

DIARY

Book 95

National Academy of Political Science Speech
Delivered November 10, 1937

Part I

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RE PROPOSED SPEECH BEFORE NATIONAL
ACADEMY OF POLITICAL SCIENCE

September 13, 1937
11:15 a.m.

Present: Mr. Haas
Mr. White

H.M. Jr: This is what I want your people to start on, Haas, for me. I have agreed to talk to the National Academy of Political Science either November 10 or 11, and, to start the thing going, I thought it would be very interesting to take a look at the combined figures for the five years previous to July 1, '33.

He'll give you a copy of this - although you better make notes, until he gets it all off. Here's lots of paper.

I'd like to see the combined figures of the five years previous to July 1, '33, then the five year period of July 1, '33, to June 30, 1938, see?

Now, when I say the combined figures, I want to break it down in a way that I don't think it's ever been broken down before. I'd like to see, for instance, for the last five years how much we have spent in regular departments, see, and then under that you'll have to break it down - let's see - Army, Navy, Agriculture, so forth.

Then I want to take - under Agriculture, for instance, I'd like to see how much goes to the regular Agriculture work, how much goes to good roads.

Then, aside from that, of course, there comes Relief. Then you've got to include both Hopkins' relief and the relief that Resettlement has done, you see; and then separate out what's been done for permanent construction under Public Works, you see.

In other words, I'd like to sort of get this thing into how much have we given away; then you may want to divide into how much have we lent. I want to try to get out of this damned revolving fund business; I want a straight cash outgo, you see.

Now, this is what I've got in mind - I want to give

you the background - you can't tell how this thing will turn out. That's why I wanted to get, George, somebody that knows the budget pretty well.

Haas: Somebody in Seltzer's place.

H.M.Jr: Who?

Haas: Somebody in Seltzer's shop.

H.M.Jr: I want to settle this thing; this oughtn't to take more than a couple days to get a look at. Certainly ought to be interesting to see, what has Roosevelt done from July 1, '33, to June 30, 1938? It may be worth while comparing to the previous five years. For instance, Hoover let the Army and Navy run down so that we had to spend the extra money. See?

Haas: Yes.

H.M.Jr: Then what I'd like to do - how can - this is what I'm driving at: How can we balance the budget and plan our program through June 30, '41, which is three years; where are we going to go the next three years on spending and on revenue, see, in order to really balance the budget and pay off some of the debt? See?

Now let me ask you this. In approaching it from this way - has this been done by anybody in the Administration?

White: No, there are certain novel aspects of it. A comparison of that kind, if the figures show what they should....

Haas: Difficult for other people than the Treasury, because they can't handle revenue, can't know the expenditures.

White: Secondly, from the point of view of what you have loaned, what you have spent in regular expenses, what you have given away, what you've got to show for it now in the way of permanent works, and why some of the expenditures were called forth possibly because they cut too close previous to that - nobody has done

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that. Now, whether you will come out with something that will be pretty good, you don't know; you have to see what the figures look like first.

- H.M.Jr: That's the point. It may be no use to compare it with the previous five years; it may show something very interesting.
- White: But in any case that is the significant analysis - I mean of expenses. That's the form it should take, to mean something to the layman and to the....
- H.M.Jr: Well, take the five-year period. Has the money been thrown away? What have we got to....
- White: What have we got to show for it?
- H.M.Jr: What do we have to show for our expenditures? See? And then - whether it's another speech or whether we can do it in that speech - let's look forward to the next three years.
- White: How many minutes?
- H.M.Jr: How many minutes?
- White: Yes.
- H.M.Jr: I don't know. I think I'm the principal speaker. It's a banquet.
- White: Well, that means an hour, and you want to take it.
- H.M.Jr: Oh yes.
- Haas: This next three years complicates it a little bit - as to what is done in the new tax bill.
- H.M.Jr: Well, I know, but I could do a little talking about the base.
- Haas: Yes.
- H.M.Jr: I mean I could, for instance, talk in terms - "Well, I feel that we should continue to raise seven billion

dollars. The methods of raising them may be reshuffled, but while we have prosperity let's continue to raise seven billions. Don't raise any more - but we ought to cut our cloth to suit seven billion dollars. But we may reshuffle it."

Now, that will take care of the new tax bill, you see. But I don't think we ought to go beyond that. But if, again, when we get through - you may say, "Well, we need seven and a half" or "We need six and a half." Then, I know you'll find out that the proportion going to good roads, deepening of harbors, is entirely disproportionate. And I think you will also find when it comes to housing that we just haven't spent enough. See?

Well, all I want is that I'd like somebody to get on that, just to get the figures together. It just so happens we've got two months to work on this thing. And what I want to do - I want to be just as frank as I can about the whole thing, as I was up at Harvard. And if this thing goes well, I hope to do three or four of these a year. But - I mean I think it is very, very important that this be done. And then the other thing - it's a good time to do it before Congress is here - let it sink in.

Haas: Some parts of this - even if you don't want to put it in your address, it is something you should have in your planning anyway.

H.M.Jr: Of course. I mean if for no other reason, if nothing else is accomplished, if I could put it together and let the President take a look at it, it will have a wholesome effect on him and on me.

White: For some of these expenditures you may want to go to the various departments to break it down.

H.M.Jr: Well, I think you'll find most of it in the Budget; most of it is there. The first time it can be kind of roughed out.

Haas: Are you in a very great rush about this thing? This fooling around with these figures really takes a little

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bit more time than may appear at first blush.

H.M.Jr: Supposing I give you a week on it.

Haas: O.K. You talked about two days; that's what bothered me.

H.M.Jr: Supposing you have something a week from today.

Haas: That'll be fine.

H.M.Jr: Let me have something a week from today. How's that?

Haas: That's fine.

H.M.Jr: Does that rush you too much?

Haas: No, fine.

H.M.Jr: But I'd like you to put your whole group thinking on this thing. In the first place, is it worth while, is it something that I should do? What do you think, George?

Haas: Very definitely.

H.M.Jr: Harry?

White: Oh, I think so.

H.M.Jr: I think it would be fun, don't you think so?

White: Particularly if we are able to get out something good, as I think we will be.

H.M.Jr: All right, gents.

cc - Mr. Haas
Mr. White

RE SPEECH ON "GOVERNMENT SPENDING"

September 30, 1937
2:00 p.m.

Present: Mr. Haas
Mr. Seltzer

H.M.Jr: What I wanted to talk to you gentlemen about is whether you people had explored the wholly-owned or partly-owned government corporations and credit agencies.....

Seltzer: No, we hadn't explored that.

H.M.Jr:as to whether there's any I'd overlooked. Now, I'd like between now and Tuesday for you to explore that to see if there's anything we could save, first; second, whether in any of these cases we might possibly sell some of their stuff to the public. Now, I don't know whether that does any good - I don't know. But I'd like to put a magnifying glass on this thing from the standpoint not necessarily of winding them up, although that's always - that's the easiest way to stop spending, is to put them out of business.

Seltzer: That's the way you get your money back.

H.M.Jr: I'm definitely recommending that the Export-Import Bank be stopped. I've asked the Executive Order to be drawn up. That's simply - absolutely serves - just no excuse for it. Now, a lot of other things in here....

Haas: We went over that stuff, didn't we, Larry, about a year ago.

Seltzer: Yes.

H.M.Jr: Well, I wish you'd go at it again. I don't expect you to do exhausting - I mean between now and Tuesday you could take a look at it.

Seltzer: Something depends on how many feet you want to step on.

H.M.Jr: I don't care.

Seltzer: You see, over at F.C.A. you have this bank for cooperatives with 50 millions of capital invested in Governments. That implements our debt, doesn't do

cc - Haas

anything for them except to give them an income. It would be cheaper for the Treasury and Congress to give them an annual appropriation than to give them 50 million capital, unless you're looking for a long-term future.

H.M.Jr: Well, you put up just as many of those to help as possible. Some of those are feasible and some of them aren't. You see what I mean?

Now, we've been working on the Reconstruction Finance. Commodity Credit - somebody was in here today, and thought - Oliphant, he's working on that set-up; he thinks that that should be made a part of the ~~R.E.C.~~ rather than a separate thing. He's working on that.

Export-Import Bank - I'm going to recommend it be dissolved.

Public Works - we've had that.

Regional Agricultural Credit Corporation.

Haas: They're in liquidation. Those were the Hoover.....

H.M.Jr: Production Credit.

Haas: Those are - well, there's a lot of the same kind of money all through that system.

H.M.Jr: All right. Shipping Board - I don't know anything about that. War Emergency Agencies; Farm Loan Board; Farm Credit Administration; Inland Waterways; Railroad Obligations; Tennessee Valley; Subsistence Homesteads - now, there's something that should be wound up.

Look into some of those agencies. Some of those have got a couple million dollars of Government bonds - some of these things Hopkins set up - state housing agencies.

Now - Financed partly from Government and partly from private funds: Federal Land Banks; Federal Intermediate Credit Banks; Federal Farm Mortgage Corporation - we know something about that. Home Loan Banks, Home Owners Loan. Now, make a special note on that Federal

Savings and Loan. Why should we continue to give them capital? See?

I'd just put anything. Don't mind who it is, see?

Seltzer: Yes, that's your lookout.

H.M.Jr: That's my lookout. What I want you two fellows to do - is it rushing you too much to say I'll discuss it again Tuesday?

Seltzer: It is.

H.M.Jr: It is rushing you too much?

Seltzer: That is, we've got some other stuff lined up for the next few days.

H.M.Jr: What? For me?

Seltzer: Yes.

H.M.Jr: What sort of stuff?

Seltzer: Well, we have this expenditure analysis, this deficit spending; we have the capital market. Those are the two main items. I don't say....

H.M.Jr: I don't want you to work Sunday; it's not necessary to work Sunday. I'd like to have it as soon as reasonable without having to work Sundays. How's that?

Seltzer: The only reason I don't like a commitment on this is that it involves a lot of detail; we don't know what we'll run into.

H.M.Jr: That's all right. When it is reasonably possible, see?

Now then, the other thing that I want you to do, George, is to have a sheet like this but have it on the receipts side, so I can put it right alongside - I mean the receipts.

Haas: Uh-huh.

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H.M.Jr: You see?

Haas: The other side of the budget. (Showing chart to Seltzer) He wants the same thing for receipts.

Seltzer: You want us to go back into these years and give you the receipts?

H.M.Jr: Yes.

Haas: And we could have a third sheet where we bring together the totals of the sheets.

H.M.Jr: Well, that's up to you.

But I wanted to - now, after all - I just want to give you - if you want to make a few notes as I talk. This is - part of this is part of my job, and part of it goes into my speech. See what I mean? But in preparing for the speech I've got to do this other job. So the two things work out beautifully. See what I mean? But I want to let you know how my thinking is.

Then gradually one of you fellows has got to sit down and block out something. Now, the way I'm approaching this thing is this. We have here these four years before '29, which - I would call them the boom years. Then we had '30 to '33, which are depression years. And '34 to '37, recovery. Is that right?

Seltzer: Uh-huh.

H.M.Jr: Now, how much - in the four years of the boom period we spent a little over 11 billion dollars - 14 billion dollars. Then in the period of the depression we spent 18 billion. And into recovery we spent 31 billion.

I mean I'm just thinking out loud now. Taking those, what makes the difference between the 31 and the 18, which is 11 billion dollars? Well, it's right in Public Works and Relief.

Seltzer: That's right.

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- H.M.Jr: It just checks exactly. We spent in those four years 12 billion dollars for Public works and Relief. And - I mean I'm just thinking out loud. Now, if we're going to get back again to an average period or a normal period, it really - the regular operating expenses have been more or less running along 11 or 12 billion for four years; so how much in the next four years can we reduce Public Works and Unemployment Relief?
- Seltzer: It isn't quite that, because your revenue receipts are higher - unless you want to get back to a lower level of expenditures.
- H.M.Jr: I do. I mean I'm just thinking out loud.
- Now, if we spent 12 billion dollars for Public Works and Relief during the next four years - how much could we spend, or how much will we have to spend? And it's a question of tapering off that 12 billion, isn't it? It's a tapering off of that 12 billion. And I think we ought to put down some figures as to what we think.
- Now, the President said on Public Works 500 million dollars. Well, we are already committed for next year, if we don't do anything - I think it's six or seven hundred million dollars, if we don't go another cent.
- Seltzer: Didn't you say the other day you also included Soil Erosion in there?
- H.M.Jr: Yes. Did you see that statement? I gave you (Haas) a copy.
- Haas: Yes.
- Seltzer: I haven't seen it.
- H.M.Jr: Well, you've got it.
- Haas: I've got it.
- Seltzer: That is exclusive, however, of other agricultural bounties they may pay, like cotton subsidy, other subsidies.
- Haas: Oh yes.

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H.M.Jr: Well, in my thinking I'm not going to include any.

Seltzer: You spent two billion dollars for Agriculture that you didn't have before - in this summary before.

H.M.Jr: Well, I think we ought - I think the main thing to point out to these babies is this: If you can take '26-'29 as an average year - I think we ought to go back four years behind that too, just to take a look at that. I mean I think we ought to take a look at that. In the depression, 18, and here's 31. Now, how can we get back to - can we get back to 14 billion dollars for four years? Well, I don't know, but I - I mean that's what I want to look at.

Seltzer: That's a changed picture. You've got Social Security expenditures.

H.M.Jr: Well, doesn't the one wash the other? That's why I want these receipts.

Seltzer: Well, you're talking mainly about the level of expenditures.

H.M.Jr: No, but I mean - Agriculture, two billion one for four years - Agricultural Adjustment. Now, does the Social Security 500 million dollars - I mean whatever it takes one year, does that wash it off?

Seltzer: No, you also have these grants to the states that grow and grow and grow to where they get to around 900 millions a year.

H.M.Jr: Well, do you see what I mean? I want to sit down and tell you people - now, I want - I'm not going to say it to them, I'll say it to you; I want to paint absolutely the worst, in other words, give them everything that there is, so that nobody can paint it any blacker than I'm going to paint it. That's the way I want to approach it.

Seltzer: That's easy.

H.M.Jr: What?

Seltzer: That's easy.

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H.M.Jr: Nobody's going to paint this picture any blacker. When I get through, I'll have Harry Byrd sweating. I've always done that here and the reaction is "Morgen-thau is too blue and things are much better," and the papers come to my rescue, rather than saying, "He forgot to say this and to say that." I mean it's good public psychology, see? At least, it works since I've been here. Instead of doing what Roper says, that "everything is lovely." I think you've got to take the thing - don't know what to compare it with yet, but I want to show not only - if we use the figure 500 million dollars, I want to show that we've got enough money voted right now, and we don't have to vote another dollar and still we'll spend more than that.

Have you got a copy of that?

Haas: Yes, I have.

H.M.Jr: Well, you better give him (Seltzer) this stuff.

George has been sitting in.

Haas: He hasn't got in on that.

H.M.Jr: Well, I want him to get on this thing.

Haas: Well, he's been on other stuff.

H.M.Jr: I know. If we're going to spend 369 million this year - which leaves unspent but voted for next year 700 million for Public Works. So, in other words, if we're going to get down to the 500 million, they oughtn't to vote another dollar; they oughtn't to vote another dollar for next year. We've got enough money right now voted. I mean this is cash available to be spent in '39 - 695 million. So there is no use attempting to get down to a 500 level in '39; we'd have to be talking about it in '40. So the die is already cast for '39; we're going to spend 700 million. And then in '40 we can hope to spend 400 million.

Then, in terms of relief, to give you an idea, the President has talked about a billion dollars for relief, and I think in that should go two hundred million for C.C.C., making a billion two. That's a hundred million a month, and that should take care

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of all kinds of relief.

Seltzer: That's for '39.

H.M.Jr: Pardon me?

Seltzer: That's for '39?

H.M.Jr: '39. Hundred million a month should take care of Hopkins and the C.C.C. See?

And he's already voted his Public Works thing, so - I mean I want to give you this idea, so.....

Seltzer: May I ask this?

H.M.Jr: Yes.

Seltzer: Do you want your speech to be something in the nature of a warning to Congress, or do you want the speech to be something of a reassurance to the public?

H.M.Jr: No. I'm glad you asked that question. This is what I am thinking of. In the first place, I want to do what certainly for my own satisfaction has never been done. I want to try, in language so that Joan can understand it, to show what we are spending - this Social Security business, what we are taking in, where the deficit money has gone. What did we do with all this money? What did we do with this extra 12 billion dollars?

Seltzer: Without using too many figures, though.

H.M.Jr: You can't use too many figures, true. I mean I first want to take in the whole picture.

Then, what is my objective? My objective is to try and get a public interest and backing to really balance this budget in an intelligent manner and, if you wish, so that the people, when they do write to their Congressman, will know what they are writing about; it isn't only Congress, it's the whole country; and to show them that I, as Secretary of the Treasury, first, know what I am talking about, and second, that

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I've got an objective that I'm shooting at.

Now, it isn't to be a reassuring speech.

Seltzer: It is not to be?

H.M.Jr: Only in its indirect effect that the people will know - (1) that I know what I'm talking about, and know where I'm going. Now, if they ask me today, I don't know - I don't know what the President's done. He doesn't know, because nobody's ever laid this out for him; and he's going to see this and I hope that he'll like it.

But what I am trying to get him to do is to lay out a program for the next three years that he is in. Now, it may scare some people to death, but I figure that knowledge will never scare them. One of the real reasons that people in this country are so frightened is that they don't know. They don't know where we're going. And if somebody says, "Well, what are you going to do for the next three years on spending," and I'd have to say, "I don't know," the fellow says, "My God" - he'd be scared to death. But if I paint the picture as it is, it may be very black, but at least the fellow will know the worst. Now, that - does that answer your question?

Seltzer: Yes.

H.M.Jr: Now, I think as a rebound will come confidence - as a rebound.

Seltzer: Un-huh.

H.M.Jr: (On phone) Hello. (Has conversation with Gordon Rentschler)

I've got Rentschler and Parker Gilbert. And those two - one is the National City, which in world trade is about as big as any; the other is J. P. Morgan. The first reaction of both of them is against it, but I've asked both of them to check that for me - don't mention it - and I'd a damn sight rather take....

Seltzer: Their first reaction was against what?

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- H.M.Jr: Against taking the extra 50 million.
- Seltzer: You see, this is true, on the other side: that the last time you raised new money by a financing....
- H.M.Jr: Yes
- Seltzer: ..was in June. That means only once in the whole year 1937 where you have raised new money, and it may be that you have raised your last new money for the whole recovery period last June. That is a strong argument for avoiding the December financing.
- H.M.Jr: On the other hand....
- Haas: But he is raising it in bills if he does this.
- Seltzer: No, the bill thing is a turnover problem.
- H.M.Jr: No. But don't let's get into that; you'll have a chance at me next week.
- Well.....
- Seltzer: The picture can't be all black. You've done a lot of things that will save your budget in future years.
- H.M.Jr: All right. Now look, you know how we work on these things. I don't want to get - the first minute I get a breathing spell I'm going to fire this thing at you. And George, now don't - this is all part of the picture, and early next week I want to have another session; see?
- Haas: I think we might start putting something in writing to help the Secretary.
- H.M.Jr: Now, if we make this one decision about this - what kind of financing, which would be Wednesday, wouldn't it? -
- Haas: Uh-huh.
- H.M.Jr: - then after that - then I think you and Seltzer should go some place and lock yourselves up for a couple days, Thursday and Friday, see, so that you'd have something for me the following week. How's that?

