Bureau of Internal Revenue, Annual	114,789,941	103,301,420	99,786,800	94,649,800	- 5,137,000	- [illegible]
Philippine Trust Fund	745,077	745,000 (Revised)	745,000	745,000	0	0
Philippine Trust Fund, Coconut Oil Tax	18,127,810	18,125,000	18,125,000	18,125,000	0	0
Puerto Rico Trust Fund	221	500	500	500	0	0
Expenses, Treasury Department Enforcement Title III Nat'l. Prohibition Act, Puerto Rico and Virgin Islands	18,000	25,000	23,000	23,000	0	- 2,000
Total, Bureau of Internal Revenue, Trust Accounts	18,891,108	18,895,500	18,893,500	18,893,500	0	- 2,000
Total, Bureau of Internal Revenue	133,681,049	122,196,920 (Revised)	118,680,300	113,543,300	- 5,137,000	- [illegible]
Federal Alcohol Administration						
Salaries and Expenses, Federal Alcohol Administration	414,913	450,000	450,000	450,000	0	[illegible]
Bureau of Narcotics						
Salaries and Expenses, Bureau of Narcotics	1,324,000	1,267,600	1,412,600	1,307,000	- 45,600	+ [illegible]

FISCAL YEAR 1939

Item No.	Appropriation Title	Actual Obligations 1937	Appropriated 1938	Estimates of Appropriations, 1939: As submitted by department	Estimates of Appropriations, 1939: Allowed by Budget	Increase (+) or Decrease (-), Budget allowance compared with estimates as submitted by department	Increase (+) or Decrease (-), Budget allowance compared with 1938 appropriations
	Bureau of the Mint						
99.	Salaries, Office of Director of the Mint	$ 38,271	$ 38,360	$ 38,520	$ 38,520	$ 0	+$ 160
100.	Transportation of Bullion and Coin	9,633	35,000	215,000	100,000	0	+ 65,000
101.	Contingent Expenses, Office of Director of the Mint	5,024	5,200	6,800	6,000	- 800	+ 8,000
102.	Salaries and Expenses, Mints and Assay Offices .	3,201,136	1,275,000	1,557,925	1,512,400	- 45,525	+ 237,400
103.	Expenses, Silver Purchase & Gold Reserve Act ...	1,045,626	1,120,000	1,082,250	1,000,000	- 82,250	- 120,000
	Total, Bureau of the Mint	4,299,690	2,473,560	2,900,495	2,656,920	- 243,575	+ 183,360
	Procurement Division, Public Buildings Branch						
104.	General Administrative Expenses, Public Buildings	919,566	914,220	914,220	914,220	0	0
105.	Repairs, Preservation and Equipment, Public Buildings	1,606,945	2,750,000	2,750,000	2,750,000		
106.	Operating Force for Public Buildings	1,433,211	1,573,500	1,599,600	1,573,500	0	0
107.	Furniture and Repairs of Same for Public Buildings	44,781	50,000	50,000	50,000	- 26,100	0
108.	Operating Supplies for Public Buildings	439,749	460,000	465,000	463,000	0	0
109.	Payment for Relief of Contractors, Act June 16, 1934	9,689	Bal. cont'd. available	Bal. cont'd. available	Bal. cont'd. available	- 2,000	+ 3,000
110.	Memorial to Persons Killed in Wreck of Shenandoah.	0	2,500	0	0	0	- 2,500
111.	Treasury Building, Washington, D. C., Wiring	0	100,000	0	0	0	- 100,000
	Total, Procurement Division, Public Buildings Branch, Exclusive of Public Buildings Construction	4,453,941	5,850,220	5,778,820	5,750,720	- 28,100	- 99,500
112.	Salaries and Expenses, Supply Branch	343,285	500,000	500,000	500,000	0	0
	Total, Procurement Division	4,797,226	6,350,220	6,278,820	6,250,720	- 28,100	- 99,500
	American Printing House for the Blind						
113.	To Promote the Education of the Blind	65,000	115,000	115,000	115,000	0	0
114.	To Promote the Education of the Blind (Interest) (Trust Fund)..	10,000	10,000	10,000	10,000	0	0
	Total, American Printing House for the Blind ..	75,000	125,000	125,000	125,000	0	0
	Total, Treasury, less interest and retirements.	$579,519,409	$780,382,532	$792,107,281	$702,687,569	- 89,419,718	- 77,694,963
115.	Interest on the Public Debt	868,000,000	925,000,000	971,000,000	971,000,000	0	+ 46,000,000
116.	Sinking Fund	103,733,650	581,083,191	590,000,000	590,000,000	0	+ 8,916,809
117.	Retirements	14,000	1,515,000	1,515,000	1,515,000	0	0
	Grand Total, Treasury Department, exclusive of Bureau of Budget and Public Works Program ...	$1,551,267,059	$2,287,980,723	$2,354,622,281	$2,265,202,569	-$ 89,419,712	-$22,778,154
	Bureau of the Budget						
	Salaries and Expenses, Bureau of the Budget ...	$ 165,738	$ 187,000	$ 187,000	$ 187,000	0	0
	Printing and Binding	31,820	35,000	37,000	37,000	0	+ 2,000
	Total, Bureau of the Budget	$ 197,558	$ 222,000	$ 224,000	$ 224,000	0	+$ 2,000
	GENERAL PUBLIC WORKS PROGRAM						
	Construction of Public Buildings	51,782,033	35,432,065.94	15,000,000	11,000,000	- 4,000,000	- 24,432,065.9