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- Seltzer: Fine.
- H.M.Jr: See, I'd say next Thursday and Friday you're just going to devote to this. You can use my room downstairs if you want to, or - I don't know whether - where do you go when you want to write?
- Haas: I've got an armored-plate secretary out in front of my door.
- H.M.Jr: Well, I would say that next Thursday and next Friday you take whoever you want and just devote two solid days to this thing. Now, true, I don't want to say - I'd like to take credit for everything that I could honestly take credit for, see? And explain why we had to put this money into these different agencies - Farm Credit, R.F.C., and Public Works, and Hopkins, all those things. And if you want to, use the argument: Well, ten billion dollars put here increased our revenue from 40 billion to 70 billion. Now, if a fellow's business was four thousand dollars a year and by borrowing ten thousand dollars he could increase his business to seven thousand a year.....
- Seltzer: It's good business.
- H.M.Jr: It's good business. I mean I'd get it down - it's good business. Now, the thing is, we're in this position, we've borrowed this other ten billion, and we've figured how long it will take us to pay off that ten billion and still let our national income keep increasing. Now, isn't that the whole picture?
- Seltzer: (Nods yes)
- Haas: Uh-huh.
- H.M.Jr: What? On the other hand, we recognize human weakness, and just as long as some of these pump-priming agencies are there, with the machinery all set up, there is the temptation for all of us to use it. Now, for example, we want to close this C.C.C. camp. The first person we hear from is the Chamber of Commerce in that community - not to do it because - on account of the business it brings them. But on

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the other hand, the national Chamber of Commerce wants the budget balanced.

And I used the expression - I said, "We've tried here to scrape the molasses barrel empty, which we have. But, for fear that they may fill it full again, I want to take the barrel apart."

Seltzer: Break up the barrel.

H.M.Jr: Sure.

Haas: I've got that.

H.M.Jr: Sure, I'm using that. We had to spend money, we had to lift ourselves up by our bootstraps; we've done it. But we've done it through public works - lot of the things are here. We've put so much stock into these recovery agencies; that money is still there, it's still working. We've insured bank deposits; we've done this, we've done that.

And gentlemen, don't forget that the money we put into - that we got from our devaluation of gold - every dollar of that is accountable. So many hundred million dollars was used for retiring - I want to emphasize this strongly - so many hundred million used for retiring national debt, bank notes, and the rest of it - every dollar of it is right in the Treasury today. We never used one dollar of our gold profit from devaluation, except to either retire so many hundred million dollars of national debt - and the rest of it, the two billion dollars, is intact in the Treasury today. I want to particularly get that thing across, see, get that straight.

And the other emergency powers which they gave us we never used - the Thomas currency, and this thing and that thing, I don't know how many other things. We've never used those things. Which shows that Congress - I mean I'm looking at the other - Congress can give us emergency power, the President can be trusted; he had his six-shooter and he never fired a single shot.

Now, the only thing we did was, we borrowed. Now,

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how much did we borrow in comparison, if you want it, to other countries, in comparison to our national wealth, in comparison to our capital? I mean I'm just throwing this out. You see, I think we ought to paint a pretty good picture for what we did; I don't want to apologize. Put it there and make it just as simple - I've got 30 minutes - not using too many figures.

Seltzer: That's the danger.

H.M.Jr: And I don't want to spread this around among too many people. I'm going to rely on you two fellows to build it up. There'll be plenty of fellows to criticize and pick it apart. But you can't - I think if I asked three or four people to write - I'd rather hang it on you two fellows, if you're willing, and then there'll be enough people to say what they don't like about it.

Seltzer: Sure.

Haas: Then too, we won't like it - the first draft - perfectly either - but a working basis.

H.M.Jr: But what I would do is, I would definitely put on your calendar next Thursday and Friday to work on this, see? I'd set that aside.

But does that give you a little idea how I'm thinking?

Seltzer: Oh yes, surely. There is no prediction as to the budget being balanced in here, but there is a very strong presentation of the reasons why it should be balanced in the near future, why you've got to cut down on expenditures.

H.M.Jr: And also some of the hurdles that we've got, some of the - why some of the cards are stacked against us before we start.

Seltzer: Yes.

H.M.Jr: People say, "Balance the budget." All right, you

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say, "Stop public works." But if Congress doesn't vote a single dollar, gentlemen, we are obligated to spend 695 million dollars next year for public works. Before Congress votes another dollar.

Now, we've got so much public debt - I mean let's take first what we know is there next year, for '39. These cards have already been dealt. You can't change that. Now, how much is left, how much more have I got to deal? What can I do? So much is already out on the table, so many billions of dollars. And when it gets down, it gets down to a very few things.

Seltzer: And of course, it is worse for '38.

H.M.Jr: Oh yes.

Then, Magill - I'm going to work with Magill on the revenue picture, and when I get that, you see - and in that - then I'll work with him on that, then we'll try to put the two things together. But the speech is called "Government Spending," you see.

Seltzer: Delivered on....

H.M.Jr: What?

Seltzer: When is it?

H.M.Jr: The 10th of November.

Haas: But in our draft you don't have any objection to our taking the receipt side.

H.M.Jr: No, because you know that picture as well as I do.

Haas: Yes.

H.M.Jr: What?

Haas: O.K.

RE SPEECH ON GOVERNMENT SPENDING

October 14, 1937
11:45 a.m.

Present: Mr. Gaston
Mr. Haas
Mr. Seltzer

H.M.Jr: Has everybody got a copy so we don't have to read out loud? I'd like to read it myself.

Haas: Oh yes, we all have copies.

H.M.Jr: (After reading short portion) Just put this thing in here; after the first paragraph, I would say: "Right at the beginning of my discussion, I wish to say that I believe that it is imperative that, without any 'ifs,' 'ands,' or 'buts,' the Federal budget for the fiscal year 1939 be balanced."

That comes on page 1, after the first paragraph.

Seltzer: Why not right there where you are talking about the three parts of your speech?

H.M.Jr: But you don't make it strong enough.

Seltzer: Say first your spending program and then why the budget must be balanced.

H.M.Jr: Well, let me just throw these things out. I haven't allowed enough time this morning. Let me read it through, give you my reaction. Then you fellows take it, chew over it, and you'll get a chance to come back at me again. In other words, this is going to be a little one-sided this morning; next meeting I promise I'll listen.

(Reads silently)

This doesn't necessarily come in, but I've got an idea I'd just like to dictate:

"We have been waging a battle during the last four years to save lives, to rebuild morale, and to put the country back again on its feet. This kind of a battle is not very different in many respects from a battle against the enemy where the objective is to

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kill. In that kind of a battle, we have our generals. In the battle against the depression, we have also had our generals to lead this fight, only this time the generals have been civilians. And I believe that the fight to save lives is just as difficult a one to win as the normal battle where you kill.

"Now, let us see who our generals have been this time. Our generals who have led the fight have been Mr. Jesse Jones of R.F.C., Mr. Bill Myers of Farm Credit, Mr. John Fahey of Home Owners Loan, Mr. Stewart McDonald of Federal Housing" - all those people - "and those men deserve the Distinguished Service Cross for the work that they have done every bit as much as the generals who directed the troops during the World War from Washington."

Now, it's just an idea, see?

Haas: When you were saying that, it occurred to me that you were going to say that "We spent to save." That's an alliteration.

H.M.Jr: I'm just throwing it in. Have to put in a lot of the others.

Haas: Have to put Wallace in.

Seltzer: You left out Hopkins.

H.M.Jr: Oh, just - I left - I'm just throwing it in. I gave it to my wife. She said it sounded too much like a campaign document. But I'm just throwing it into the hopper, see?

Then that other idea: "If we made a mistake during the World War, we don't figure it in dollars. The important thing is: Did we win the war? The same kind of situation holds true during the last four years. Of course we made a lot of mistakes, and of course we wasted some money, but in the end we took our objective, which was to lick the depression."

I'm on page 7 now.

Haas: We've got some of that in there.

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H.M.Jr: I know.

Look on page 8: "Another amounting to more than one and a half billion was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads, banks, etc. The proprietary interest of the United States in these agencies now amounts to nearly four billion dollars."

Now, how could we, on spending one and a half, get a proprietary interest of four?

Haas: Hoover did an awful lot of it. He put up the R.F.C.

H.M.Jr: Make that clear. A fellow says, "Gee, put in one and a half and get four." It just doesn't make sense.

Seltzer: We made more of those, but we got repayments.

H.M.Jr: But a fellow says, "It just doesn't make sense. That's some pot." See what I mean? It needs an explanation.

(Reads more)

You get it down to five billion, don't you?

Seltzer: Practically.

H.M.Jr: Last time we did this speech, we had a profit. Remember, Herbert?

Seltzer: Of course, we never did discover the source of some of those figures. Of course, we have spent some more money since that time.

Gaston: Well, Danny Bell was in on that.

H.M.Jr: Just a minute, Herbert. Those figures were all right.

That's a good sentence - page 11 -: "We believed it better and wiser to balance the budget of the American people when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people." That's a good sentence.

(Reads some more)

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H.M.Jr: I'm on page 17.

I like this page.

Haas: Is that 18?

H.M.Jr: Uh-huh.

(Finishes reading)

Well, I want to say this. I think it's coming along very nicely. The main criticism I have - and I don't know whether I ought to do that with you - I don't feel in the first two thirds that the ideas fall nicely - I mean that they're - they just come in logical order, that the arguments - I mean I feel that they're still too scrambled. That's my principal criticism there. I mean it doesn't give me a picture - 1, 2, 3, 4, 5 - you see; it isn't yet orderly.

But I'd like to - I don't know whether you people want to take it or whether you'd like to leave it now until I work with it. What do you think?

Haas: Herbert could also....

H.M.Jr: How do you like it so far, Herbert?

Gaston: I think the argument in general is good. I think it's the right argument and the only one you could use. I think that there is probably too much of this review of the reasons for the emergency expenditures, that it is too nearly in the form in which we have said it over and over again during the campaign.

Then, I think also that we should try to get that thing a little more condensed and crisper and enlarge more on the future picture. And then I think the emphasis here on the fact that regular expenditures have not been greater, they have actually been less than in prior administrations, leads immediately to the thought that "Well then, the emergency is over, you can just chop those all off and we'll get back to a four billion dollar budget"; and it isn't true; we can't do it, and I think something more must be said about the difficulty of doing that.

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And I think also that that's a somewhat tricky statement, because we're not going to get back to any four billion dollar budget. We have absorbed into our regular budget these things which we have liked to speak of as emergency expenditures, and they're going to stay there.

Haas: You (Seltzer) had that in the other draft, don't you remember?

H.M.Jr: Let me just get - I'm tired now. George had me the other night when my mind was fresh. I'm tired; I won't be any good the rest of the week. Now, you three men, just the three of you - I don't want Upham ~~is on this~~ any more - do you think you could do anything for me so when I came back it would be - when I'd be fresh, we could take it up Tuesday morning? What do you think?

Gaston: (Nods yes)

H.M.Jr: What?

Haas: I think Herbert could do a lot. I think it needs a fresh mind on it. Larry and I are.....

H.M.Jr: What do you think, Herbert? I know when my mind is tired, and right now my mind is very tired.

Gaston: Yes. Yes, something could certainly be done.

H.M.Jr: Well, think it over. Is this a copy for me?

Haas: It's being retyped.

H.M.Jr: Have it retyped as it is and I'll take it up to the farm with me over the weekend, and I'll see what I think of it, see? But I know when I'm tired, and I'm very tired now.

But I want to say this. I think it's coming - this is only the 14th, and I think it's coming. And I think when it's retyped I'd let Viner and Riefler read it. Just ask them to read it while they are here, to see whether they feel that we are approaching it from the right angle, without getting

down to.....

Haas: Details.

H.M.Jr:details; but do they feel that's the way to approach this thing, and if not I'd like to ask them to put in writing the way they'd do it. I'll see them at lunch and I'll tell them.

Seltzer: Are they going to be around the rest of the week?

H.M.Jr: Yes. Well, tomorrow anyway.

Haas: You tell them about it and I'll supply them with a copy.

H.M.Jr: I want to see if they think this is the appropriate - this is the philosophical way to approach this problem. I also feel much more could be said as to the future.

Gaston: I'm perhaps - because of the fact that we have had so much of this stuff, Larry,....

Seltzer: I understand.

Gaston: ...maybe I just got kind of tired.

H.M.Jr: No, George said - he prefaced the thing; he said he and Larry have gone as far as they can; they've gone stale on this thing, and they'd like - I think if we have Viner and Riefler and you (Gaston) take a look at it and give it some time, so when I come back Tuesday... But I'm pleased the way it's coming. And God knows Herbert Gaston can tell you when I'm not pleased. See?

Now, I'd like a copy. I wouldn't give anybody else except Viner and Riefler and Gaston and me one; and then I'll tell them to read it and tell me whether they think this is the correct way to approach this problem, and they should please take it and sit down and write their comments.

cc - Mr. Gaston
Mr. Haas
Mr. Seltzer

PRELIMINARY DRAFT

10/14/37 -- 25

Address of the Secretary of the Treasury,
to be Delivered before the American Academy
of Political Science, Wednesday Evening,
November 10, 1937

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

It is important to note that I believe that the Fed budget for FY 1939 should be balanced

My discussion will fall into three parts. First, I shall outline briefly the character of the spending program of the last four years. Second, I shall outline the reasons why a prompt balancing of the Federal budget is now desirable. And, third, I shall tell you why I am confident that, with the firm support of the public, we shall succeed in balancing the budget in the coming fiscal year.

During the last four fiscal years, your Government has deliberately prosecuted a great spending program. ~~The outlines of that program were announced by President Roosevelt~~

Secretary's Speech - 2

~~in his very first budget message on January 4, 1934.~~ Its purpose was clear, *from the outset.* It was formulated directly in response to the chaotic and intolerable conditions that faced the American people in 1933.

I need not detail these conditions at length. Most of us retain a keen and bitter memory of them. The national income, which had totaled eighty-one billion dollars in 1929, had fallen to less than forty billions in 1932. Our banking system had collapsed. Our foreign trade had shrunk to small proportions. The drastic decline in prices had created unbearable hardships for all who owed debts. Our farmers were losing their farms, and home owners their homes. The man who had a job considered himself lucky to hold it, regardless of wages. The primary necessities of millions of unemployed Americans and their families had exhausted the immediately effective resources of State and local governments.

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In this situation, the Federal Government was the only agency in the entire country with the power and the resources to start our economic machine functioning again.

Some people at that time said: "If only a few big corporations would get together and agree to build extensions to their plants, that would start the ball rolling. Or if only we could induce all the families that need new houses *build* to order them now, that would start the ball rolling."

The fact of the matter was, however, as you are all aware, that no single corporation or small group of corporations could afford to or would take the risk of large-scale plant expansion at a time when the volume of available business was not half enough to employ fully their existing plants.

Likewise, with the families that desired houses. How could any of them be asked to risk their life's savings as

Secretary's Speech - 4

a down payment on a new house when there was great danger that the head of the family would lose his job, and that his savings would shortly be needed for food?

No; so greatly fallen was the morale of business generally that no private source could be relied upon to start the ball rolling. Speculative excesses and profound industrial maladjustments had unbalanced our national economy and laid it low. A paralyzing fear was keeping it unbalanced and was keeping it low. It could be revived only by a real increase in the volume of effective purchasing power, and in the security of jobs, property values, and business profits. The Federal Government alone had the power and the resources to bring about such a revival.

unintentional factor?

Under the courageous leadership of President Roosevelt, the attack was made on many fronts.

Confidence in the country's banking system was restored by the use of Federal funds both to strengthen the capital

Secretary's Speech - 5

structure of our banks and to supply the initial capital resources for a Federal system of insurance of bank deposits. Federal funds were also provided for loans to farmers, homeowners, railroads, and others.

The international value of the dollar was brought into line with the values of other currencies, thereby restoring world markets to our agricultural and industrial producers.

A great program of public works was inaugurated, which served the double purpose of giving employment to otherwise idle labor and of providing the country with valuable and durable assets in the form of dams, public buildings, public roads, electric power developments, river and harbor improvements, and many others.

To restore the purchasing power of our agricultural population which had been unbelievably reduced during the depression, programs of agricultural adjustment and soil conservation were inaugurated.

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Finally, to mention only one more, but in many respects the most important, element of the whole program, Nation-wide provision was made to prevent any American from starving. Further, to maintain the self-respect of the needy unemployed, the bulk of relief was disbursed in the form of wages rather than doles, in return for labor services on thousands of local work relief projects scattered throughout the country.

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The program that we formulated and executed, plus the special requirements arising out of the great drought and the prepayment of the soldiers' bonus, cost a great deal of money. During the four years ended June 30, 1937, our total expenditures, exclusive of debt retirements, were fourteen billion dollars in excess of our receipts.

What were the major items accounting for this deficit?

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The arithmetic is simple. The largest single item, nine billions, arose out of unemployment relief, which included the Civilian Conservation camps and the great volume of useful services performed in connection with thousands of local projects. Another two billions went to the agricultural adjustment program. Another 2.2 billions went for the prepayment of the soldiers' bonus. Three and two-tenths billions went for public works. And one and one-half billions went for recoverable investments in governmental agencies making loans to farmers, home owners, railroads, ~~insurance companies~~ *banks*, and the like. The total of these items is eighteen billion dollars. But increased tax collections and savings in the ordinary operating expenses of the Government reduced the net formal deficit to fourteen billions.

Secretary's Speech - 8

Now the final net cost of our spending program will be very much less than this figure. We have made a number of substantial expenditures, aggregating about six and a half billions, of the kind that will directly reduce the budget requirements of future years. What were they?

One of them, amounting to more than 2.2 billions, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a regular charge upon the budget until 1945.

Another, amounting to more than one and a half billions, was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads, banks, and so on. The proprietary interest of the United States in these agencies now amounts to nearly four billion dollars. The peak in expenditures of this type was passed two years ago, and ~~from 1943~~ the proceeds from these loans

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and investments will become largely available for reductions in the public debt.

Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the *and more than four times - those of the one before that.* outlays for these purposes in the preceding administration, *these increased outlays in part* ~~This excess~~ anticipated future requirements.

If you were to subtract the total of these special expenditures from the formal deficit of fourteen billions, you would get a net cost of the recovery program of approximately seven and a half billions. Even this figure will eventually be reduced by two billion dollars or more as a result of the gold profit now lodged in the Stabilization Fund, every dollar of which is still in our possession, to be made available in due course for reducing the public debt.

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But let us waive these real offsets to the cumulated formal deficit. Let us look at the gross figure itself -- this fourteen billion dollars. Did we get our money's worth? I leave that question to your own judgment. I shall cite no long list of figures to measure the enormous improvement in the country's economic condition during these four years. As I said once before, this enormous improvement is confirmed by the firsthand experience of every man and woman in the range of my voice.

Nineteen years ago tomorrow we signed the Armistice ending the World War. In the two years ended June 30, 1919, the Federal Government spent thirty-one billion dollars and created a deficit of twenty-two billion dollars.

During the past four years, we have been engaged in another war. This time we fought to save farmers from losing their farms, to save home owners from losing their homes,

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to give not only bread but jobs to the unemployed, to bring order out of chaos in our economic system. This war cost us a good deal less than the war in 1917 and 1918. Is there anyone within my hearing who doubts that this war has been at least as worth while, in terms of results achieved, as that other war?

As in that other war, anyone can point to a dollar here or a dollar there that was not well spent. In any war we expect a general to be judicious in his use of ~~men~~ and munitions, but we hold no grudge if he unavoidably wastes a few bullets. So in this war, it may well be that the detailed uses of some of our relief funds might have been somewhat better planned; but such small wastes as may have crept in were as nothing when compared with both the human and material values that were at stake.

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We knew at the outset that to spend in a great way, as we have spent, meant a temporary series of unbalanced budgets. But we also knew that it meant the prospect of a revived and balanced national economy. We believed it better and wiser to balance the budget of the American people, when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people.

Let us for the moment ignore the very great human values that were involved. Let us take a very narrow view of the issue. We accumulated a formal deficit of fourteen billion dollars. Suppose a businessman had a chance to raise his income from forty thousand dollars to seventy thousand dollars a year by borrowing fourteen thousand dollars. He would certainly jump at the chance of borrowing that money. That, in one sense, is what we did. This fourteen billion dollar formal deficit has played an important part in raising our

Secretary's Speech - 12

national income from less than forty billion dollars in 1932 to approximately seventy billions in 1937. Your fourteen billion dollar investment in America is currently yielding us a return of more than two hundred percent a year.

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I turn now to the second part of my discussion -- the reasons why a prompt balancing of the Federal budget is now desirable.

As I have indicated at some length, we have deliberately used an unbalanced Federal budget during the past four years to restore balance in the budgets of the American people. That policy has succeeded. We have licked the great depression. We have not, it is true, entirely solved the problem of unemployment, which was accentuated by that depression; nor have we completely solved various other problems. But the domestic problems that we face today are far less

October 20, 1937

10 a. m.

Present:

Mr. Bell
Mr. Upham
Mr. Haas
Mr. Wilmerding
Mr. Seltzer
Mr. Gaston

HM, Jr: Well, this is Viner's reaction to the draft. I will read it out loud.

"I think that the preliminary draft provides a substantial basis for a satisfactory speech, and if it were strengthened at the indicated points I would have no further criticisms to make of it.

"Pp. 6-7. Except for four billion dollars, you account only for the expenditures in excess of receipts. But new and heavy taxes were imposed, and these produced substantial revenues, as you yourself point out later. The use of these should be accounted for as carefully as the use of the borrowed funds."

Well, we have time to work with that.

"P. 8. Again, that part of the recovery expenditures which was met from current tax revenues is not counted as a net cost. On this basis, the government's activities cost nothing in a year in which the balance is budgeted.

"P. 8. Should not sterilized gold also be included as a future asset for debt-liquidating purposes?

Pp. 11-12. You must argue as you do that the federal deficit was a contributing factor to the recovery, but the claim that all the recovery was attributable to it, and that all the increase in national income was the result of the deficit and by implication would not have occurred if the deficit had been smaller or had been ended sooner, would be difficult to support by reasoned

-2-

"argument, especially before an audience most of whom are convinced that the continuance year after year of the deficit has been a hindrance to recovery. I would certainly eliminate the statement that the 14 billions of deficit is yielding 28 billions per annum in national income. On that basis, why not have had a 30 billion deficit? And what about the devaluation, etc., and their effects? If all the recovery is claimed for the deficit, what about the rest of the New Deal program?

"P. 12. I would not boast too much about the present economic situation. It will not sound up-to-date at a lecture so near to Wall Street. Instead of suggesting that the bulk of the job of bringing lasting and full recovery has been done, I would advise that you take the line that what could be done by deficit financing toward bringing about recovery, relieving distress, and substituting for temporarily idle private capital, has been done, and that the remainder of the task, still a sizeable one, must, in the interest of the security of the federal finances, be done strictly within the limits of a balanced budget, and of no increased tax burdens. The government can still rightly be called upon for help, but business, labor, and agriculture, in removing unnecessary hindrances, legislative or otherwise, to the profitable investment of private capital, in promoting the removal of trade barriers, and in maintaining adequate financial conditions, on liberal terms, for legitimate industrial, commercial, and agricultural enterprise. Something of this sort certainly needs to be said after, or in lieu of, the statement on page 14: 'We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise.' No one disputes this. But private funds are put to work only when a profit seems in prospect, and the government now has an unprecedented degree of responsibility for the conditions which result in such prospects of profit being either present or absent.

"P. 15. I would point out here that the reductions of the high surtaxes during the period of prosperity prior to 1929 reduced the power (and made its exercise more dangerous) of the Government by deficit financing to moderate the present depression.

"I hope that these suggestions, etc. etc."

HM, Jr: What I would do is this, so we keep it al-

together, who is going to keep all this stuff together?

Mr. Haas: I will, or Larry (Seltzer).

HM, Jr.: This eventually has to go back to Miss Chauncey.

Mr. Haas: O. K.

HM, Jr.: There are some excellent points in Viner's comment. I don't know why Riefler did not send me his. I think I will call him on the telephone. (Note: He could not reach Dr. Riefler during the course of the conference.)

HM, Jr.: Now, where are we next?

Mr. Haas: Mr. Wilmerding has gone over and worked up an outline of the speech draft we had in here the other day in which I attempted to follow your discussion of the other evening. It was too long and you made some suggestion at the beginning that it did not click so Larry has taken that and reduced it and made it about 3,000 words and I think Herbert has also taken a shot at it.

HM, Jr.: What's Wilmerding got?

Dr. Haas: This outline.

Mr. Wilmerding: It is a lengthy outline. I am not myself willing to stand by it.

HM, Jr.: How many words have you got? Is it an outline or draft?

Mr. Wilmerding: It's an outline; a sketch.

HM, Jr.: What have you, Herbert?

Mr. Gaston: I have re-written about the first half of what Larry and George produced of the discussion we had the other evening.

HM, Jr.: May I see? Does this follow the other or is this original?

Mr. Wilmerding: It's original in some respects.

HM,Jr: Let me take a look at it.

Mr. Wilmerding: All right. I will say frankly it will have to be changed.

HM,Jr: Let me read what he's got and I don't know whether anybody has got what I have picked up in the last couple of days in my own mind and when I come to that I will need a lot of help from your organization, Dan. I think -- after all, this is November 10th which is 5 days before Congress meets and it's a marvelous opportunity to lay down certain principles in advance.

Mr. Bell: True.

HM,Jr: And I want to put my neck out. I would like you to soak this in because I have to rely on you and your organization for a lot of this stuff.

Mr. Bell: All right.

HM,Jr: Let's see what these boys have got and if they haven't got what I want I will tell you and we will get you, Bell, to dig it out, see? All right, I will read this.

(Secretary read Mr. Wilmerding's outline, copy of which is attached.)

HM,Jr: (Having completed the reading) I think there is a lot of good stuff in there.

Mr. Bell: Yes.

HM,Jr: I think you have gone too much in the direction of not enough figures.

Mr. Wilmerding: I think so too.

HM,Jr: But I think there is a happy medium.

Mr. Wilmerding: A little too 'airy'.

HM,Jr: A little bit, but we have got time. But there is a lot of stuff which I think we can work in.

Let me get -- which is the last one?

(The Secretary then read the Haas-Seltzer draft.)

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HM, Jr: (after reading first three pages) I like this.

Mr. Haas: This is about the way you indicated the other night.

HM, Jr: Do you like this, Dan?

Mr. Bell: Yes; this is all right.

HM, Jr: (after reading first four lines on page 4) I like this. This is swell.

(Continued to read.)

"The total of these items is eighteen billion dollars," (lines 1 and 2 of page 5.) There is a time element there. Over what period?

Dr. Haas: Four years.

Mr. Gaston: You are still taking about the four-year period.

HM, Jr: (Continued to read.) "Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the outlays for these purposes in the preceding administration, and more than four times those in the one before that. These increased outlays in part anticipated future requirements." I question that paragraph.

(Continuing to read) "If you were to subtract the total of these special expenditures from the formal deficit of fourteen billions, you would get a net cost of the recovery program of approximately seven and a half billions." I question that, too. I think you are going too far.

(Continuing to read). "We believed it better and wiser to balance the budget of the American people, when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people." What do you mean? You mean unbalance.

Mr. Bell: Balance the budget of the individual.

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HM, Jr: "Balance the budget of the American people." I think that has to be cleared up. It does not make sense to me. What you mean is the individual.

Mr. Haas: You can say budgets of the American people.

HM, Jr: That isn't clear. I know what you mean. You mean when a fellow had nothing it was up to us to spend, but it isn't clear. I think there is an idea there, but it has to be re-worded. "Had a chance to raise his income," has not the President used that?

Mr. Gaston: I think the general idea has been used and "balanced budget of the American people has also been used.

HM, Jr: (Continuing to read) "200% a year." (Second line of page 9.) That's a new one.

Mr. Seltzer: A lot of other things contributed to this recovery in the national income, but I don't know that

HM, Jr: Larry, what I am trying to do this morning, I want to see what you fellows have got and then what I am going to ask you to do is take Viner's and Riefler's and anybody's criticism in this group and hash this thing over plus what I don't think you have got, a new idea I want to give you. Let me run through this. I think this is so great an improvement over the last one that I am tickled to death. I feel we are coming.

HM, Jr: (Continuing to read) "We have not, it is true, entirely solved the problem of unemployment..." (Page 9, line 9.) I think you have understated it.

"Nor have we completely solved other problems." (Page 9, lines 11 and 12.) I think we can admit a little bit more. I think we can say there are still lots of things to be done and I think we can admit more; we still have the unemployment problem with us.

(Continuing to read through first paragraph on page 11) Are you nailing me to the cross! O. K. It's all true, but it hurts.

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Mr. Seltzer: That's your real basis for asking for a balanced budget at this time. If you believe we are going into a tail-spin I would chuck the speech. I would certainly change it radically.

HM, Jr: All right. I have time to think this over.

Dr. Haas: There is another angle that coincided and brought the situation about and that was liquidation by the banks.

HM, Jr: Yes. This is strong stuff.

(Continuing to read) "I need hardly say.." (line 1 second paragraph, page 11). I think instead of "I need hardly say" I would say "I want to say".

Continuing to read: "I need hardly say that it is the aim of this Administration to foster and strengthen the conditions favorable for private business. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise.

"For these reasons we wish to minimize any further borrowing by the Federal Government; for such borrowing unlike that which took place during the depression, would be at the expense of the funds available for industrial expansion."

Mr. Bell: You are going out on the end of the limb.

Mr. Haas: Sure; spend your gold!

Mr. Gaston: You can qualify that all right, I would say.

HM, Jr: (Continuing to read) ".. the great American public" (line 11, page 13). It makes me think of "Of Thee I Sing." Can't you call them something else? P.T. Barnum and the great American public!

(Continued to read through line 7, page 14.)

Mr. Bell: Do you want to put something in there to express appreciation of banks and investors?

HM, Jr: I think that would be very nice. They have it coming to them.

Mr. Bell: It's a good gesture.

Mr. Haas: I don't think it is necessary.

Mr. Bell: After all, there is a gap between industry and Government and I would like to see somebody bridge it a little.

HM, Jr: After all, you are here to make suggestions. And I will make some. If these fellows don't like them, we can put them down and take a look at it.

(Resumed reading) "I say to you with perfect confidence that, given the firm support of the public, and despite the pessimism of some, we shall definitely accomplish this objective." (Lines 10, 11 and 12, page 14.)

HM, Jr: Balanced budget. That's what I want you (Bell) in here for.

(Resumed reading). "The number of the needy unemployed has been drastically reduced." (Next to last line, page 16.)

HM, Jr: Who reduced it?

Dr. Haas: Business recovery.

HM, Jr: Well, say so. I don't want to give the impression that we drastically reduced it.

Mr. Gaston: Right.

HM, Jr: Which I am afraid would be pretty hard to answer because there is some truth to it.

(Resumed reading) "... and the present fiscal year may be considered as the year of transition between unbalanced and balanced Federal budgets." (Page 17, line 3.)

HM, Jr: That's what I like! That's Papa!

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HM, Jr.: (Resumed reading) "There are some reasons for optimism on the spending side of our budget picture. On the receipts side" (Page 18, Lines 5 and 6.)

HM, Jr.: Now, right here is where I would like to talk a little. The way I feel today, I would like to take a very gloomy attitude about the prospects of balancing the 1938-1939 budget and I would like to say to these people: 'While the Administration is most desirous of doing it, it is going to be an extremely difficult task to bring this about, and for the following reasons: Well, we can take the ordinary expenditures of Government, which run at the rate of 3 billion 2; might bring them down to 3 billion. Well, we can take the unemployed and C.O.C., which will run, combined, about 2 billion 2 this year and cut that next year to 1 billion 2. Anyway, I got that figure of 5 billion for all Government expenditures plus 1 billion 2 for relief, brings it up to 6 billion 2. Then plus debt retirement, another 600 million, brings it to 6 billion 8. Is that about right?

What I want to do and this is where I want you (Bell) to come in, I want to take the desire, the wish -- yes; the accomplishment -- extremely difficult. We must get the help of everybody to bring this about. Why? First, Agriculture. I don't say I will put that number one. Let's take a look at the situation that agriculture is in today. For next year we have on our books an authorization of \$448,000,000 plus, last December, roads authorization of \$216,000,000, plus \$216,000,000 authorized to be apportioned this year, of which only \$24,000,000 has been provided, and the difference, roughly, \$400,000,000, to be authorized. That's \$440,000,000 plus another \$400,000,000 is \$840,000,000.

Now I would sketch -- by that time, you know, we are talking about ever-normal granary. I would say in addition to that, Commodity Credit might cost us, due to cotton and corn loans, another \$300 million. So, Agriculture \$400 million plus Road, \$440,000,000, equals \$840,000,000, plus \$300 million equals 1 billion 1 plus \$100 million, Customs money under Section 213, equals 1 billion 2.

Mr. Bell: Of course that isn't all. You have the regular operating side.

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HM, Jr: All right. This is where you come in. I want you to dictate some of this speech. Since I have been working with Mr. Bell, I want to take the time to explain, we have got a practically impossible task to balance the Budget next year and I want to say so. I want to say so! I want to say to these people -- I want to make it just as black as possible, to frighten them. Say: Why, gentlemen, of course we want to balance the budget, but what is the problem? After you get through with 5 billions regular expenditures of the Government, which are not higher than the previous four years (if that is true) and after cutting it down this year, plus 1 billion 2 for relief, plus 600 million for debt retirement, you have a figure of 6 billion 8 and you haven't even included agriculture. Before we take a look at the revenue side of the picture, we are sunk.

Now, as I told Wallace yesterday, I asked him -- I have to talk terribly frankly here; we never have any leaks in the Treasury -- Wallace's attitude was: 'I never heard of this. I have always gone ahead and spent all the money I wanted to. No one has told me I could not spend it. This is unheard of. I have to see the President right away.'

That's why I want Mr. Bell here. I want him to say whether I am right or wrong in saying this; whether this will be helpful to the Administration. In other words, I am willing to be the goat. I am willing to stick my neck out five days before Congress meets and have them say: 'What is this stuff Morgenthau is talking about? It's the darndest stuff I ever heard of.' See what I mean?

Mr. Bell: Yes, I see what you mean. I think the first impression they will get is, Oh, well; the Secretary is beginning to make excuses already about not balancing the 1939 budget.

Mr. Seltzer: Sounds different from what the President said a few weeks ago.

(Secretary left the room for a few minutes.)

Mr. Gaston: In effect you are saying it is absolutely essential that the 1939 budget must be balanced, but it can't be done.

Mr. Bell: That's the argument he's getting into.

Mr. Gaston: Certainly with that thesis you have to come half way from both ends. You will have to translate it: the budget should be balanced, but it will be a very difficult task. That's what you will have to arrive at.

Mr. Bell: What I am thinking of: It is going to be a difficult job to balance this budget in view of the authorizations hanging over our head and we need the support of the American people to balance it and the President is going to make some drastic recommendations in this Congress for economy and it will take the support of you people to get that.

Mr. Gaston: 'It is possible to balance the budget. It will be very difficult. We need your help.'

Mr. Bell: That's the line.

Dr. Haas: We started out one other time in making it black. Remember the first one you (Seltzer) wrote? That was black.

He has a point about Congress meeting, but I don't see how we can get it over without completely changing the front part of the thing.

(At this point the Secretary returned.)

HM, Jr: Dan, the floor is yours. What do you think about what I said?

Mr. Bell: My first impression is they will say that you are immediately throwing up an excuse for not balancing the 1939 budget.

HM, Jr: You want me to answer that?

Mr. Bell: Yes.

HM, Jr: My answer to that is this: I think this is the biggest thing of the speech and I think I have to repeat and repeat my pleas for assistance, but I am willing, as Secretary of the Treasury, to do anything and everything humanly possible to bring this about, but I can't do it alone. Why not face the facts?

Mr. Bell: That's what we are leading into, that the budget must be balanced and it's going to be a veryvery difficult problem and we need your help. That's a little different approach.

HM, Jr: I keep saying: You, the American people, your representatives in Congress, everybody, has to work together to bring this about and no one individual can do it. This is the biggest fiscal job that has ever faced anybody and no country in the world has been able to do it. Nobody has a balanced budget. We want to do it and in order to do it I am asking, on behalf of the Administration, I am asking help of the American people to bring this about.

Mr. Bell: Do you suppose the President would permit you to say that he intends to make some very drastic recommendations for economy the first few days of the session and when he makes those recommendations you want the public to support them?

HM, Jr: He can look at it. You know, the other speech I gave him he went over four times.

Mr. Wilmerding: It seems to me you have to leave them with the impression of not making an excuse, but that you are absolutely earnest and, as Secretary of the Treasury, you want to balance the budget and he is going to move heaven and earth to balance it and tell what the obstacles are.

HM, Jr: I want to leave the impression that he has painted the picture even blacker than it is. I would much rather have that, Dan. I am doing the President a kindness by putting my neck out, because he does not appreciate how difficult it is. You and I listened to Wallace yesterday. It's one thing to go into a corral and say I am going to rope and tie that, well, to be polite, horse, but we haven't even tied him. I gave you the figure of 1 billion 2. Mrs. Klotz is telling me that Wallace called several times to make sure I was going to be there and that there was no misunderstanding. I want to take time. I feel I have gone up on the Hill and I have talked

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about our financing and I have talked about our Government credit and I don't think it is conceited to say that I have left them with the feeling of sincerity and honesty of purpose. That's what I want to leave here, but I don't want to leave a stone unturned to tell them what the problem is, not that I want to pass the buck but I want to paint the picture for next year as it is and taking agriculture, roads and Section 32 money and all that stuff, and I am just using that because I am most familiar with it, but you know of other things. They slide over this thing too easily, that there was already on the books \$700,000,000 for public roads before we get another dollar. We have commitments to finish these projects until 1941. It's not only 1938-1939, but commitments we have made to 1941, by years. We have got projects. We have to finish them. Let's be realistic, gentlemen. Administration wants to do this, but we need your cooperation and I want to give the picture just as it is; not a single doubt that I can think of, but what I am going to tell you: now in order to accomplish this thing, we need your help.

I don't want to say this, but I am so sick and tired of hearing people say, We want a balanced budget, and they don't know what they are talking about. Maybe I can say that politely -- so many people calling for a balanced budget. When they want a balanced budget what are the things -- what is necessary -- to bring that about?

Now, Dan, you can see why I wanted you down here, but having been through this thing with Wallace twice, having been through this experience over the week-end and getting the document signed and the reaction after the document was signed, I feel I can really render a great service by knowingly and consciously putting my neck out as the fellow who is going to bust this bad news to the country and do it on the eve of Congress meeting.

Mr. Bell: Good time to do it.

HM, Jr: I don't want you to say to me, unless you honestly believe it is the time to do it and I am the person to do it. Think it over and tell me.

Mr. Bell: I see.

HM, Jr: Because, naturally, the Congressmen are

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going to have someone to jump on and blame and I am exposing myself to them and I am willing to do it and I should think the President would jump at it. Now I am willing to take the responsibility of giving this news to the public and I think the sooner it is done, the better, and this is the perfect time to do it.

Mr. Bell: Uh-huh. The way it appears to me it is the right approach to it.

HM, Jr: Now will you, or could you, yourself, because you have this thing, take some stenographer and rough out what I want, the open ended part of the thing? I have just mentioned agriculture and you know the other things -- just the way I have talked it, but the real figures.

Mr. Bell: I think so.

HM, Jr: What would be a reasonable time to get it from you?

Mr. Bell: I would like to have a day or two. I am way behind with my Budget. Tomorrow, maybe, sometime.

HM, Jr: Could we have a meeting Friday morning?

Mr. Bell: I think so.

HM, Jr: Is that rushing you too much?

Mr. Bell: I will do it within that time I am sure. I don't think we want to get too many figures into the speech.