Item No.	Appropriation Title	Actual Obligations 1937	Appropriated 1938	Estimates of Appropriations, 1939: As submitted by department	Estimates of Appropriations, 1939: Allowed by Budget	Increase (+) or Decrease (-), Budget allowance compared with estimates as submitted by department	Increase (+) or Decrease (-), Budget allowance compared with 1938 appropriations
	Coast Guard						
55.	Salaries, Office of Coast Guard	$ 387,375	$ 389,240	$ 396,980	$ 389,240	- $ 7,740	$ 0
56.	Pay and Allowances, Coast Guard	17,364,558	18,094,000	18,314,382	18,037,000	- 277,382	- 57,000
57.	Fuel and Water, Coast Guard	1,295,198	1,475,000	1,681,330	1,600,000	- 81,330	+ 125,000
58.	Outfits, Coast Guard	1,435,385	1,565,000	1,814,251	1,671,000	- 143,251	+ 106,000
59.	Rebuilding and Repairing Stations, etc., Coast Guard	469,614	292,500	1,974,200	325,000	- 1,649,200	+ 32,500
60.	Communication Lines, Coast Guard	133,938	180,000	301,400	231,000	- 70,400	+ 51,000
61.	Civilian Employees, Coast Guard	190,856	192,000	209,960	205,200	- 4,760	+ 13,200
62.	Contingent Expenses, Coast Guard	203,557	122,600	108,000	122,000	+ 14,100	- 600
63.	Repairs to Coast Guard Vessels	1,983,300	1,459,813	2,439,358	1,800,000	- 639,358	+ 340,187
64.	Repairs to Coast Guard Aircraft		515,187	533,340	515,187	- 18,153	0
65.	Replacement Airplanes, Coast Guard	0	365,500	531,000	270,000	- 261,000	- 95,500
66.	Additional Airplanes, Coast Guard	684,729	0	534,000	0	- 534,000	0
67.	Establishing New Coast Guard Stations	0	0	784,930	0	- 784,930	0
68.	Establishing Air Stations, Coast Guard	0	0	597,000	0	- 597,000	0
69.	Additional Vessels, Coast Guard	0	0	750,000	700,000	- 50,000	+ 700,000
	Total, Coast Guard	24,176,590	24,648,840	30,970,131	25,865,627	- 5,104,504	+ 1,216,787
	Bureau of Engraving and Printing						
70.	Salaries and Expenses, Bureau of Engraving and Printing	7,260,430	7,500,000	9,970,500	9,700,000	- 270,500	+ 2,200,000
	Secret Service Division						
71.	Salaries, Secret Service Division	50,194	53,160	0	0	0	- 53,160
72.	Suppressing Counterfeiting and Other Crimes ...	827,904	810,000	1,344,608	1,195,000	- 149,608	+ 385,000
73.	Salaries, White House Police	145,314	146,900	146,900	146,900	0	0
74.	Uniforms and Equipment, White House Police	3,080	3,750	3,750	3,750	0	0
	Total, Secret Service Division	1,026,492	1,013,810	1,495,258	1,345,650	- 149,608	+ 331,840
	Office of Comptroller of the Currency						
75.	Salaries, Office of Comptroller of the Currency	212,708	204,300	204,300	204,300	0	0
76.	Salaries, Office of Comptroller of the Currency (RCB)...............	23,164	16,380	15,480	8,640	- 6,840	- 7,740
77.	Salaries, Emergency Banking Act, Office of Comptroller of Currency...............	55,055	55,300	55,300	55,300	0	0
	Total, Office of Comptroller of the Currency.	290,927	275,980	275,080	268,240	- 6,840	- 7,740
	Public Health Service						
78.	Salaries, Office of Surgeon General	308,136	316,000	316,000	316,000	0	0
79.	Pay of Commissioned Officers	1,769,882	1,820,000	2,059,554	1,928,000	- 131,554	+ 108,000
80.	Pay of Acting Assistant Surgeons	325,200	340,200	340,200	325,000	- 15,200	- 15,200
81.	Pay of Other Employees	978,860	1,000,000	1,111,960	1,000,000	- 111,960	0
82.	Freight, Transportation, etc.	25,080	25,450	25,450	25,450	0	0
83.	Maintenance, National Institute of Health	63,360	64,000	99,000	64,000	- 35,000	0
84.	Pay of Personnel and Maintenance of Hospitals..	5,801,990	6,150,000	7,092,008	6,457,000	- 635,000	+ 307,000
85.	Quarantine Service	351,046	331,250	331,250	331,250	0	0
86.	Preventing the Spread of Epidemic Diseases	292,516	280,000	280,000	280,000	0	0
87.	Interstate Quarantine Service	34,961	36,500	36,500	36,500	0	0
88.	Control of Biologic Products	44,550	55,000	55,000	55,000	0	0
89.	Expenses, Division of Venereal Diseases	78,940	80,000	80,000	80,000	0	0
90.	Expenses, Division of Mental Hygiene	656,432	647,560	1,258,415	1,058,000	- 220,415	+ [illegible]
91.	Educational Exhibits	980	1,070	0	1,000	+ 1,000	0
92.	Grants to States for Public Health Work	8,000,000	8,000,000	8,000,000	8,000,000	0	0
93.	Diseases and Sanitation Investigations, Public Health Service	1,280,948	1,600,000	1,600,000	1,600,000	0	0
94.	Maintenance, National Cancer Institute	0	420,000	700,000	500,000	- 200,000	+ [illegible]
	Total, Public Health Service, General Account	19,972,901	21,146,980	25,386,137	22,037,200	- 1,348,937	+ [illegible]
	Trust Accounts						
95.	National Institute of Health Funds	5,000	5,000	5,000	5,000	0	0
96.	Money and Effects of Former Patients, P.H.S....	1,535	1,500	1,500	1,500	0	0
97.	Patients deposits, U.S. Marine Hospital, Carville	100	100	100	100	0	0
98.	Personal Funds and Earnings of inmates, Narcotic Farms	53,516	50,000	50,000	50,000	0	0
	Total, Public Health Service, Trust Account .	60,151	56,600	56,600	56,600	0	0
	Total, Public Health Service, General and Trust Accounts	20,033,052	21,203,580	25,442,737	22,093,800	- 1,348,937	+ [illegible]