HM, Jr: What would you say about Friday?

Mr. Bell: I expect it had better be sometime in the morning, because I have to keep afternoons open to do some revising on the Budget figures.

HM, Jr: How about 10:30 Friday?

Mr. Bell: All right.

HM, Jr: Herbert, what do you think of it?

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Mr. Gaston: I think the way to handle that is to say that if the budget should be balanced it is going to be difficult and I think this is too optimistic. Of course, there is another obstacle and that is a genuine depression developing in the meantime, which will be the most difficult thing, and whether you want to make a decision and announce the decision, in spite of anything that happens in the meantime, we must try to balance the budget.

HM, Jr.: I won't be here if we have another tail-spin and we have to raise another five to ten billions.

Mr. Gaston: You won't consent to deliberately unbalancing the ¹⁹³⁸ budget with 400,000,000 or 500,000,000 more work relief?

HM, Jr.: No. You will have to get another Secretary of the Treasury because I believe what they fellows say here that there are a lot of other things that are wrong and they should be corrected, and the reason I am willing to do this -- the President is not leaning toward more pump priming, but the thing that bucks me up is he is leaning to encouragement of private industry and private capital to get the building thing started, which the Government has failed at, and he's willing to admit that. I won't stay and knowingly and consciously have an unbalanced budget in order to correct the mistakes made by other people. You will have to get somebody else to do it. As I say, we are talking terribly confidentially. I believe everything that Haas and Seltzer said here. We have come to a cross road. The cross road is when private business needed the money which the Government has been taking up to this time, and we are at that cross road now. I don't see why we can't use those words, the cross road where the Government can step out of the field of absorbing money and spending it to stimulate production and it's now up to private business and they are ready to do it and they should have the money and the United States Government should not be in competition with private industry for money. That's the whole picture. The time has come. And the only person around here who is not in line is Wallace and Wallace wants private industry to do it; he does not want the Government to do it. The President wants private industry to do it. Let's be honest with ourselves. And it's not balancing the budget which is putting the stock market down. Then why the hell

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should we unbalance the budget to cover up the mistakes of other people? For four years we have carried the burden of mistakes made by other Departments. We have carried much too much.

Mr. Gaston: I still think if the worst happens, the pressure will be so strong that I doubt it will be resisted.

HM, Jr.: I have yet to see any signs of it. Today, up to now, I have seen no signs of anybody of responsibility who wants to unbalance the budget in order to stop this drop in the stock market.

Mr. Haas: Certainly a great many other things would precede that.

HM, Jr.: What I -- I repeat, what I say in this room must not be repeated -- but I am willing to take the responsibility. But I will not, in 1938 or 1939, I will not raise a lot of deficit money. I positively will not do that.

Mr. Haas: I think you can keep your conviction, but I don't think you have to burn your bridges behind you.

HM, Jr.: We crossed it Sunday night when the President signed this thing. We are all in the clear. I have made my fight for the last three weeks and I figure we have won. Don't you feel that way, Bell?

Mr. Bell: Yes, I feel the way you do. I think you are absolutely right. On the other hand, Herbert's statement that it's going to be awfully hard to resist is a big factor in the case. I think you are on sound ground, that you should not borrow any more money in the Treasury to correct other people's mistakes.

HM, Jr.: Now, listen, Bell. I told the President he should tell Congress that he would keep them here until the budget was balanced, so he turns to Doughton and Vincon and says: 'This is what Morgenthau says. Morgenthau is kind of rough about this thing, and he says you are going to keep Congress here until they balance the budget.' Vincon and Doughton said, 'Fine. That's all we want. That's what we want to hear.' And then their reaction is, 'Then the Committee on Appropriations and the Committee on Ways and Means will

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have to work together.' Now, a statement like that -- I go back to my silly example of the 50 communities who wanted 50 commemorative coins and without any law I said no to 50 senators and said no more commemorative coins. As long as I stuck by it, I was all right. If I had given one, I was sunk. We got away with it. It's no different from this thing, only this thing is so much bigger, but the principle is the same and somebody has to strike this note for the Administration and let the country and Congress know how desperately difficult it is to do this balance of 1939 budget and you and I know that the President did not know until I wrote him that letter. Is that right?

Mr. Bell: That's right.

HM, Jr.: He had no idea about it. That's what made him change -- that letter I wrote to him. But I want to again emphasize that I want to play down the stuff that's behind and build up this end of the speech on the difficulty of what's facing us.

Mr. Haas: Another point which you mentioned before that we had not developed very much, but in view of this discussion now and that is that the balancing of the budget means two things: a difficult problem that you are talking about, and the other is to get business to take over. There is a little bit here, but that might be developed a little more and it might be good thing to hand out.

HM, Jr.: All right. Bell, I will only take a couple of minutes more and then I will stop. I will take this home tonight.

(Resumed reading) "There are some reasons for optimism on the spending side of our budget picture. On the receipts" (lines 5 and 6, page 18)

This part, beginning with revenue, I wish you would show it to Magill and get him to do a little bit of work on that. Will you?

Mr. Haas: Yes.

HM, Jr.: (Reading) Some people are worried lest we curtail expenditures too rapidly. What I can tell you

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"in that respect may reassure such people.

"The plain fact of the matter is that the unspent appropriations already made for public works and similar projects are so great that large expenditures for these purposes will continue into the fiscal year 1939 even if Congress does not appropriate another dollar for them."

HM, Jr: "... even if Congress does not appropriate another dollar." That does not belong here. This will go into Bell's part.

(Resumed reading) "When we entered the fiscal year 1938..."

HM, Jr: Bell can pick this up. It does not belong here.

(Continued reading) "It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending."

Mr. Gaston: That ought to reassure some people who think we are tapering off too fast.

HM, Jr: (Continued reading) "But when I say that I am confident that we shall balance the budget during the coming year without violent disruption of existing programs, I do not mean to say that the job will be an easy one." (First paragraph, page 21.)

HM, Jr: This part, with the exception of revenue -- you don't say enough about revenue. I think that should be taken up with Magill and let him write something for me and this part plus the other should be for Mr. Bell. But I think we are making real progress. George, let me read what you have done tonight and then we will meet again on this thing. Do you (Upham) think we are going too far sticking my neck out?

Mr. Upham: No. I am very happy. I should like to shake your hand. (Mr. Upham and the Secretary shake hands.)

Mr. Bell: I think this is a big improvement over the first one.

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The University of Chicago

Department of Economics

October 19, 1937

Mr. Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D.C.

Dear Henry:

I think that the preliminary draft provides a substantial basis for a satisfactory speech, and if it were strengthened at the indicated points I would have no further criticisms to make of it.

Pp. 6-7. Except for four billion dollars, you account only for the expenditures in excess of receipts. But new and heavy taxes were imposed, and these produced substantial revenues, as you yourself point out later. The use of these should be accounted for as carefully as the use of the borrowed funds.

P. 8. Again, that part of the recovery expenditures which was met from current tax revenues is not counted as a net cost. On this basis, the government's activities cost nothing in a year in which the balance is budgeted.

P. 8. Should not the sterilized gold also be included as a future asset for debt-liquidating purposes?

Pp. 11-12. You must argue as you do that the federal deficit was a contributing factor to the recovery, but the claim that all the recovery was attributable to it, and that all the increase in national income was the result of the deficit and by implication would not have occurred if the deficit had been smaller or had been ended sooner, would be difficult to support by reasoned argument, especially before an audience most of whom are convinced that the continuance year after year of the deficit has been a hindrance to recovery. I would certainly eliminate the statement that the 14 billions of deficit is yielding 28 billions per annum in national income. On that basis, why not have had a 30 billion deficit? And what about the devaluation, etc., and their effects? If all the recovery is claimed for the deficit, what about the rest of the New Deal program?

P. 12. I would not boast too much about the present economic situation. It will not sound up-to-date at a lecture so near to Wall Street. Instead of suggesting that the bulk of the job of bringing lasting and full recovery has been done, I would rather

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advise that you take the line that what could be done by deficit financing toward bringing about recovery, relieving distress, and substituting for temporarily idle private capital, has been done, and that the remainder of the task, still a sizeable one, must, in the interest of the security of the Federal finances, be done strictly within the limits of a balanced budget, and of no increased tax burdens. The government can still rightly be called upon for help, but the help must from now on take the form of friendly cooperation with business, labor, and agriculture, in removing unnecessary hindrances, legislative or otherwise, to the profitable investment of private capital, in promoting the removal of trade barriers, and in maintaining adequate financial conditions, on liberal terms, for legitimate industrial, commercial, and agricultural enterprise. Something of this sort certainly needs to be said after, or in lieu of, the statement on page 14: "We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise." No one disputes this. But private funds are put to work only when a profit seems in prospect, and the government now has an unprecedented degree of responsibility for the conditions which result in such prospects of profit being either present or absent.

P. 15. I would point out here that the reductions of the high surtaxes during the period of prosperity prior to 1929 reduced the power (and made its exercise more dangerous) of the government by deficit financing to moderate the present depression.

I hope that these suggestions will be found helpful. I have made a few additional comments on the margins of the manuscript.

Cordially yours,

Jacob Viner
Jacob Viner

JV-W
Encl.

(Confidential) RDC 59

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 and before the radio audience the subject of Federal spending and its relation to the balancing of the Federal budget.

I shall not keep you in suspense with respect to the main conclusion of my discussion, namely, I believe that we should and that we will balance the Federal budget during the very next fiscal year, which begins July 1, 1938.

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

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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.

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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, required outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts. This was a good deal less than our two-year deficit of 1917 to 1919. But is there anyone within my hearing who doubts that the results of this deficit have been at least as much worth while as those of that other deficit?

As in that other war, anyone can point to a dollar here or a dollar there that was not well spent. In any war we expect a general to be judicious in his use of munitions, but we hold no grudge if he unavoidably wastes a few bullets. So in this war, it may well be that the detailed uses of

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some of our relief funds might have been somewhat better planned; but such small wastes as may have crept in were as nothing when compared with both the human and material values that were at stake.

Let us look for a moment at the major items that account for our four-year deficit?

The arithmetic is simple. The largest single item, nearly nine billions, arose out of unemployment relief, which included the Civilian Conservation Corps camps and the great volume of useful services performed in connection with thousands of local work-relief projects. Another two billions went to the agricultural adjustment program. Another 2½ billions went for the prepayment of the soldiers' bonus. About 3½ billions went for public works. And one and one-half billions went for recoverable investments in governmental agencies making loans to farmers, home owners,

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railroads, banks, and the like. The total of these items is eighteen billion dollars. But increased tax collections and savings in the ordinary operating expenses of the Government reduced the net formal deficit to fourteen billions.

Now the final net cost of our spending program will be very much less than this figure. We have made a number of substantial expenditures, aggregating about six and a half billions, of the kind that will directly reduce the budget requirements of future years. What were they?

One of them, amounting to ^{2 1/4 billions} ~~more than 2.2 billions~~, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a regular charge upon the budget until 1945.

Another, amounting to more than one and a half billions, was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads,

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banks, and so on. These outlays, added to those of previous administrations, have increased the proprietary interest of the United States in these agencies to nearly four billion dollars. The peak in expenditures of this type was passed two years ago, and the proceeds from these loans and investments will become largely available for reductions in the public debt.

Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the outlays for these purposes in the preceding administration, and more than four times those in the one before that. These increased outlays in part anticipated future requirements.

If you were to subtract the total of these special expenditures from the formal deficit of fourteen billions, you would get a net cost of the recovery program of approximately seven and a half billions. Even this figure will

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eventually be reduced by two billion dollars or more as a result of the gold profit now lodged in the Stabilization Fund, every dollar of which is still in our possession, to be made available in due course for reducing the public debt.

But let us waive these real offsets to the cumulated formal deficit. Let us look at the gross figure itself -- this fourteen billion dollars. Did we get our money's worth? I leave that question to your own judgment. I shall cite no long list of figures to measure the enormous improvement in the country's economic condition during these four years. As I said once before, this enormous improvement is confirmed by the firsthand experience of every man and woman in the range of my voice.

We knew at the outset that to spend in a great way, as we have spent, meant a temporary series of unbalanced budgets.

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But we also knew that it meant the prospect of a revived and balanced national economy. We believed it better and wiser to balance the budget of the American people, when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people.

Let us for the moment ignore the very great human values that were involved. Let us take a very narrow view of the issue. We accumulated a formal deficit of fourteen billion dollars. Suppose a businessman had a chance to raise his income from forty thousand dollars ^{a year} to seventy thousand ~~dollars~~ ₁ ~~less a year~~ by borrowing fourteen thousand dollars. He would certainly jump at the chance of borrowing that money. That, in one sense, is what we did. This fourteen billion dollar formal ^{net} deficit has played an important part in raising our national income from less than forty billion dollars in 1932 to approximately seventy billions in 1937. Year fourteen

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billicon dollar investment in America is currently yielding us a return of more than two hundred percent a year.

.....

I turn now to the second part of my discussion -- the reasons why I believe that the Federal budget should now be balanced.

As I said a moment ago,
 1 We have deliberately used an unbalanced Federal budget during the past four years to restore balance in the budgets of the American people. That policy has succeeded. We have licked the great depression. We have not, it is true, entirely solved the problem of unemployment, which was accentuated by that depression; nor have we completely solved various other problems. But the domestic problems that we face today are far less numerous and far less serious than the problems that we faced four years ago. And, even more important, the solution of these remaining problems requires

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different detailed techniques from those which were employed to attack the gross problems of the depression.

Some of 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 ^{were} ~~were~~ obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to make use of capital funds that would otherwise have remained idle because of the absence of attractive investment opportunities in private industry.

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Today the situation is greatly changed in these respects. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. Any deficit spending that takes place from now on must be financed in large part by capital funds that would otherwise be available for business purposes.

I need hardly say that it is the aim of this Administration to foster and strengthen the conditions favorable for private business. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise.

For these reasons we wish to minimize any further borrowing by the Federal Government; for such borrowing,

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unlike that which took place during the depression, would be at the expense of the funds available for industrial expansion.

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There is a further consideration of great importance that I should like to emphasize. That is, that the basic philosophy of our deficit spending of the past few years requires that a program of substantial debt retirement be undertaken shortly.

We wish to preserve the power of the Federal Government to act as a balance wheel 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.

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

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even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. The rates of interest on our borrowings, moreover, have been lower, for comparable securities, than at any other time in the history of the country.

However, this unimpeachable credit position of the Federal Government has been maintained because of the conviction of investors that the Federal budget was only temporarily out of balance; that with business recovery substantially achieved, the President, the Congress, and the great American public could be trusted to join in a whole-hearted and successful determination to balance the budget and to reduce the public debt.

That time has now arrived.

To keep faith with the investors in Government bonds; to maintain the integrity of the credit and currency of

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the United States; to avoid draining capital funds from private industry; and to keep open unimpaired the future possibility of the use of deficit spending by the Federal Government as a balance wheel in industrial breakdowns, it is essential that we now fix our course to bring about a full balancing of the Federal budget for the fiscal year beginning next July 1.

.....

Let me turn, finally, to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I say to you with perfect confidence that, given the firm support of the public, and despite the pessimism of some, we shall definitely accomplish this objective.

Let me give you some reasons for my confidence:

First, the accumulated deficit of the last four years does not represent any deterioration in the efficiency with

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which the ordinary operating departments of the Government are administered. While several new functions may require somewhat larger outlays in the future, we have actually spent less during the last four years for the operation of the legislative, judicial, and civil establishments of the Federal Government, despite their greatly increased responsibilities, than was spent during either of the two previous administrations.

We have spent more for purposes of national defense, but mainly to make up for previous neglect.

Despite the increase in the public debt, our annual interest charges are less today than they were in 1923.

The aggregate of the regular operating expenditures of the Federal Government, including all the items that I have mentioned, plus veterans' pensions and benefit payments,

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is running today at around 3.2 billion dollars annually, or less than in 1932.

It is clear, therefore, that a tight rein has been kept on the ordinary operating expenditures of the Federal Government.

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In the second place, I should like to repeat that approximately six and a half billions of the expenditures of the past four years were expenditures of the kind that will directly reduce the budget requirements for future years.

In the third place, the fact that outlays for unemployment relief bulked so large in the deficits of the past four years is a fact of great promise now. The number of the needy unemployed has been drastically reduced.

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As a matter of fact, we have already made important reductions in expenditures; and the present fiscal year may be considered as the year of transition between unbalanced and balanced Federal budgets.

During the current fiscal year, we have been reducing our outlays for unemployment relief by approximately three-quarters of a billion dollars below those of the previous year. If, next year, we reduce these outlays by another four hundred millions or so, down to the level of twelve hundred millions, inclusive of the *C. C. C.* ~~Civilian Conservation~~ ~~Camps~~ camps, with the prospect of a further tapering off of these expenditures in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions

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for public works of all kinds for the fiscal year 1939, and such expenditures in subsequent years are brought down to the half-billion dollar level, this source of fiscal deficits will be eliminated.

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These are some reasons for optimism on the spending side of our budget picture. On the receipts side I can report to you a far greater degree of improvement than many people have believed possible.

The plain fact of the matter is that the Federal revenue structure today is stronger as well as more equitable than ever before in the history of our country.

When this Administration came into office, the total receipts of the Treasury had fallen to just over two billion dollars a year. In each year since that time they have shown marked increases -- the result both of improvements

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in our tax structure and of the revival in business. For the present fiscal year, the revised estimates of receipts total six billion six hundred and fifty millions.

In the tax revisions that Congress is scheduled to make during the next session, the aim will not be to raise existing tax rates or to seek out new sources of tax revenue. The aim, rather, will be to make adjustments in existing taxes in the direction of achieving greater equity and of reducing hindrances to legitimate business enterprise.

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Some people are worried lest we curtail expenditures too rapidly. What I can tell you in this respect may reassure such people.

The plain fact of the matter is that the unspent appropriations already made for public works and similar projects are so great that large expenditures for these

Secretary's Speech - 20

purposes will continue into the fiscal year 1939 even if Congress does not appropriate another dollar for them.

When we entered the fiscal year 1938 last July 1, the total appropriations available for public buildings, public highways, river and harbor improvements, flood control, P.W.A. grants, soil erosion, emergency housing, and similar purposes, stood at more than one and a half billions. Some eight hundred sixty-nine millions of this will be spent during the present fiscal year. This will leave approximately seven hundred millions to be spent in the fiscal year 1939 without a single dollar of additional appropriations.

It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending.

It is by no means necessary, ~~even if it were possible~~ to make immediate wholesale eliminations of Federal expenditures. It is necessary, however, that we see precisely where we are going; and that we see the picture whole.

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But when I say that I am confident that we shall balance the budget during the coming year without violent disruption of existing programs, I do not mean to say that the job will be an easy one, or that it can be accomplished without stepping on anybody's toes.

The United States Chamber of Commerce is on record as strongly in favor of an immediate balancing of the budget. But what happens in every local Chamber of Commerce when a proposal is made to eliminate a nearby ~~Civilian Conservation Corps~~ ^{C.C.C.} camp or to reduce an allocation for a local public works project? Letters and telegrams pour in upon the Congressmen and Senators, complaining of the great harm to local interests if these Federal expenditures are reduced.

Balancing the budget is your problem -- the problem of every citizen of the country, no less than the problem of the legislative and executive branches of the Government.

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It was the strong support of the American public that made it possible for us to bring this country out of the depression and to carry through many important reforms. With this same support, we shall accomplish the simpler task of balancing the Federal budget.

IHS:en/etm
10/19/37

Hawley
Delivery
Draft
Oct 10 1937
78

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 and before the radio audience the subject of
Federal spending and its relation to the balancing of the
Federal budget.

I shall not keep you in suspense with respect to the
main conclusion of my discussion, namely, I believe that we
should and that we will balance the Federal budget during
the very next fiscal year, which begins July 1, 1938.

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

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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.