Reading Copy

Address of the Secretary of the Treasury,
to be delivered before the
Academy of Political Science,
at the Hotel Astor, New York City,
Wednesday Evening, November 10, 1937.

I welcome the opportunity to discuss before the members and guests of the Academy of Political Science the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was enormously costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government sustained a net deficit of twenty-two billion dollars.

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During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; and to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership -- a leadership that was magnificently supplied by President Roosevelt.

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3134

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

Of course, it is easily possible to criticize some of the detailed uses of the relief funds. Let us concede that there was some waste. In any expenditure program of such magnitude this is inevitable. But, contrasted with the human and material values at stake, such wastes as may have occurred shrink into insignificance.

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3026

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of another business depression.

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I claim no prophetic insight into the future. But, after giving serious and careful consideration to all of these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago. Many measures are required for their solution. One of these measures, but only one, in the present juncture is a determined movement toward a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

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2811

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character -- not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories, high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

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This stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

108/2588

But the underlying conditions that made deliberate deficit spending the wisest kind of policy during the depression have been altered during the progress of recovery. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb by taxation, funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

115/2473

Our industrial recovery of the last year, however, has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending under conditions of active demand for private capital, would have to be financed in large part by capital funds that would otherwise be available for business purposes.

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2359

Slow

The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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Pause

I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

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Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred and fifty millions, and our total net expenditures at about seven billion three hundred and forty-five millions, leaving an estimated net deficit of six hundred and ninety-five millions. $\left(\frac{1}{3}\right)$

To attain an ordinary balancing of the budget next year -- that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement -- it would be necessary to accomplish a net improvement of about seven hundred million dollars in our budgetary position, as last estimated. To be prudent, we

$\frac{108}{2146}$

should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After a careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security

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2030

Act will increase next year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits -- namely, public highways, public works, unemployment relief, and agriculture -- it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction generally ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive

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1933

of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred and seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period

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1812

between 1926 and 1930, inclusive. Next year, despite the fact that there will be available from appropriations and allocations already made for this purpose more than six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I sincerely hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by more than seven hundred and fifty millions below last year's.

$\frac{104}{1708}$

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

Balancing the budget is as much in the interest of farmers as in the interest of other parts of our population; and it requires the cooperation of the farmer as well as of other sections of the public.

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Slow

Only with the solid backing of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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Pause

There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive

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reduction of Federal expenditures to the minimum demanded by the Government's responsibilities.

Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided to cripple many essential governmental activities -- in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, and slowing up or abandoning flood control, soil erosion prevention, and relief for the aged and the unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

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Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars.

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In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than two billion seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly despaired of our ability to balance the Federal budget. (2/3)

True, much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

90/1082

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest

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and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was about one billion three hundred millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

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Pause

Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

The Federal tax system affects every one in the country. We in the Treasury in studying tax problems

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have two objectives always before us: First, that the tax burden shall be distributed as fairly as possible, and second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there

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are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

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Our tax revenues come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government; provided that the taxpayer cooperates with his Government in carrying out the purpose and the spirit of the tax laws. Of course, tax policy cannot properly be determined from exceptional cases. We must look at the whole picture. We base our decisions on extensive information and upon analysis of actual tax records.

The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay individual Federal income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income tax payers. Taxpayers who are squarely confronted with their own tax burdens are bound to be keenly alive to the way the money is being spent by their Government.

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The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point of our policy that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

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Let me repeat: We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

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My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of the Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden. But I have also shown that there is a limit to reductions; and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.

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The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put forth. This Administration is going to do everything

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possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national income. We are confident that, with the full cooperation of the business world, our present difficulties will be overcome; and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved.

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CAUTION - FUTURE RELEASE. The following address by Secretary Morgenthau is for release upon delivery, which is expected to begin at 9:30 P.M., Eastern Standard Time, Wednesday evening, November 10, 1937. It must be treated as COMPLETELY CONFIDENTIAL until it has been delivered.

Address of the Secretary of the Treasury,
to be delivered before the Academy of Political Science,
at the Hotel Astor, New York City,
Wednesday evening, November 10, 1937.

I welcome the opportunity to discuss before the members and guests of the Academy of Political Science the subject of Federal spending and its relation to the balancing of the Federal budget.

Nineteen years ago tomorrow, we signed the Armistice ending the World War. That war was enormously costly in human values, and it was enormously costly in material values. In the two years between the middle of 1917 and the middle of 1919, the Federal Government sustained a net deficit of twenty-two billion dollars.

During the past four years, this country has been engaged in another war. This time our enemy was a great economic disaster. In this war, we fought with jobs and with dollars to save farmers from losing their farms; to save home owners from losing their homes; to give not only bread but work to the unemployed; to increase the security of jobs, property values, and business profits; and to bring order out of chaos in our economic system.

This war, like that other war, required a many-sided campaign under intelligent and courageous leadership — a leadership that was magnificently supplied by President Roosevelt.

Finally, this war, like that other war, required a large spending program. This program, plus the special needs arising out of the great drought and the prepayment of the soldiers' bonus, necessitated net outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts.

Of course, it is easily possible to criticize some of the detailed uses of the relief funds. Let us concede that there was some waste. In any expenditure program of such magnitude this is inevitable. But, contrasted with the human and material values at stake, such wastes as may have occurred shrink into insignificance.

We deliberately used an unbalanced Federal budget during the past four years to meet a great emergency. That policy has succeeded. The emergency that we faced in 1933 no longer exists.

I am fully aware that many of our problems remain unsolved. I am aware that there still remains a considerable volume of unemployment; that the speculative markets have recently been under severe pressure; and that our business indexes have recently shown a declining tendency. I am further aware that some persons contend that another great spending program is desirable to ward off the risk of another business depression.

I claim no prophetic insight into the future. But, after giving serious and careful consideration to all of these and other factors, I have reached the firm conviction that the domestic problems which face us today are essentially different from those which faced us four years ago. Many measures are required for their solution. One of these measures, but only one, in the present juncture is a determined movement toward a balanced budget.

Early in 1933, after three years of progressive deterioration, our whole economic mechanism was demoralized. Under these conditions, there was no agency outside of the Federal Government with the resources and the courage to bring about a business revival.

Today the situation is greatly changed. We are now nearing the end of one of the most active years in the business history of this country. On the whole, this high level of activity has been of a healthy character — not of the character that usually marks an unhealthy boom and precedes a serious depression. The present situation is not characterized by the existence of huge inventories, high interest rates, over-extended credit positions, or great surpluses of housing and capital equipment. We have not reached the stage of full employment of our productive resources. On the contrary, from all these standpoints, conditions are favorable for a continued increase in the level of business activity.

This stands in contrast to the unhealthy excesses of 1929. It stands in even sharper contrast to the banking collapse, the bread lines, the bankruptcies, and the general demoralization of 1933.

Despite the substantial increase in the public debt during the past four years, the credit of the Federal Government has remained absolutely unimpaired. Not once during even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. Moreover, the rates of interest on our borrowings have been lower, for comparable securities, than at any other time in the history of the country.

But the underlying conditions that made deliberate deficit spending the wisest kind of policy during the depression have been altered during the progress of recovery. Thus, when we borrowed during the depression to finance our deficit spending, a large part of the funds was obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds that might otherwise have gone into private industry, nor did it absorb by taxation funds that might otherwise have gone into private consumption. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to put to work capital funds that would otherwise have remained idle.

Our industrial recovery of the last year, however, has created large new demands for private capital. Our commercial banks have been again utilizing their credit resources for the financing of private industry. During the present calendar year, the insured commercial banks of the country have substantially reduced their holdings of Government securities in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the securities newly marketed by the Treasury, were purchased by investors. Any deficit spending under conditions of active demand for private capital would have to be financed in large part by capital funds that would otherwise be available for business purposes.

The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises. We believe that one of the most important ways of achieving these ends at this time is to continue progress toward a balance of the Federal budget.

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I turn now to the immediate practical aspects of budget balancing for the coming fiscal year. What are the controlling figures?

Our total receipts for this year were estimated in the President's budget summation of October 19 at about six billion six hundred and fifty millions, and our total net expenditures at about seven billion three hundred and forty-five millions, leaving an estimated net deficit of six hundred and ninety-five millions.

To attain an ordinary balancing of the budget next year — that is, a balance after full provision for accruing liabilities for old-age benefit payments, but exclusive of debt retirement —, it would be necessary to accomplish a net improvement of about seven hundred million dollars in our budgetary position, as last estimated. To be prudent, we should not count on an increase in revenues next year from the existing tax structure. Nor should we impose additional taxation. Instead, we should plan to bring next year's expenditures within this year's income.

But where can cuts totaling seven hundred millions be made? After a careful study of the whole problem, I have come to the following conclusions: On the one hand, while everything possible is being and will be done to keep a tight rein on the regular operating expenses of the Federal Government, including the national defense and interest on the public debt, I do not believe that we can find large savings in this field. Further, our expenditures under the Social Security Act will increase next year.

On the other hand, by focusing attention on the several classes of expenditures that have been mainly responsible for our past deficits — namely public highways, public works, unemployment relief, and agriculture —, it is apparent that great savings can be made.

Let me give you an idea of the possibilities for savings in these fields.

First, take the item of highway expenditures. Prior to the depression, the Federal grants to the States for public highway construction generally ran under one hundred million dollars annually. This year the total Federal outlays for highways, inclusive of emergency expenditures, are estimated at two hundred fifty-three millions; and, in addition, the existing highway programs call for new appropriations totaling more than four hundred million dollars for the next two years. I believe it is now time to return to the average annual level of highway expenditures that existed prior to the depression, especially because during the past few years many other millions of dollars have been spent for highways out of relief appropriations.