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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, required outlays during the four years ended June 30, 1937, of some fourteen billion dollars in excess of our receipts. This was a good deal less than our two-year deficit of 1917 to 1919. But is there anyone within my hearing who doubts that the results of this deficit have been at least as much worth while as those of that other deficit?

As in that other war, anyone can point to a dollar here or a dollar there that was not well spent. In any war we expect a general to be judicious in his use of munitions, but we hold no grudge if he unavoidably wastes a few bullets. So in this war, it may well be that the detailed uses of

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some of our relief funds might have been somewhat better planned; but such small wastes as may have crept in were as nothing when compared with both the human and material values that were at stake.

Let us look for a moment at the major items that account for our four-year deficit.

The arithmetic is simple. The largest single item, nearly nine billions, arose out of unemployment relief, which included the Civilian Conservation Corps camps and the great volume of useful services performed in connection with thousands of local work-relief projects. Another two billions went to the agricultural adjustment program. Another $2\frac{1}{2}$ billions went for the prepayment of the soldiers' bonus. About $3\frac{1}{2}$ billions went for public works. And one and one-half billions went for recoverable investments in governmental agencies making loans to farmers, home owners,

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railroads, banks, and the like. The total of these items is eighteen billion dollars. But increased tax collections and savings in the ordinary operating expenses of the Government reduced the net formal deficit to fourteen billions.

Now the final net cost of our spending program will be ~~very much less~~ very much less than this figure. We have made a number of substantial expenditures, aggregating about six and a half billions, of the kind that will directly reduce the budget requirements of future years. What were they?

One of them, amounting to ~~more than 2~~^{2 1/4} billions, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a regular charge upon the budget until 1945.

Another, amounting to more than one and a half billions, was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads,

banks, and so on. These outlays, added to those of previous administrations, have increased the proprietary interest of the United States in these agencies to nearly four billion dollars. The peak in expenditures of this type was passed two years ago, and the proceeds from these loans and investments will become largely available for reductions in the public debt.

Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the outlays for these purposes in the preceding administration, and more than four times those in the one before that. These increased outlays in part anticipated future requirements.

If you were to subtract the total of these special expenditures from the formal deficit of fourteen billions, you would get a net cost of the recovery program of approximately seven and a half billions. Even this figure will

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eventually be reduced by two billion dollars or more as a result of the gold profit now lodged in the Stabilization Fund, every dollar of which is still in our possession, to be made available in due course for reducing the public debt.

But let us waive these real offsets to the cumulated formal deficit. Let us look at the gross figure itself -- this fourteen billion dollars. Did we get our money's worth? I leave that question to your own judgment. I shall cite no long list of figures to measure the enormous improvement in the country's economic condition during those four years. As I said once before, this enormous improvement is confirmed by the firsthand experience of every man and woman in the range of my voice.

We knew at the outset that to spend in a great way, as we have spent, meant a temporary series of unbalanced budgets.

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But we also knew that it meant the prospect of a revived and balanced national economy. We believed it better and wiser to balance the budget of the American people, when that budget was very grossly out of balance, than to balance the Federal budget at the expense of the people.

Let us for the moment ignore the very great human values that were involved. Let us take a very narrow view of the issue. We accumulated a formal deficit of fourteen billion dollars. Suppose a businessman had a chance to raise his income from forty thousand dollars ^{a year} to seventy thousand ~~dollars a year~~ by borrowing fourteen thousand dollars. He would certainly jump at the chance of borrowing that money. That, in one sense, is what we did. This fourteen billion dollar ^{net} formal deficit has played an important part in raising our national income from less than forty billion dollars in 1932 to approximately seventy billions in 1937. Your fourteen

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billion dollar investment in America is currently yielding us a return of more than two hundred percent a year.

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I turn now to the second part of my discussion -- the reasons why I believe that the Federal budget should now be balanced.

As I said a moment ago,
We have deliberately used an unbalanced Federal budget during the past four years to restore balance in the budgets of the American people. That policy has succeeded. We have licked the great depression. We have not, it is true, entirely solved the problem of unemployment, which was accentuated by that depression; nor have we completely solved various other problems. But the domestic problems that we face today are far less numerous and far less serious than the problems that we faced four years ago. And, even more important, the solution of these remaining problems requires

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different detailed techniques from those which were employed to attack the gross problems of the depression.

Some of 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} ~~were~~ obtained through an expansion of bank credit. To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to make use of capital funds that would otherwise have remained idle because of the absence of attractive investment opportunities in private industry.

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Today the situation is greatly changed in these respects. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. Any deficit spending that takes place from now on must be financed in large part by capital funds that would otherwise be available for business purposes.

I need hardly say that it is the aim of this Administration to foster and strengthen the conditions favorable for private business. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in productive enterprise.

For these reasons we wish to minimize any further borrowing by the Federal Government; for such borrowing,

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unlike that which took place during the depression, would be at the expense of the funds available for industrial expansion.

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There is a further consideration of great importance that I should like to emphasize. That is, that the basic philosophy of our deficit spending of the past few years requires that a program of substantial debt retirement be undertaken shortly.

We wish to preserve the power of the Federal Government to act as a balance wheel 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.

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

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even the darkest days of the depression did the Treasury experience the slightest difficulty in borrowing all the funds that were required. The rates of interest on our borrowings, moreover, have been lower, for comparable securities, than at any other time in the history of the country.

However, this unimpeachable credit position of the Federal Government has been maintained because of the conviction of investors that the Federal budget was only temporarily out of balance; that with business recovery substantially achieved, the President, the Congress, and the great American public could be trusted to join in a whole-hearted and successful determination to balance the budget and to reduce the public debt.

That time has now arrived.

To keep faith with the investors in Government bonds; to maintain the integrity of the credit and currency of

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the United States; to avoid draining capital funds from private industry; and to keep open unimpaired the future possibility of the use of deficit spending by the Federal Government as a balance wheel in industrial breakdowns, it is essential that we now fix our course to bring about a full balancing of the Federal budget for the fiscal year beginning next July 1.

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Let me turn, finally, to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I say to you with perfect confidence that, given the firm support of the public, and despite the pessimism of some, we shall definitely accomplish this objective.

Let me give you some reasons for my confidence:

First, the accumulated deficit of the last four years does not represent any deterioration in the efficiency with

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which the ordinary operating departments of the Government are administered. While several new functions may require somewhat larger outlays in the future, we have actually spent less during the last four years for the operation of the legislative, judicial, and civil establishments of the Federal Government, despite their greatly increased responsibilities, than was spent during either of the two previous administrations.

We have spent more for purposes of national defense, but mainly to make up for previous neglect.

Despite the increase in the public debt, our annual interest charges are less today than they were in 1923.

The aggregate of the regular operating expenditures of the Federal Government, including all the items that I have mentioned, plus veterans' pensions and benefit payments,

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It is clear, therefore, that a tight rein has been kept on the ordinary operating expenditures of the Federal Government.

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During the current fiscal year, we have been reducing our outlays for unemployment relief by approximately three-quarters of a billion dollars below those of the previous year. If, next year, we reduce these outlays by another four hundred millions or so, down to the level of twelve hundred millions, inclusive of the ~~Civilian Conservation Corps camps~~ ^{C.C.C. camps}, with the prospect of a further tapering off of these expenditures in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions

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for public works of all kinds for the fiscal year 1939, and such expenditures in subsequent years are brought down to the half-billion dollar level, this source of fiscal deficits will be eliminated.

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These are some reasons for optimism on the spending side of our budget picture. On the receipts side I can report to you a far greater degree of improvement than many people have believed possible.

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In the tax revisions that Congress is scheduled to make during the next session, the aim will not be to raise existing tax rates or to seek out new sources of tax revenue. The aim, rather, will be to make adjustments in existing taxes in the direction of achieving greater equity and of reducing hindrances to legitimate business enterprise.

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purposes will continue into the fiscal year 1939 even if Congress does not appropriate another dollar for them.

When we entered the fiscal year 1938 last July 1, the total appropriations available for public buildings, public highways, river and harbor improvements, flood control, P.W.A. grants, soil erosion, emergency housing, and similar purposes, stood at more than one and a half billions. Some eight hundred sixty-nine millions of this will be spent during the present fiscal year. This will leave approximately seven hundred millions to be spent in the fiscal year 1939 without a single dollar of additional appropriations.

It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending.

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But when I say that I am confident that we shall balance the budget during the coming year without violent disruption of existing programs, I do not mean to say that the job will be an easy one, or that it can be accomplished without stepping on anybody's toes.

The United States Chamber of Commerce is on record as strongly in favor of an immediate balancing of the budget. But what happens in every local Chamber of Commerce when a proposal is made to eliminate a nearby ~~Civilian Conservation Corps~~ ^{C.C.C.} camp or to reduce an allocation for a local public works project? Letters and telegrams pour in upon the Congressmen and Senators, complaining of the great harm to local interests if these Federal expenditures are reduced.

Balancing the budget is your problem -- the problem of every citizen of the country, no less than the problem of the legislative and executive branches of the Government.

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It was the strong support of the American public that made it possible for us to bring this country out of the depression and to carry through many important reforms. With this same support, we shall accomplish the simpler task of balancing the Federal budget.

W. Immerding's
Tentative Outline

I.

1. When this Administration took office the country was in a downward spiral of ^{de}inflation.

2. The general depression was reflected in an unbalanced budget.

3. The choice before us was a hard one: to pursue what might be a will-o' the wisp -- the balanced budget; or to throw the balanced budget to the winds and open the sluice gates of government expenditure and credit in an effort to bring back into employment the idle resources of the nation.

4. The former course could only be adopted on the assumption that we would soon hit the bottom of the economic depression. But none knew how far below us that bottom might really be; or whether when we hit it, we

might not plunge through into the abyss of social disintegration.

5. And so we elected the latter course as that having the greatest antecedent probability of success.

6. Our measures are well known: relief to individuals, the saving of homes and farms, the restoration of bank credit, loans to industry, agricultural aids, devaluation.

7. The effect of these measures on the budget has been tremendous: with revenues approximating those of 1926-29, we have spent in 1933-37 17 billions more, exclusive of debt retirement: instead of a four year operation surplus of billions, we have a deficit of

8. To be sure certain deductions may be made: recoverable loans, gold profit, prepayment of bonus, anticipation of public works.

- 3 -

9. But with all allowances, the depression has cost us a substantial sum.

II.

10. Now the point I want to make is that these expenditures, recoverable and non-recoverable, were made intentionally.

11. We regarded the nation as being somewhat in the position of a family faced with the choice of starving or living off its capital and naturally we chose not to starve.

12. Assuming the analogy to be true, no one, I suppose, will deny that we made the better choice.

13. There are, of course, financial limits to such a policy; one cannot live off one's capital when one's capital is gone -- nor off one's fat when one is reduced to skin and bones.

- 4 -

14. Fortunately the U. S. is a wealthy nation; and these financial limits have not yet been approached. We could if necessary go on borrowing for some years to come.

15. But there are also moral limits to the continuance of the policy.

16. While we have a right to use the accumulations of the past to save ourselves, we have no right to enjoy them needlessly. Unlike Pope's father we cannot retire to our garden with a chest of guineas and support ourselves for the rest of our lives without labor.

17. Having received these accumulations from our fathers we are bound as trustees, to hand them down, augmented if possible, to our sons.

18. Consequently, as soon as it is possible to do so, it is incumbent upon us to reverse the financial policy of the past 7 years: first we must balance the budget, then we must seek a surplus.

- 5 -

19. This moral principle is reenforced by a practical one -- namely, that for our own self-preservation we must seek to restore what I term the national treasure. For as you know as well as I, the practice of living on past accumulations is demoralizing and degrading to active men at all times, but especially when it is not compelled by circumstance. If after a period of rentier prosperity we should again be struck by a depression, we might find ourselves without either the funds or the character to withstand it.

III.

20. These things I say to you at this time because it is my belief that the moment to balance the budget is at hand.

21. The slowing down, stopping, and reversal of the spiral of deflation are recorded facts. Unemployment has fallen off, industrial production risen. Farm prices

have risen and the farmer is now earning a living. Banks have resumed their normal functions. The distress due to the burden of fixed debts has been removed. The spirit of private enterprise is again abroad in the land -- shaky, it is true, but still sound.

22. Consistency to our theories demands, therefore, that we turn our every effort to restoring the financial position of the government.

23. Let us examine the prospects. On paper they look good. With prosperity revenues are rising and will continue to rise without stiffening the tax structure; throughout the depression we have kept our normal expenditures down to pre-depression limits; the need for relief is falling off; our loans are beginning to be repaid; private capital is beginning to substitute itself for public capital; many of our normal expenditures have been anticipated.

24. In addition, the ability to pay of State and local governments has revived and they are in a position to take back various items of expenditure which in normal times would have been considered exclusively chargeable to their own budgets.

25. Against this there are of course, certain increases in federal expenditure caused by the assumption of new and necessary functions: e.g. soil conservation, social security.

26. But the plus is greater than the minus and it should be possible to balance the budget without injury and with benefit to the public good -- not this year but in 1939.

27. Such are the reasons which lead me to believe that the budget can be balanced -- but possibility is not performance, and I wish now to outline the difficulties which confront a real balance.

28. First of all there are public works commenced which must be finished. That, I suppose, every one will agree is common sense.

- 9 -

29. Second, a vast program of public works, though not yet commenced or even covered by appropriation has been authorized by Congress -- public roads are an example. Unless substantial revisions are made in this works program, it will be impossible to balance the 1939 budget.

30. The third obstacle is more serious. I refer to the demoralization of a certain proportion of relief clients, which renders them unwilling to return to the ordinary paths of livelihood. The existence of this psychological state exerts a political pressure on the budget which cannot be discounted.

31. The fourth obstacle is the particularism of local communities -- their tendency to identify their private welfare with the general good. You all know what I mean: compare the attitude of local chambers of commerce with that of the U. S. Chamber; of street associations with

city-wide organizations of taxpayers.

32. Of all, this is the greatest obstacle. It stands in the way of returning to localities their fair share of the relief cost and the burden of local improvements.

33. Let us not deceive ourselves. The spirit of particularism exists. If it prevails it will be impossible to balance the budget for several years.

34. And even when the balance comes the budget will contain within itself the seeds of rottenness. For as you well know it is the genius of our constitution that the national treasure should be devoted solely to the national interests.

35. I speak with feeling on this subject, for in the words of Gallatin: I cannot consent to act the part of a mere financier, to become a contriver of taxes, etc.

36. But neither I, the President, the Congress, nor the whole government together can do anything in this matter without the support of the people. For we are not rulers but instruments and servants of the general will. We can do nothing by fiat -- not even good.

37. The balancing of the budget, the restoration of the national treasure, depends therefore on our will as citizens. Let each of us therefore subordinate his private and local interests to the general good and lend his whole hearted support to the measures which reason tells him are in the interests of his country.

RE SPEECH ON GOVERNMENT SPENDING

October 22, 1937
10:50 a.m.

Present: Mr. Magill
Mr. Haas
Mr. Riefler
Mr. Seltzer
Mr. Gaston
Mr. Upham
Mr. Wilmerding

H.M.Jr: Now let's do Mr. Magill.

Magill: Well, on page - whatever it is - of this speech - I suppose I better get that reference - page 19, there is a paragraph with respect to tax revision. I have written a paragraph here, somewhat longer, with which I am not particularly well satisfied. I'd like to get everybody's ideas. Let me say that one reason why it is difficult for me to write this paragraph - as you know, I've been writing a longer one, and I've tried to say this in different words.

"In the tax revisions that Congress is scheduled to make during the next session, the primary aim will be to make a series of adjustments in existing taxes in the interests of greater equity, and of reducing any demonstrated hindrances to legitimate business transactions. It is the surprising fact that these changes, which, as I think most objective persons will agree, will greatly improve the fairness of the distribution of the Federal tax burden, can be made without increasing the number of existing taxes, and without increasing the total of revenue to be collected. These statements assume that expenditures will be kept within existing budget estimates and commitments, as I believe they can be and will be. It is my hope that, on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, changes can be made which will strengthen the present tax structure, and point the way toward establishing it on a sound and permanent basis."

H.M.Jr: Excuse me - where are the other men?

(Haas leaves to get other conferees)

(Haas, Seltzer, and Wilmerding come in)

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H.M.Jr: Good morning.

Do you mind reading - wait until Gaston comes to read that again; take up the whole picture, if you don't mind.

Magill: Before he comes, I might add I have written this this way on the assumption that you didn't want to state specifically

H.M.Jr: Not in view of what we had in mind, because this thing comes afterward.

Did Mrs. Klotz have your time for you? Next Saturday, 10 to 12. A week from tomorrow.

Magill: (Nods yes) Not Friday?

H.M.Jr: Can't do it. Said two hours will be enough.

(Gaston comes in)

Now, do you mind reading this again? And I think I ought to say, in strictest confidence, the reason why this thing may not - is as short as it is and Magill's doing it, is we hope when Congress meets on November 5 that we will send them up a memorandum as to just the taxes, and that will be five days before our speech, you see.

Magill: It is when the sub-committee is supposed to meet.

H.M.Jr: It is when the sub-committee meets, and we're hoping a memorandum will go up from the President and the Treasury on that.

Riefler: You're shoving that up.

H.M.Jr: Two months.

Riefler: Uh-huh.

H.M.Jr: Two months, which should - I mean we've been so rushed this morning on the other matters that we can't - but we've still got two weeks on my speech, so we've got plenty of time - not too much time.

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Now, read it once more, please.

Magill: "In the tax revisions that Congress is scheduled to make during the next session, the primary aim will be to make a series of adjustments in existing taxes in the interests of greater equity, and of reducing any demonstrated hindrances to legitimate business transactions. It is the surprising fact that these changes, which, as I think most objective persons will agree, will greatly improve the fairness of the distribution of the Federal tax burden, can be made without increasing the number of existing taxes, and without increasing the total of revenue to be collected. These statements assume that expenditures will be kept within existing budget estimates and commitments, as I believe they can be and will be. It is my hope that, on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, changes can be made which will strengthen the present tax structure, and point the way toward establishing it on a sound and permanent basis."

Seltzer: "Strengthen the tax structure" sounds as if you're going to increase the taxes - tax burden, tax collection.

Gaston: Yes, I think I'd find another word.

Magill: Not necessarily, no.

Riefler: "Improve the stability of the tax structure."

(Upham comes in)

Magill: Well, let me say this. This surprising fact was surprising to me, that - you take these items which we have in the tentative draft of the statement which we are thinking about sending up; the net result of what we have in mind is the loss of revenue of 250 millions of dollars, notwithstanding the fact that we are making a total adjustment in favor of the taxpayers which aggregates over 600 million. Now, the point is that the 250 million, in the collective judgment, ought to be made up from the income tax and the estate tax, and it is in the income tax that we are making these adjustments in the interests of

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greater equity, etc. The total has not increased; the total revenues have not increased.

Now, what I mean by strengthening the tax structure, and what I think the public will think is meant, is to get your taxes so organized that, whether you are in a depression or whether you are in better times, you are assured of a satisfactory flow of revenue.

- Gaston: I think the point that Larry had in mind is that we have used that particular word about the tax structure being "strong" enough, and not necessarily "strengthening" the tax structure, in the connotation of increasing the over-all yield of taxes, and it is because it may be associated in that way that the word might be criticized.
- Magill: Well, I would be perfectly willing to change the thought if you want to.
- Seltzer: That's all that's necessary - some other words there. Otherwise, the statement is all right.
- Haas: Except the word "permanent" - I don't like so well.
- H.M.Jr: Well, listen, gentlemen, let's take this thing, put it in the hopper; I mean I'd like to get - I don't want to take too much time on one word now, and I'd like to get what Bell gave us, you see.
- I don't know whether you (Magill) want to sit and listen to this or not.
- Magill: Maybe I'd better not. I've got to go up and see Vinson this afternoon. He's straining at the leash.
- H.M.Jr: Have we got copies of this?
- Magill: Who do you want to have one?
- H.M.Jr: Give it to Haas, and have you got one for Naster.
- (Magill hands copies to Haas and reporter)
- Magill: I think this can be improved, and hope to do so myself. Got to talk to Vinson about capital gains,

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and it's going to be a tough proposition.

H.M.Jr: (On phone) Ask Mrs. Klotz - I think I told her what day Jake Viner is going to be down next week. I think it's Tuesday or Wednesday; I'm not sure.

You (Magill) got this on next week?

Magill: Yes, I'll speak to her now about getting up there.

H.M.Jr: Well, don't - that's all entirely - I'll have to talk to you myself.

Magill: All right.

H.M.Jr: I mean I'll make the arrangements with you personally.

Magill: Fine. Thank you. (Leaves)

H.M.Jr: Now let's have what Bell's got.

Seltzer: I have a carbon of what Bell sent this morning.

H.M.Jr: (On phone) Hello. - - - -

He's going to be down here Tuesday and Wednesday.

Haas: Do you want this carbon?

H.M.Jr: Well, read it, please.

Haas: "I am sure you agree with me as to the necessity for balancing the Federal budget in the fiscal year 1939. I have spoken with some confidence of the possibility of doing so. But I want to be completely frank with you in stating that it will not be an easy task, and that it can not be done at all unless we have the complete cooperation of the American public.

"There are those, both in Washington and throughout the country, who do not fully appreciate the necessity of keeping our outgo within our income. There are some who publicly clamor for a balanced budget, but lend their support to requests for Federal expenditures to be made locally."

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(Mrs. Klotz comes in)

H.M.Jr: Just a second. (Confers briefly with Mrs. Klotz, who then leaves)

Go ahead.

Haas: "If we are to be successful in our aim of bringing expenditures within revenue in 1939, the so-called pressure groups must not continue to ask for a balanced budget in one breath and in the next for appropriations in which they have a special interest.

"We must watch the expenditure side of the budget with the greatest care. Let us look with a realistic eye at some of the practical difficulties in our way:

"The budget for the current fiscal year shows estimated receipts of \$6,600,000,000 and estimated expenditures (exclusive of debt retirement) of \$7,300,000,000. We not only have to close this gap of \$700,000,000, but must add a further \$600,000,000 for annual statutory debt retirement, before we can say that the budget is completely in balance.

"As a practical matter, which of our expenditures can be reduced in 1939 under 1938? Ordinary operating expenditures, which include interest on the public debt, payments to veterans, national defense, regular annual public works program, and the expenses of the legislative, executive, and judicial agencies, will total \$3,400,000,000 in the current year. There is very little possibility of any reduction here, if, indeed, the figures can be held down to their present level. Other programs to which we are committed, such as that for Soil Conservation, Social Security, and miscellaneous items, are costing us this year a billion, seven hundred million dollars. Here, then, we have a budget for the regular operating departments and agencies of the Government slightly in excess of five billion dollars, without taking into account at all expenditures for account of unemployment relief and the Civilian Conservation Corps, and without allowing one dollar for debt retirement. I believe that the \$2,200,000,000 which we are spending this year for unemployment relief and the C.C.C., can be materially

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reduced in 1939. Perhaps we can reduce our expenditures in that one category by as much as a billion dollars.

"Now let me give you - for I am trying to be as completely honest and frank as I know how to be - one of the situations with which we are faced that makes it especially difficult to scale down spending. The figures just cited do not include any appropriation which may be made by Congress either in special session or regular session for new programs. And we can not expect that there will not be additional appropriations made. Look for a moment at the public works picture. The Congress of the United States has already authorized public works programs, which, if carried out as planned, would involve expenditures over the next five years of more than two billion dollars. Past experience proves that before this five-year period ends, Congress will have added several hundred millions of dollars for additional public works to that total.

"Furthermore, we do not know yet what the total 1939 expenditures for assistance to agriculture will be. Corn and cotton loans through the Commodity Credit Corporation and benefit payments to farmers in any new program of crop control may swell still further the expenditure side of our budget."

H.M.Jr:

Well, that isn't what I wanted at all. I mean - I'm sorry Dan isn't here - completely missed it. I mean that isn't what I asked for. What I want is something entirely different, and I told that to Dan walking down, and I'll go over it once more. I mean this thing has to be - we've got to keep moving this speech along.

What I want to do is to get up and say to these people, "Now gentlemen..." - I don't want to - that's such a hackneyed thing, about "we can't reduce the public debt and we can't do this." I mean I'd simply make a sweeping statement and say, "Legitimate general departments, debt retirement, all of that, five billion dollars. Now, on top of that, we add this year for all relief a billion two, which is one billion dollars less than it was this year."

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You might say, "The five billion dollars...." - when I mention the five billion, that "that is a decrease of so much" - I don't know how much it is. But "five billion dollars for all of those things, which is a decrease - which we've cut to the bone, which is a decrease of X hundreds of millions of dollars."

After that - "Add to that relief, one billion two, which is cutting that item by one billion dollars from what we are spending this year, which brings it to six billion two.

"Add to that item debt retirement, which is 600 million dollars, which brings it up to six billion eight.

"Now, at that point we have not included in this program one dollar for agriculture, and let us take a look at this agricultural program. At present we have on our books, included in the budget for the coming year, 440 million dollars for the so-called conservation program. We have on our books 430 odd million dollars for roads, 216 million of which" - I don't know what the word is

Wilmerding: "Apportioned."

H.M.Jr: - ..." apportioned to the states - another 216 million dollars should be apportioned between December 15 and January first, and of that amount Congress has only approved - has only supplied us with 24 million dollars. So we're short over 400 million dollars of money which will not begin to be spent until July 1, '38. So, totaling it up - 440 - 440 million dollars for good roads - it's 840 million dollars. Add it to the six billion eight and it gives us a figure of...." - what's it add up to? Add it up.

Riefler: Seven six.

H.M.Jr: What? How much?

Riefler: Seven six.

H.M.Jr: "...gives us a figure right there of seven billion six, against a possible revenue of six billion - ah - five?"

Seltzer: Uh-huh.

H.M.Jr: "So we have staring us in the face right now a possible deficit for the next year of a billion two.

"And I want to tell you gentlemen that this question of balancing next year's budget is going to be one of the most difficult tasks that has faced any government since the World War; and it is going to take all the ingenuity and all the patriotism and all the determination that all of us combined can put into this thing in order to accomplish this.

"And I want to say, furthermore, that if we are going to accomplish this, and we must accomplish this, Congress will have to sit ready to either cut down the expenses of the Government or add to our revenue until the last bill has been signed and we know exactly where we stand. Otherwise, this is an impossibility."

Now, that's the way. I mean what I want to do is, I want to show them how difficult this thing is, what we are facing, and then when various people say, "Let's balance the budget" - they just don't know what they're talking about. They've got a slogan: "Let's balance the budget." But they don't know what it means. And I want this audience, I want the Congress which is going to meet five days later, to know what the task is. Now, every one of these Democratic leaders comes out and says, "We're going to balance the budget," and when they meet five days later I want them to know what that task is.

"And it's - either we've got to do one of two things. We've got to change our attitude towards subsidizing agriculture or on public works, or we've got to increase the Government's revenue by a billion dollars. Now, it's one or the other. Now, the choice has to be made by the American public through their elected representatives. All I can do as Secretary of the Treasury is to point out what the problem is and how it can be done."

Now, that's the way I want to say it, and you fellows have got to take this thing and make it smooth. But that's the place and that's where I want to say it - that this whole crux, this whole balancing the budget gets down - build this thing up, and the last thing you talk about is agriculture. And if you'd been through

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what I have this week with Wallace - I mean it's just unbelievable. And the whole thing builds up, and I think it's more than fair to build this thing up: five billion dollars; so much for relief; so much for debt retirement; and then, on top of that thing, pyramid this subsidy to agriculture.

Now, they completely - if you don't mind - I mean in this room - completely missed that thing, and that's a hackneyed way, and I don't want to present it that way. Completely missed the thing. But I want to present it the way I say it but make it good English, and so forth. But the emphasis and everything else.

And I - what I - I'm saying this for Riefler - but I keep talking to these people and when I get through I want them to say, "Well, no one could be more honest than Morgenthau, but the situation can't be as bad as he says it is," rather than have to say, "Well, he slides over the difficult thing and he won't face the situation."

Riefler: Yes.

H.M.Jr: Now certainly - and I want the Congressmen to say, "My God, what is this thing we're facing?" and "Can it be?" Let them send for me and I'll say, "Yes." I mean, to show you, for instance, on top of all this thing we're doing, Bankhead wants us to buy out of Section 32 money, Customs money, and Wallace recommended it just to help - he wants us to buy five million dollars worth of cotton, just for no reason other than just to grease their palms. The President turned it down, and Bankhead's sore.

Now this - I didn't know that I was going to talk five days before Congress met, and it's the grandest opportunity that any finance officer could have, to lay this thing down, and I'm not going to get up and say, "This is the way to do it," but I'm simply going to say, "Here are the facts," and put all the cards on the table. "And for anybody to say we're not going to have more taxes until the fellow rings down the curtain and says (words not understandable) is just ridiculous, if they want to balance the budget. But let's stop all these mouthings and talking about

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balancing the budget when the people don't know what they're talking about or what it means or what the commitments are."

Now, that's the way I want to say it, and I want to say it just as forcefully as that. But you fellows take my stuff, round it out, and make it sound pretty.

- Haas: Would you be interested in this? In trying to put roads in Agriculture, you may be criticized, and I think justifiably so; the case is strong. That may be a hole they'll punch in it.
- H.M.Jr: My dear George, up to now roads is the only thing I've been able to save any money on. The President says, "I will not stand for four hundred million dollars. All I will stand for is 80."
- Haas: I say keep it but don't say it's agricultural expenditures.
- H.M.Jr: All right, but put it in.
- Haas: That's right.
- H.M.Jr: I want to get over what took me two weeks, the fact that last December they appropriated money - December, '36 - to be spent July 1, '38; he spends more money in December to be spent July 1, '39 - there's 432 million dollars and they've only supplied us with 24.
- Haas: But that's just an accident that Agriculture happened to be connected with that. Might have been Ickes.
- H.M.Jr: Well, put it onto this - put it at the end, because the only place I know yet where we can save any money....
- (On phone) Hello. - - Well, tell them to make it snappy; I'm going to the White House at a quarter of 12. - - Thank you.
- Haas: All right, we can rewrite it.
- H.M.Jr: Now look, do you (Riefler) have any objections if we read your letter at this time?

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- Riefler: No, not at all.
- H.M.Jr: I don't know whether you feel any differently in view of what you have heard me say.
- Riefler: Well, this puts much more punch into the body of it.
- Gaston: As far as the newspapers are concerned, what you are talking about now is the entire story of your speech. Nothing else will receive any attention. This is the story of your speech.
- H.M.Jr: That's what I told these boys, that this is what I want to emphasize. After all, the fact that they are winding up R.F.C. and P.W.A. - I've arrived at that point due to working on that speech, and if I had recommended that in the speech that would have been news, but that's over the dam, see; that's behind us. Huh?
- Gaston: Yes.
- H.M.Jr: Now, fortunately, this speech has been a fine thing - let Riefler read it himself - for me, because it's made me take a look at this whole picture, and it's made the Treasury look at it, and I can present it to the President and he'll look at it. That's the thing about it, and that's why I was willing to accept the task of this speech. Huh?
- Gaston: Yes.
- H.M.Jr: But I want to put the punch in right there. That's the emphasis. I mean - the boys have done a grand job since you (Riefler) saw that other draft; the thing has improved a hundred percent.
- Riefler: Uh-huh.
- H.M.Jr: And - but I said to them that this is the place where I want to emphasize, this is where I want to talk to the people as man to man, and say - I'm so sick and tired of hearing people talk about balancing the budget as a slogan, like "Eat more Campbell's soup."
- Riefler: Or "Smoke Luckies."

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H.M.Jr: What?

Riefler: "Smoke Luckies"

H.M.Jr: Pardon me?

Riefler: "Smoke Luckies"

H.M.Jr: Or "Smoke Luckies Because you're Satisfied." I mean they've gotten so they think it's a kind of a slogan. But what do they mean when they say that? Now, let's just take the can-opener and take a look at the thing. That's the whole point, Herbert.

Gaston: That's the whole story of your speech.

H.M.Jr: All right, now, let's hear - just one second. Do you (Upham) check?

Upham: Well, Mr. Bell and Mr. Bartelt don't agree with your figures. They can't find anything like that billion and two over the budget. That's this 440 and 430.

H.M.Jr: Well, that's all right. We can adjust it. If it's better, so much the better. It is the principle that we want to talk about.

Upham: There were three drafts of this.

H.M.Jr: Well

Upham: First one was just what you said here today.

H.M.Jr: Well, the figure - the easiest thing - you can adjust your figures very easily to what I said. The important thing is, what is my attitude, at the fiscal office of this Administration, towards this thing? And this is the first time that I have ever talked on this thing, and what is my approach, what is my attitude, what do I want to do? And when I am talking, I am talking for the Administration. What does the Administration want to do about balancing the budget, and what is the problem we are facing, and what is our attitude towards it? Now, that's the important thing. The figures are unimportant.

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- Upham: Well, I think they're important in this respect, that they say that there is almost nothing in Agriculture over and above the present budget, that those figures are in the present budget, but there's as much more public highways in this year's budget as next year's - as much for Agriculture.
- H.M.Jr: O.K. You fellows have got from now until next Tuesday morning. I want another draft on this, with my philosophy plus the correct figures.
- Upham: Your figures almost disappear, because
- H.M.Jr: Well - O.K. - George, next Tuesday.
Will you (Riefler) be back next Tuesday?
- Riefler: I don't think I can.
- H.M.Jr: Well, all right. Well, next Tuesday, anyway - next Tuesday morning I want again to hit this speech, see?
- Upham: This ties in originally with just what you said.
- H.M.Jr: What?
- Upham: This originally had in it just what you said, figures and all.
- H.M.Jr: He can leave the figures out.
Just a second. (Looking at ticker clippings)
- Gaston: Couple questions on taxes and budget at the press conference.
- H.M.Jr: What?
- Gaston: Couple questions at the press conference on taxes and budget. On the corn loan, all he said was that Danny Bell would be over there today and that you and Secretary Wallace would be over there tomorrow.
- H.M.Jr: Son of a gun - I keep this thing such a secret.
"President Roosevelt revealed today that the Treasury

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will submit to the Senate and House Fiscal Committees in November a preliminary tax revision which may include undivided profits surplus and capital gains tax."

Gaston: No, the question was by Bob Wharton of Scripps-Howard as to whether consideration had been given to modification of the capital gains tax and the undistributed profits tax. He said, "The whole question is under study by the Treasury. We are going to submit our recommendations to the Committees some time in November; but it has nothing to do with the special session; it is preliminary for a tax bill in January." That's all he said. - "...to a tax bill in the regular session." That's all he said.

Riefler: This is a comment on the first draft.

"Events during the last few days have moved so rapidly that I feel that a rather new approach to the whole speech is required. It is something like the situation on March 4, 1933, when the President was required to tear up his previous inaugural and substitute a new one addressed directly to the problems of the moment. The point of view in the draft as now written is (1) that we are now in a period of prosperity; (2) that your audience, far and near, agrees with this assumption; and (3) that under these circumstances it is desirable for the Federal Government to balance its budget.

"Actually, your audience is going to be in a very different frame of mind. They will be filled with forebodings; some will fear that we are already in the midst of deep depression; others will be extremely apprehensive that one is impending. Their concern about the budget will be diverse, some feeling that now it will never be balanced and that the Federal credit is irretrievably doomed, others feeling that the only way to avert a depression is for a further expansion of Federal expenditures on armaments, etc. All will be extremely apprehensive of taxes, fearing that the total burden will be increased and that kinks in the present structure may not be eliminated.

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"I think it would be advisable to recast the speech so as to meet the questions in the minds of the audience squarely, directly and immediately. Personally, I should start with a paragraph which enumerated these apprehensions and then stated that you were prepared to meet them as directly and honestly as you knew how.

"I should follow this with a very simple statement of the keynote of your whole talk, phrased something as follows: 'With full knowledge of the state of the security markets and of the apprehensions which exist in some quarters over the immediate business outlook, we have decided that the most constructive action which the national government can take in the circumstances is to proceed to an immediate balancing of the national budget. We expect to balance the budget, further, without an increase in taxes.'

"Under this approach, the second portion of the speech would deal with the reasons for making this decision. It would include most of the material in last week's draft, recasting somewhat, however, for the purpose of supporting this statement. It would state that, whereas the crisis of 1933 was such that the Administration believed a policy of expenditure to be essential (because employment, incomes, debts, etc., were all so low that they would never start up except under the impetus of vigorous Federal spending), the present crisis was quite the reverse. It would then outline the contrasts on somewhat the following lines: 'We are concluding one of the most active years in the history of the country. It has not been activity of the sort, furthermore, which usually culminates a business boom. There are no outstanding surpluses of commodities, over-extended credit positions, or surpluses of housing capital equipment, etc.'"

H.M. Jr: This is awfully good.

Gaston: Yes, I think it is too.

Riefler: "We have not yet reached a stage of full employment. On the contrary, from all of these standpoints, business has still some distance to run before reaching a critical position. It is a situation

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basically which needs the driving force and the initiative of private capital, and its greatest weakness, to the extent that there has been a weakness, has lain in the fact that this driving force has not been forthcoming on the scale required. Under these circumstances, the policy of the Administration is to clear the tracks for the expansion of private business, not supplant it with increased Federal spending.'

"This involves (1) the prompt balancing of the budget, and (2) the adoption of other policies consistent with this end. You know better than I whether you will be in a position to outline any of the details of these policies on which you are working.

"I should follow this with a description of the actual budgetary position, expenditures and receipts during the recent years, and prospects for next year, along lines much the same as those developed in the preliminary draft of the speech. In this section I think you should include a paragraph showing that the Treasury will not have to raise any more new money, if such is still the case.

"I should close, however, with a new note that again ties the whole speech to the current situation. You can not state what tax changes you are going to propose; you can, however, give a picture of the seriousness and sincerity with which you have approached the tax problem. I believe such a picture would do much to clear the atmosphere. Recently in personal conversation you told me how you had come to the conclusion that the problems of the Treasury in the future were not going to relate so much to the raising of new money and management of the debt as to taxes; that you had decided to organize to meet this situation by getting a tax expert as Under Secretary; that you had cleared the decks for him to do the best job of which he was capable, both by relieving him from all extraneous duties and pressures and by providing such expert assistance as he desired. It is an impressive story and I know would carry a great deal of conviction and weight if you could give it as simply and sincerely as you have given it to me."

H.M.Jr:

Excuse me. Bell, not having seen this, asked me to

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do just that this morning. Bell asked me to do exactly the same thing - put that in the speech.

Riefler: Well, that's all; I just had one more.

"It might serve to meet this terrific demand for a statement on taxes without revealing any specific news that you have in mind."

H.M.Jr: Now, what you could do, if you could help - the thing that would be most helpful to me is if you fellows here could go down to the conference room now, and I'd like you to read the speech as it is now to him and spend the rest of the morning on it for me. And then after Riefler has the speech as it was when I last saw it, plus what he heard me say, plus what he's got there, plus what criticism he's given to the speech as it is written out - gives you another fresh outlook - tackle me the first thing Tuesday morning.

October 25, 1937

9:20 a.m.

Present:

Mr. Bell
Mr. Haas
Mr. Bartelt

HM, Jr.: If you fellows each have pencil and paper, I don't know who gives this to me and the reason I brought Bartelt in it, I thought he might take a little of the pressure off of Bell and we might let Bartelt carry part of this. See?

There are certain things which I am still waiting for.

Mr. Bell: Public Works. I think I should say, Mr. Secretary, that's been ready and it's my fault because you have been so tied up on other things I did not bother you.