Second, there is the field of public works, other than highways, on which we are spending five hundred and seventy-three millions this year. This is a greater sum than the total that was spent for this purpose during the entire five-year period between 1926 and 1930, inclusive. Next year, despite the fact that there will be available from appropriations and allocations already made for this purpose more than six hundred millions, I believe that we can and should move definitely toward a lower level of public works outlays.

Third, I sincerely hope that employment conditions will make possible a further substantial reduction in our outlays for unemployment relief and the C.C.C. camps. During the present fiscal year, by reason of more active private business, these expenditures are already being reduced by more than seven hundred and fifty millions below last year's.

I turn next to our expenditures on behalf of agriculture. The total of this year's expenditures, exclusive of public highways, for the regular activities of the department, the soil conservation program, rural electrification, resettlement, commodity loans, and lower interest rates for Federal land bank borrowers, exceeds nine hundred million dollars. Despite the magnitude of this sum, you are all aware that possible further measures involving large additional expenditures are now being discussed.

I am strongly in favor of a long-range program to maintain the independence and the purchasing power of the farmer. Such a program must take into consideration the farmer's opportunities in the foreign markets as well as in those at home; and no agricultural program can long endure which makes excessive demands upon the Federal Treasury, or is unfair to consumers. The farmer himself does not want subsidies, but rather such fair prices and such balanced production of crops as will make subsidies unnecessary for his decent economic status.

Balancing the budget is as much in the interest of farmers as in the interest of other parts of our population; and it requires the cooperation of the farmer as well as of other sections of the public.

Only with the solid backing of the public can we hope to achieve economies totaling seven hundred millions in the four fields that I have cited.

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There may be some persons who would counsel a more drastic reduction of expenditures or a program of far heavier taxation in order to make certain a more substantial reduction in the public debt in the next fiscal year. There are serious objections to either of these courses.

I have already indicated that I believe it undesirable to increase taxation. There are equally compelling reasons why we should not reduce expenditures too suddenly and too drastically. I strongly favor a vigorous program for the progressive reduction of Federal expenditures to the minimum demanded by the Government's responsibilities.

Obviously, however, one reaches a point in reducing Government expenditures at which no further reductions can be made, unless it is decided to cripple many essential governmental activities — in other words, unless it is decided to make drastic changes in national policy. For example, it would mean consideration of such things as weakening our national defense, and slowing up or abandoning flood control, soil erosion prevention, and relief for the aged and the unemployed. Such a course, I believe, would not have the approval of either the American people or their elected representatives in Congress.

Moreover, it would clearly be disastrous to many of the needy unemployed, and disruptive to many sections of private industry, if we were to cut Government expenditures in the coming fiscal year by much more than the amount I have indicated.

We are definitely in a transition period between unbalanced and balanced Federal budgets; but I firmly believe that there is just as much danger to our economy as a whole in moving too rapidly in this direction as there would be in not moving at all.

Relatively few persons realize the striking fact that the net improvement this year in the budgetary position of the Federal Government as estimated will amount to more than two billion dollars. In other words, the net deficit this year is estimated at less than seven hundred millions as compared with more than two billion seven hundred millions last year.

This net improvement of more than two billion dollars in a single year provides the best answer to those who, in most cases ignorant of the true facts, have publicly despaired of our ability to balance the Federal budget.

True, much of this year's anticipated budgetary improvement comes from increased revenue, but we are supplementing this by also seeking reductions in expenditures.

In addition to these considerations, I should like to point out that, as a result of the Social Security Act and related State laws, it is estimated that the Federal Government next year will receive more than one billion dollars net for investment in Government securities for the Unemployment Trust Fund and the Old-Age Reserve Account. Although this investment will not change the total amount of the public debt, it will with a balanced budget result in the transfer to these reserve accounts of more than a billion dollars of Government obligations now held by private investors.

Even during the decade of the Twenties, when the Treasury was receiving large payments of interest and principal on war debts, and from the sale of surplus war materials, the maximum reduction made in any single year in the public debt held by private investors was about one billion three hundred millions. The rate at which it is safe to reduce the public debt in private hands depends upon the rate at which private funds flow into investment channels. It is unsafe to go too fast.

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Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

The Federal tax system affects everyone in the country. We in the Treasury in studying tax problems have two objectives always before us: First, that the tax burden shall be distributed as fairly as possible, and second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burden-some effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

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