HM, Jr.: All right. When do I get it?

Mr. Bartelt: Right now, if you want it. Here's a memo and a detailed statement.

HM, Jr.: Why not just leave them.

I want a careful listing -- I would like to have it tonight to study it -- of everything that is in the budget for agriculture this fiscal year.

Mr. Bell: Uh-huh.

HM, Jr.: Including roads, including the statement that you gave us verbally of how they are going to divert the money from Section 32.

Mr. Bell: Uh-huh.

HM, Jr.: In other words, I would like to have a statement of every dollar that you think of that Wallace

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is going to spend this year plus the amount of money which has been authorized but not appropriated. I would like everything that you can think of. Do you want to do that, Dan?

Mr. Bell: I think we can do it with Lawton. He will have to show Bartelt everything in the summation.

HM, Jr: To take some of this pressure off of you.

Mr. Bell: It would help.

HM, Jr: Couldn't he work it out?

Mr. Bell: With Lawton and I in the budget.

HM, Jr: If you can, without breaking your neck, get it out to the gouse so I can study it tonight, I would like it. It isn't a matter of life and death. Do you understand, Bartelt?

Mr. Bartelt: I understand.

Mr. Bell: I think most of it has been available. We have been sort of working on a letter for Agriculture. I don't know whether it's necessary in view of recent developments, but we have a draft of letter for the President.

HM, Jr: I want every single thing; first, money which has been authorized; money that has been appropriated, and what they are spending it for, and particularly emphasizing this question of land buying which I have touched several times. Maybe a little history on the buying of land.

Mr. Bell: Yes.

HM, Jr: But I want to know for once every single thing that Wallace or A.A.A. have under their control, and how much. I don't have to enlarge on that, do I?

Mr. Bell: I think we have the picture.

HM, Jr: Then, on previous years, I would like to know what Section 32 money was used for; actually how much went out, other than this fiscal year.

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Mr. Bell: You mean for the purpose for which the Act was passed?

HM, Jr: No; how much spent and what for.

Mr. Bell: You see, the difficulty is it was passed for specific purposes. But we have reappropriated some of Section 32 in order to just get rid of it, for other purposes.

HM, Jr: Let's have a history on Section 32.

Mr. Bell: Congress picked up some last year, for instance, refund of taxes. We appropriated \$40,000,000 in one year just to get it off the books.

HM, Jr: I want a history of Section 32 of previous years. And then, the last year, I want to know what's happening on, I call it "Share Cropper".

Mr. Bell: "Farm Tenant." Three titles. That's rather simple.

HM, Jr: So when the whole thing gets down to it, you see what I am asking for?

Mr. Bell: Yes.

HM, Jr: And I would like it all tied up because every time I work on this thing -- the best job I have done this month was the letter of October 5th because the President never would have written the letter to Wallace if he had not gotten that letter. I don't think the President still knows just the whole agriculture picture.

I am doing it for two reasons: first, to educate myself, and, second, maybe educate the President and, third, is a by-product I may want to use it in the speech.

Mr. Bartelt: How about Farm Credit in this picture?

HM, Jr: O. K.

Mr. Bell: That's partly agriculture. Crop loans.

HM, Jr: Seed loans.

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Mr. Bartelt: Everything that relates to agriculture.

HM, Jr: How much of this have you already got, George?

Mr. Haas: We have -- Lawton has made up a long statement.

Mr. Bell: It wasn't separated. We had A. A. A. \$475,000,000 this year. What you ought to do is take agricultural aid, straight agricultural aid, and underneath it put roads

HM, Jr: I would handle roads separately. And get the money directly allocated and include the money Hopkins used.

Mr. Bell: I think we have that. Goes back to 1917.

HM, Jr: I think the President will have to write a message on roads.

Mr. Bell: We are writing it now.

HM, Jr: For the coming session?

Mr. Bell: Uh-huh.

HM, Jr: Good.

Well, anyway, part of this I want for my talk. You see what I want it for. Don't you think, Eddie -- no particular pressure on you other than your usual pressure?

Mr. Bartelt: I always have time to do things.

HM, Jr: I mean, Bell is up to his ears. I have Haas sunk and now I would like to sink you.

Mr. Haas: "Sunk" is the term!

HM, Jr: You understand what I want?

Mr. Bartelt: I understand.

HM, Jr: Because I just haven't got this. The best thing I ever did was to take on this talk because it makes me dig into this stuff. So go to it, Eddie. As

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far as you are concerned, Bell, on this 9:30 meeting, if you are busy why not take a minute on Commodity Credit and then be excused.

Mr. Bell: I would like to.

HM, Jr: You might as well stay, George, and hear Bell and then be here for the 9:30 meeting.

oOo-oOo

October 26, 1937

10 a.m.

Present:

Mr. Taylor
Mr. Gaston
Mr. Haas
Mr. Seltzer

HM, Jr.: I want to read this out loud. I am just going to read half of the speech. I think I had better read and rather than be interrupted, I think some of the answers may be here.

(HM, Jr read the attached draft^{P. 166}.)

HM, Jr.: (To Mr. Taylor after finishing reading the first half.) What do you think of it?

Mr. Taylor: I think it is excellent.

HM, Jr.: I am not going into words, but I would be more than pleased to have criticism.

Mr. Taylor: I have one, which has to do with the first part. I don't like the war simile. It has been done hundreds and hundreds of times, starting with, I think, Herbie Hoover was the fellow who used it to the greatest extent, and I think you can bring out the thought without doing the war thing. In other words, call the war a disaster, something of that sort, rather than using the war simile.

HM, Jr.: I am not going to argue. I just am going to listen. What else?

Mr. Taylor: The others are minor, maybe an adjective here, very minor things. I think the approach is exactly right.

HM, Jr.: What I would like to do, when I get through is to have Haas go in to see you and go over the thing, word for word, the first half.

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Mr. Taylor: I am crazy about the approach.

HM, Jr: You are?

Mr. Taylor: Yes.

HM, Jr: You see what they have done. Remember the speech 'We can't do anything until the shoe pinches'? I want to explain why the situation is different today than it was then. This answers the boys. This whole question and the whole emphasis, after explaining why the situation is different, the whole emphasis is we must do everything to help. The beautiful thing about this, why they can't come back at us, is that one week before this speech goes out we handle the tax situation, so they can't come back and say, 'Oh, yes, but what about taxes?'.

Mr. Taylor: That's fine. But they will. The taxes talk.

HM, Jr: But I want to let you know -- deep, deep, secret; trying to keep it as secret as we can around this place -- we are going to handle the tax thing one week before. I just want to let you know. The rebound won't be 'That's all very nice, but how about taxes'. But that thing is going to be handled. I have a week to get the immediate reaction and I have been telling the boys we are not going to touch much on taxes in the speech until we get the reaction on taxes. So the timing is beautiful. But you like this?

Mr. Taylor: Yes.

Mr. Gaston: What are we going to do on taxes?

HM, Jr: I am sorry. You will just have to take that. I mean, I am not telling anybody. I am sorry. I have simply said we are handling it.

Mr. Gaston: You have said a little more than that.

HM, Jr: How much more have I said?

Mr. Gaston: You said something about a statement to get out up on the Hill.

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HM, Jr: Then why do you ask me? Why do you ask me when I have already told you.

Mr. Gaston: Well, that's half way.

HM, Jr: I told you what I was going to do.

Mr. Gaston: Noo I don't know definitely.

HM, Jr: Yes, you do. I told you.

Mr. Gaston: It has a bearing on the point you raise about the situation that you would be in.

HM, Jr: What situation? I don't get you.

Mr. Gaston: What is the atmosphere under which this speech is going to be given.

Mr. Taylor: I think we have to assume that that atmosphere is O. K.

HM, Jr: You know what I am going to do because I told you. Now, do you mind just skipping it for the time being?

Mr. Gaston: Yes. Sure.

Mr. Taylor: I am assuming that that background is fine, and in the other half you can point out the direction, in which the tax message is shown, and I would point the finger at each one of those things, saying this indicates that direction. Because otherwise they will muff ...

HM, Jr: We have a week to write that part afterwards. There is no use -- as I told George, lay off on that part pending the reaction to what we do on the tax business and if they muff it, we can pick up the part they muff and say, Well now, and emphasize the part, which gives me another chance to crack the thing before Congress. But you like this?

Mr. Taylor: Very good.

HM, Jr: Then you like it?

Mr. Taylor: I love it!

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HM, Jr: What the boys have done, they have taken the first ten pages and reduced it to two.

Mr. Gaston: I like this approach better than what we had, better because there is less of repetition of what was said in 36 pages. Much less of that.

HM, Jr: The war thing is my own.

Mr. Seltzer: Armistice is the next day. That makes a lot of difference.

Mr. Taylor: I think that's fine, Larry, but I think you can talk about the war in terms of disaster, a human, financial disaster, rather than bringing

HM, Jr: I have not heard anybody talk about this thing.

Mr. Taylor: It just happens that I have.

HM, Jr: Well, give me a public speech where somebody has used it.

Mr. Taylor: If you will take the Republican campaign speeches of 1932....

HM, Jr: Well, put somebody on that, George.

Mr. Gaston: It was used a great deal during the campaign.

HM, Jr: But since that, they did not forecast what I was going to do the next four years. It's all right. I am asking for suggestions. Let somebody in George's shop look up campaign speeches of the Democrats and Republicans in 1932 and 1936 and see what they said. Put somebody on it. But outside of that?

Mr. Taylor: That's the only thing.

HM, Jr: Does it sell you on it?

Mr. Taylor: Yes; just the approach.

HM, Jr: Now, I will excuse you.

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Mr. Taylor: There are a couple of things. I want to read it over with George. I may want to ...

HM, Jr: I am not going, this morning, to get down to words, because the next part -- I think we are over the hump. This is the most difficult thing to make this speech and justify it and answer these fellows why we should balance the budget in view of what has happened in the last month and I think, as far as I am concerned, that that part answers it directly.

George, send a copy in strictest confidence to Riefler and Viner, air mail.

Mr. Taylor: The beautiful part is it sticks; shows clearly what the direction is and what the desires are of the Administration.

HM, Jr: And it's fresh.

Mr. Taylor: Yes.

HM, Jr: Is it news, Herbert?

Mr. Gaston: No; I would not say it is news.

Mr. Taylor: It is said more positively.

HM, Jr: You wouldn't say it is news?

Mr. Gaston: No, I wouldn't say it is news. I think the latter part is news.

HM, Jr: Well, Herbert, I am not going to argue with you. I think it is news.

Mr. Gaston: There is a marshaling of the reasons there, the detail why it is desirable to balance now when it was not desirable three years ago.

HM, Jr: Have you heard anybody set it down in consecutive order and tell why the budget should be balanced? I have yet to see it.

Mr. Gaston: No.

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HM, Jr: I think it's as fresh as when I went up to Harvard and gave the monetary stuff, the gold policy. I haven't heard anybody -- as a matter of fact, it's very reassuring to me. A lot of these things I have felt and a lot I have talked about. I read it last night to Mrs. Morgenthau and she said, I can understand every word of that, and when I got to the next speech she said it does not follow.

Mr. Haas: We feel like she does, too.

Mr. Taylor: This is very, very simply stated. Leaves you with a very positive thing in your mind, which is the trouble with most speeches; they don't leave you with anything positive.

HM, Jr: You were the one fellow around here I wanted to try it on.

Mr. Taylor: I told you I was the "dumb public".

HM, Jr: Well, you know. I don't have to explain. This was written to convince you as a type. Seriously, you know the arguments we have had on this thing, which was the difficulty we were in now, and this is the way ...

Mr. Taylor: That's why I like it so. It answers a lot of questions that fellows have worried about; they go around like this (stoop-shouldered) and see things under the bed.

Mr. Seltzer: It has one weakness. This is all fine, predicated on the fact that we are not going to have a serious business recession. If we do have a serious business recession, private capital is not going to use the funds that it has and you are up against the same problem you were a while ago.

Mr. Taylor: You forget the other thing there, Larry, which is that you will have November 5, which will have preceded this, and I assume you will have changed the odds a little bit.

Mr. Seltzer: Of course, I am not talking about the speech part. I am just taking the argument. It's a sound argument on that assumption. If we got into a

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tail-spin you would have a perfectly good ground with the background you have used to reverse your position.

Mr. Haas: That's right, because we have fixed it that way.

HM, Jr: As I say, very much in this room, I have been trying to do -- what I have been trying to do for the last month, I have been trying to think out a succession of steps which will pull this country out of deficit spending and put it on a balanced budget and still keep the country going along. In order to do that, I have to first spend all of this time to get this information myself; for example, it took me two weeks to understand this road money business, but I got it and I can give it to anybody else. It has taken me a month on this stuff which is in there, you know, PWA have committed themselves into 1941 and 1942 and the money is not around to spend it to build these projects. I do these things and get this thing down in an orderly fashion. I can say in this room, without being misunderstood, I then explain it to the President because he has not got it. In this most difficult transitional period, we have certain definite responsibilities and it's up to us to do our own thinking, and then explain it to the President with the hope that he will take it if it sounds good to him.

Now, this question of balancing the budget. He's constantly seeing people who are simply inflationary. I mean, David Stern was here yesterday. See? They can only think along one channel. Now this is only the one thing, as far as the tax thing is concerned. I have got the answer on that to my own satisfaction, but it has taken six months' work to prepare that, but I have the answer on that to my own satisfaction and I can, in turn, give that to the President.

Now, gradually this thing is forming, layer by layer, and if we move fast enough, and I think the Treasury is moving fast enough without watching the stock market ticker we can do enough things -- that's what I have told Mr. Taylor, that I think that we can keep this country from going into a tail-spin. Now I realize the enormity of the responsibility I am

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taking when I say and do that, but I think we are moving fast enough that we can keep this country from going into a tail-spin and, at the same time, keep this Government solid. That's the problem. If I simply said, like a lot of people, use the slogan 'balanced budget' -- like the Jackass who gave out a press release and does not give any reasons, this fellow Gebhardt, just a plain every-day Jackass -- National Economy League. If I simply said, yes, I want to balance the budget, but then did not do anything to take the place of Government spending -- I boiled it all down yesterday for David Stern. I said what you want is for the Government to keep spending in order to keep business going. I said, well you and I differ. I want business to do the spending in place of the Government. Now, I said, that's where our fundamental difference is. And when he left here and I said, I want to stop borrowing in competition with business; you want the Government to spend; I want business to spend. So he said, All right, Why don't you stop borrowing in order to sterilize gold. He had me there!

Mr. Haas: Well, there is something in that. That's the problem you ought to take up after the speech.

HM, Jr: But that's the only place he had me.

Mr. Taylor: All right. You have an answer to that. It also goes with the other.

HM, Jr: But that's the only place he had me.

Mr. Haas: He hasn't got you there.

Mr. Gaston: What he does not notice is balancing on the base of 6 billions expenditure where the old system was 4 billion, more than 50% more Government expenditure.

Mr. Seltzer: You ought to put that in. You ought to say, In meeting this balanced budget problem everybody ought to recognize we are not going back to 3 billions or 4 billions. We have Social Security on our list; we have some other responsibilities.

HM, Jr: That goes in what I am going to talk about.

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Mr. Seltzer: One thing that bothers me about this balanced budget is, in part, a bookkeeping problem. If you balance the budget and provide \$600,000,000, debt retirement, you are allowing 1 billion 6.

HM, Jr: How?

Mr. Seltzer: Social Security funds. On an economic basis that's debt retirement just as much as your budget. I don't want anybody to get fooled by bookkeeping.

HM, Jr: You must have been talking to the President. He wants three budgets. Go on, Larry.

Mr. Seltzer: Suppose you figure you want to balance the budget this year because you wanted to get out of the capital markets. That means that if you just met regular expenditures without a dime for debt retirement, you would still provide 1 billion for debt retirement to the capital market.

HM, Jr: Say it again.

Mr. Seltzer: If you provided merely for balancing your receipts and expenditures ex debt retirement you would only provide about 1 billion for debt retirement through the Social Security fund. That would give your capital markets an extra billion dollars.

HM, Jr: Why?

Mr. Seltzer: Because you take your Social Security funds, you would go out and buy Governments and put them on your books, see, but the capital markets in the meantime would be getting 1 billion dollars. Now then, if you feel the business situation is a little shaky and maybe the capital markets won't use 1 billion 6 or might take 1 billion, economically you could justify merely balancing your budget on the basis of actual receipts and expenditures. It might be too hard a break, too hard a transition, to do 1 billion 6 debt retirement in one year.

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HM, Jr: Of course, if you take 1 billion 6 debt retirement plus 700 millions deficit this year, that's a difference of 2 billion 3.

Mr. Gaston: No. You got that billion this year. You are having it this year.

Mr. Seltzer: It's 1 billion minus the 700 million deficit.

HM, Jr: So this year we are 300 millions ...

Mr. Seltzer: If it had not been for the gold.

Mr. Gaston: We would have had a reduction of debt in the hands of the banks and the public.

HM, Jr: What you are saying is what the President is groping for. I don't say I am sold on it yet. But that's the important part of my speech that I want to do now. This thing here, what you are talking about, is the next step. What I want to spend the next hour and a half on, is my transitional year and I am not satisfied the way you fellows have handled it. I wanted to do it a new way if I can. Then I want to hit next year, which would bring in this thing, but before I get there I want to talk about this year, what I call my transitional year. I have listened very carefully to what you have said and if you fellows read Walter Lippman today, he practically says the same thing.

Mr. Gaston: It has been discussed quite a bit by the financial writers.

Mr. Taylor: The way we keep our books is ridiculously obsolete. Doesn't show the position. No possibility of showing the position.

Mr. Seltzer: We gave this to you about a year ago in a memorandum on Social Security Act.

Mr. Taylor: Social Security is just another phony, but the real basic trouble is the way we keep our regular books. No business in the world could possibly do it that way.

HM, Jr: You mean the revolving funds?

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Mr. Taylor: The whole business. Suppose we go and borrow some money. We charge that to operation, profits and loss for that year, and you show a loss because you make a loan.

HM, Jr: The President said that. He says if a man goes out to borrow money to build a house, you don't show that loan as a loss, but we do.

Mr. Taylor: We do, and it's perfectly ridiculous. When it's repaid, we show it as a profit.

Mr. Gaston: Of course we gain on the deficit picture ~~on that.~~

Mr. Taylor: Yes, but it is phony.

HM, Jr: What would you do about it?

Mr. Taylor: I would set it up just the way business books. A special account on your books and when you make an investment in recoverable assets, it shows that way.

HM, Jr: What assurance have we that we get recovery? Right now we are using recoverable assets to balance the budget.

Mr. Taylor: It's a recoverable expenditure in the first place.

HM, Jr: I am just starting on this now. As far as my talk goes, I think we have justified why we balance the budget. The next thing is what we are writing now and I am not satisfied at all.

Mr. Taylor: It's exactly what we do. It's the most obsolete method of accounting that's possible to have. The country does not understand it. No way of their understanding it.

Mr. Gaston: There are some reasons for it.

Mr. Taylor: There are not any that are good. Remember all during the campaign all this business, what we went through, what are recoverable assets? and trying to set up a statement to show the true debt position? The country wants to know that. They want to know our

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actual working receipts.

Mr. Gaston: What about war debts? Would you set them up the same way?

Mr. Taylor: You are damned right!

Mr. Haas: Only invisible ink!

Mr. Taylor: No, you could show that. They are a part of your assets and they would be in there, where they belong.

HM, Jr: Let me take a crack at this thing now. I think you have made a contribution and that's my method of approaching the tax thing. I have taken nothing for granted. The fact that such a thing has been done for five years is meaningless to me. I think if we could take a look at this thing now and simply say this is the way the situation is, but the fact it has been done for 10 or 15 years does not mean anything.

Mr. Taylor: Doesn't mean anything! The thing you are having difficulty with is how can we possibly balance the budget. Commodity Credit Corporation is answered by this. Of course you can't do it the way we keep our books, but you can do it if you do it this way.

HM, Jr: Is that what you (Seltzer) are thinking of?

Mr. Seltzer: Yes, but Social Security is a much bigger proposition.

Mr. Taylor: But it's part of the thing and the way we do the thing is phony.

HM, Jr: Fortunately, this Administration did not set up the books.

Mr. Taylor: Very fortunately.

Mr. Haas: They grew over a period of years.

HM, Jr: Incidentally, you don't say anything about revolving funds here nor the principle of subsidies.

Mr. Haas: In an earlier draft we put some stuff in.

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HM, Jr: Yes, you did and you have taken it all out, but this whole middle part -- but the most difficult thing was to justify balancing of the budget. I think you have done that. What I want to know is where are we going to go from here?

Mr. Seltzer: One of the important questions is how much do you want to balance the budget. Do you want to retire 1 billion debt retirement or 1 billion 6?

Mr. Taylor: That's another thing that is phony. That comes out of earnings, if any.

HM, Jr: You mean, consider tax receipts?

Mr. Taylor: Yes and to set the thing up as part of the budget and say that statutory debt retirement is a proper charge against the earnings of a year when the earnings are not there is perfectly ridiculous. It's the same damn thing we show each year. Doesn't make a damn bit of sense.

HM, Jr: I don't know what I have said to Aldrich but I refuse to read it until I get this out of the way.

Mr. Taylor: I cut all that out of your letter.

HM, Jr: But the poor man who wrote the letter to Aldrich is dead. Ogden Mills.

Mr. Taylor: Well, this has been a long speech for me.

HM, Jr: That's all right.

(Mr. Taylor left the meeting at this point.)

Mr. Gaston: But those Social Security taxes are the most deflationary thing we have done this last year.

HM, Jr: I again say I consider we are over the hump, don't you?

Mr. Haas: Yes.

Mr. Seltzer: Except here, the tone of your whole

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speech is going to be decided from now on. You have a good approach now and you are satisfied, all the intellectual requirements of why there should be a change of policy, but now, how vigorously you are going to follow that up is going to determine your speech.

Mr. Gaston: You dropped the idea of starting right away with saying that you want a balanced budget and then saying ...

HM, Jr: I am satisfied.

Mr. Gaston: I rather like that approach.

HM, Jr: If you don't mind, I think the first part -- I haven't done sentence by sentence, or word by word, I don't want to do that.

Mr. Gaston: I think it's an excellent statement; probably will register as well, probably better, with the ordinary hearer than the other way of doing it.

HM, Jr: I think it's all right, but I would like to leave it. Nothing is closed. You follow me? What I want to try to do at this particular time is to take a look at this fiscal year.

Mr. Haas: Larry has it figured out there.

HM, Jr: You told him what I was going to do?

Mr. Haas: Yes.

HM, Jr: What does that mean -- 1939, 1 and 2?

Mr. Seltzer: That '1' there, you can see what happens. You write your unemployment relief and your CCC down to 1 billion 2. You assume that no further appropriations will be made for Public Works.

HM, Jr: I see. But you haven't got 1938, this year; you haven't got the previous year.

Mr. Seltzer: No. But you have it on the large form. You also have it on the short sheet.

HM, Jr: Now I want to approach it something like this. I want to say, Well, now, let us take a look at

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the budget -- what do you call it, 'the fiscal picture' of the year we are in, w we will call 1937-1938, and first we will compare item by item.

Mr. Seltzer: You are going to run into figures and everybody is going to sleep on you.

HM, Jr: Let me do it for my ownself. Out of it you may get some idea of this thing that we are aiming for, but I want to do this. I would have item by item for the previous year and compare the same items as they may look for the next year using the best estimate that we have at our disposal at this time.

Mr. Seltzer: For 1939?

HM, Jr: Yes.

Mr. Seltzer: There you run into Dannie Bell. He objects to 1 billion 2.

HM, Jr: Damn Dannie Bell! This is between the President and myself. To hell with Dannie Bell! I have as much right to use the figure 1 billion 2 as anybody else.

Mr. Seltzer: O. K.

HM, Jr: But you say Dannie objected?

Mr. Haas: Said it was against policy.

HM, Jr: All right, that's for the President. Also, Dan has been frank enough to say that when I made my speech in 1933, Lew Douglas tore his hair out because that speech should have been made by the Director of the Budget.

Is that why you did not use these figures?

Mr. Seltzer: That's why I did not go into great detail. That's why I lumped them.

HM, Jr: Let me do this myself and see what it looks like. I don't see how to compare these figures.

Mr. Seltzer: You have receipts instead of expenditures (referring to HM, Jr's list). There is your regular

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HM, Jr: But I want to make these things check. That's \$3,264,000,000.

Mr. Seltzer: They changed that upstairs.

HM, Jr: Do they refuse to give you figures in the Budget?

Mr. Seltzer: No. I did not ask what the 1939 Budget estimates would be, but for 1938 they gave me a few slight revisions. They changed that \$3,264,000,000.

HM, Jr: Let me see if I can squeeze this in. I will ~~do it in ink.~~

Mr. Seltzer: You get \$3,158,000,000.

HM, Jr: Let's just say, swinging back and forth, in 1938 it was so much and go forward to 1939.

The regular operating expenses in 1938 were 3 billion 264 million; in 1937 they were 3 billion 158. In 1939, the estimate at this time.....

Mr. Seltzer: There we have not any estimates from the Budget Bureau. 1939, I have not even asked them for them. Should we?

HM, Jr: Yes.

Mr. Seltzer: Fine. Tickled to.

HM, Jr: Well, we don't know. All I know is I do know that the President said that they should not be above 3 billion. I was there when he said that, which would show a decrease.

Mr. Seltzer: Better than a quarter billion. \$264,000,000.

HM, Jr: Of \$264,000,000. In 1938 Social Security cost the Government ...

Mr. Haas: Social Security taxes.

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Mr. Seltzer: This is both reserve and administrative.

HM, Jr: Expenses of Social Security will be 813 millions. In 1937 they were 452 millions.

Mr. Seltzer: They will be up by 100 million.

HM, Jr: In 1939 they will increase by 100 million. In 1938, Public Works are 826 million and we already have on our books obligations for 695 million.

Mr. Haas: But that does not necessarily have to come out as an expenditure.

Mr. Seltzer: There are actual appropriations available for 1939 expenditures. In addition you have some Road stuff that has not been appropriated.

HM, Jr: I want to handle Roads separately.

Mr. Seltzer: They are separate. This is only the stuff that is available for 1939; been appropriated.

HM, Jr: Let's go back. In 1938, Public Works, 695 millions; in 1937, 1,065 millions. We are obligated to spend for 1939, 695 millions.

Mr. Seltzer: You are obligated to spend more than that, but your actual appropriations

HM, Jr: Our appropriations call for an expenditure of 695 millions. What do you mean, we may have to spend more?

Mr. Seltzer: You have made obligations for higher expenditures.

HM, Jr: Is Roads in here in one separate item?

Mr. Seltzer: Yes. On Public Works there may be some obligations in here not covered by appropriation; some Public Works don't get finished and may have made commitments.

HM, Jr: That's supposed to be in here.

Mr. Seltzer: Just a matter of phrasing.

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HM, Jr: Well, just say it my way for the time being. I think 695 millions is correct, which would be, if not another dollar was appropriated, would be a saving of 131 millions. Unemployment Relief this year, 1 billion 680. That seems small. I thought it was more than that.

Mr. Seltzer: They changed that to 1 billion 680; last year, 2 billion 416.

HM, Jr: In 1937 it was 2 billion 416. Next year -- does that include C.C.C.?

Mr. Seltzer: Yes.

HM, Jr: Next year we ought to get by with 1 billion 2 or a saving of 480 million. This year we are going to spend 475 million for A.A.A.?

Mr. Seltzer: Yes, right there.

HM, Jr: I keep using 440 million.

Mr. Seltzer: This is the breakdown that the Budget Bureau makes. If you take the budget summation you get a different figure.

Mr. Haas: I think they put everything that was agriculture -- roads, etc.

HM, Jr: May I say these figures will have to check with the budget summation.

Mr. Seltzer: If you stick to the budget summation you can't do it this way because they spread the thing around in different accounts. This is the only respectable presentation of the thing.

HM, Jr: All right. We will argue about that afterwards.

HM, Jr: A.A.A., 1938, \$475,000,000. 1937, how much?

Mr. Seltzer: 534 millions.

HM, Jr: Next year?

Mr. Seltzer: Let's just hope!

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Mr. Haas: You had a figure -- in other words, if anything new they had to have revenue to carry it.

HM, Jr: Just a second.

Mr. Seltzer: You can't say anything about 1939 there until Congress meets.

HM, Jr: Yes, you can. For this purpose I am going to leave that blank.

I am just groping. I don't pretend to be doing anything else. In 1938 these items total 7 billion 058. You haven't anything in there for roads?

Mr. Seltzer: Yes. But in this year they are up in Public Works. We can, of course, take that out and put it down here.

HM, Jr: I think there was 24 million, if I am not mistaken.

Mr. Seltzer: I have that on another sheet, not here.

HM, Jr: Well, the money Congress voted in this fiscal year was 24 millions.

Mr. Haas: It may have been voted the previous year. It's more than 24 millions. It's 200 odd million, something.

Mr. Seltzer: Amount to maybe 250 million.

HM, Jr: What are the comparable items in here? Anyway, in 1938 we will spend 7 billion 346 million, which is "X" millions of dollars less than we spent in 1937 -- whatever that is. I want public highways down here. See?

Mr. Seltzer: Yes.

HM, Jr: Now this is the thing. The best estimate that we can make at this time for 1939, not allowing anything for agriculture and not allowing for any appropriation for roads is -- do you mind if I change these figures here? Now, as I say, that leaves, we know we have to spend 5 billion 800 million. That we know we have to spend. Now, as to good roads, Congress has voted 24 millions to be spent beginning with the year July 1, 1938. If we add to this

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another 51 millions and we will have 75 million to spend for good roads for the year beginning July 1, which would be the same figure that they used to spend prior to the depression. And, considering the fact that during the last four years

Mr. Seltzer: Runs higher, you see.

HM, Jr: Well, I am only quoting somebody else. Well, where the devil did we get that figure there?

Mr. Seltzer: The figures you get from Lawton are the figures showing Federal grants to States; in addition to that we spend some money directly. We have, during this period for example, had emergency funds for roads in addition to these State allotments and there may be some such figures in here.

HM, Jr: Well, let's put it this way then. Let's be reasonable. As I say, Congress has already voted 24 million to be spent for the year beginning July 1, 1938. In view of the fact that during the past four years we have averaged approximately 250 millions a year for good roads, exclusive of the money spent by Hopkins, it seems more than reasonable that we could for the coming fiscal year drop back to a total expenditure of 100 millions a year, which would mean that we need an appropriation of 75 millions.

Mr. Haas: You may not need an appropriation.

Mr. Seltzer: Did Lawton think you could get away with that?

HM, Jr: The President is willing to send a special message to this Congress to do away with the whole thing, but this is the one thing the President feels very strongly on. So that's why I have chosen the people in this room. I want open minds. I don't want anybody to tell me this is the way we have always done it or I can't. I very carefully picked who is here today. I am so sick and tired of -- listen, if I listen to Lawton and the rest of the fellows we will never balance the budget. We just won't do it. I am trying to do original thinking. I am trying to do this thing so I can show the President how this thing can be done. If we listen to those fellows back there, we will never do it. Incidentally, put down a memorandum that out

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out of this thing should come a letter from the President on good roads. A special message.

Now, to the 5 billion 808 we add 75 million for good roads, which brings our total to 5 billion 883. This doesn't look right. I am groping. Is everything in there except agriculture?

Mr. Haas: Yes, but debt retirement you haven't got in there.

HM, Jr.: All right.

Mr. Seltzer: You probably will get recovery of 100 millions.

HM, Jr.: Now, wait a minute. Up to now I am doing this thing on a straight cash basis.

Mr. Seltzer: This is cash basis.

HM, Jr.: We don't have to put anything down ...

Mr. Haas: He's right. There is something bothering your figure. A year ago when you compared your figure you had that in.

HM, Jr.: Let's for a minute forget that. Where are my expenditures?

Mr. Seltzer: Here are the supplemental and it means you spent that this year. It's supposedly a non-recurring item, but each year they manage to find a few millions of that type.

HM, Jr.: I don't want to put down 200 millions for supplemental.

Mr. Seltzer: I don't think you ought to for 1939.

HM, Jr.: We now have a figure of 5 billion 883. We put down nothing for crop control, which is the big question. Depending on how much we add to this figure for agricultural crop control is the final determining factor of what our total expenditures will be for 1939 exclusive of debt retirement.

Now let's take a look at our revenue side for a

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minute for 1939. What does our revenue picture look like? Where are our revenue figures?

Mr. Haas: Those we make up about November 15th or thereabouts. We had a preliminary figure of 7 billion 1.

HM, Jr: Our preliminary revenue figures now look as though we might expect 7 billion, in revenue, of which how much is Social Security?

Mr. Seltzer: Around 900 millions.

HM, Jr: Of which 900 million is Social Security. So, exclusive of Social Security our revenues will be about 6 billion 1. Then Social Security will almost wipe itself out.

Mr. Gaston: It will over a year. It has this year; more than wiped it out.

HM, Jr: Let me stop here for a minute. We take in about 900 millions worth of Social Security money. As I understand it, with that I issue to them a special 3% certificate.

Mr. Gaston: For about 5 or 600 million of it. The rest is administrative expenses and grants to States.

Mr. Seltzer: You pay your administrative expenses.

HM, Jr: How much is left? Of this 900 millions that has come in, how many things ...

Mr. Seltzer: This 900 million is what you spend. You might take in about 600 because you have some Social Security expenditures that are not covered by the tax.

HM, Jr: I take in 600 and spend 900?

Mr. Seltzer: These are expenditure, not receipts, figures.

HM, Jr: You say I am ~~not~~ going to spend 900. How much am I going to take in.

Mr. Seltzer: My guess is 600.

Mr. Gaston: Larry, it's 770 for this year.

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Mr. Seltzer: You take in less than you pay out.

H^{aa}, Jr.: How much?

Mr. Seltzer: I don't know.

HM, Jr.: How long would it take you to find out?

Mr. Seltzer: About 3 minutes. (He left the meeting.)

HM, Jr.: Well, find out.

I am groping very slowly and I don't want to be rushed. Let's say the figure almost balances itself. What I have not got clear in my head, if we take in 900 million Social Security and we issue these 3% certificates, where do we get the money to go out and buy Government bonds to retire? That's what isn't clear in my mind.

Mr. Haas: You get it on the tax receipts, but now when you are operating -- when receipts and expenditures don't balance you have to do it the other way, of issuing certificates.

HM, Jr.: It doesn't make sense to me because I know it isn't so. We are going to retire 1 billion or 1½ billion Government bonds, but we are not doing it.

Mr. Gaston: Because of gold sterilization and deficit.

Mr. Haas: That's right.

Mr. Gaston: But gold sterilization does not come in; it's debt.

HM, Jr.: Let's say we had no sterilization.

Mr. Gaston: Then the deficit would be the only thing that came in.

(Mr. Seltzer returned.)

Mr. Seltzer: Receipts: 757 in 1939; 764 in 1938; expenditures: 1939, we figured on 900 and some millions. The difference is accounted for by our grants to states, primarily.

H^{aa}, Jr.: This is what I want to talk about. Either I am cock-eyed or somebody else is. Nobody has explained

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it. If we spend 900 and take in 750, we are short 150 million. Where do all these people, like Lippman this morning, talking about retiring 1 billion public debt next year in addition to Social Security?

Mr. Seltzer: In addition to this Social Security you have a trust fund holding funds collected by the States for unemployment insurance, which this year amounts to, I believe, 500 million. The States are allowed to draw on that fund to pay unemployment benefits after their system has been in operation for two years. Hence this year Wisconsin, I believe, is the only State entitled to draw anything out of the fund and all the rest are putting into the fund. In the meantime you have that 500 million available, like any other cash. Now, next year you are going to have the same thing. A few more of the States will be able to draw funds out for unemployment benefits, but more States will be paying into the fund because this year a lot of States did not have unemployment systems.

HM, Jr: Let's talk about this year. How much money do we get in? We take in how much money on Social Security taxes this year?

Mr. Seltzer: Under the tax you take in 764 million.

HM, Jr: All right. And the money the States deposit with us this year?

Mr. Seltzer: I don't know the figure, somewhere around 500 million.

HM, Jr: So, roughly, 1 billion 200. That goes into the Treasury, against which we spend how much?

Mr. Seltzer: Against which your cash expenditures have been very small. 200 million for administration, a little bit for grants to States which are not deducted from these receipts; come out of your general fund, and the rest is non-cash expenditure for public debt items that you put into trust funds.

HM, Jr: But what are we doing for this year. We take in 1 1/4 billions and spend?

Mr. Seltzer: Say 200 million.

HM, Jr: Under 1 billion. Does that billion go towards

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balancing the budget this year?

Mr. Seltzer: No.

Mr. Haas: Explain why.

Mr. Seltzer: It does not go into balancing the budget because we count as an expenditure these interest-bearing instruments that you put into the fund and you charge that as an expenditure against the budget just as if you paid out cash for something. Even though you pay out no cash, you have that cash available to retire debt.

HM, Jr.: What I am leading up to is this: I am not a bookkeeper; I am not an accountant. I want to do it very slowly. I don't see, taking this figure -- the next thing is to do it for 1938. If in 1938 our expenses on this thing here is 7 billion 346, I say less receipts from Social Security and States is how much?

Mr. Seltzer: Less your tax receipts of 764 million.

HM, Jr.: What's this 813?

Mr. Seltzer: Those are expenditure figures, but they are non-cash in part.

HM, Jr.: Let's just take Social Security out of this.

Mr. Seltzer: Yes.

HM, Jr.: On both sides of the ledger.

Mr. Seltzer: You can't do that because some of your Social Security expenditures are chargeable against your budget, like salaries. We get no taxes to pay those expenditures. Other Social Security expenditures are covered by specific taxes. You see, your grants to the States are not covered by taxes.

Mr. Haas: Take out contributing old-age part of the Social Security.

Mr. Seltzer: Then you would only take out the part that goes into the reserve.

Mr. Gaston: You could take out excess of back ex-

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penditures over receipts and say Social Security cost us 30 million in 1938 or thereabouts.

Mr. Haas: Here's the point. What we call in the budget as entered as expenditure is composed of two parts; (1) actual cash. You have to pay somebody's salary. The other part of what is entered as expenditure is an amount which is credited to this trust fund. There is no cash outlay at all and in your cash drawer, the cash remains the same. So you can use that cash as you use it now, to pay deficit, rather than to go into the market to borrow money on. Or if you don't have a deficit you go out and retire bonds.

Mr. Seltzer: If you wanted to deduct anything you might deduct non-cash expenditures, in which case you would deduct 1 billion, roughly.

HM, Jr.: What I am groping for is this: This Social Security thing, there are two things which don't belong in an ordinary business budget. One is Social Security and the other is revolving fund.

Mr. Haas: Yes.

Mr. Gaston: That's right.

HM, Jr.: If we could eliminate those two things...

Mr. Haas: We could write that thing up.

Mr. Seltzer: That's a good approach provided you did not stick to your words. We would have to include in expenditures those Social Security expenditures not covered by taxes.

HM, Jr.: What would you do with those? Leave them in the budget?

Mr. Gaston: Yes, as the only item of Social Security expense.

Mr. Seltzer: Yes. That 20 million is covered by tax. Grants to States is not covered, and we could take that out yearly.

HM, Jr.: What I am trying to get out, and I have

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never seen these figures -- after all, the President ought to get legislative authority to stop all revolving funds so that we could do it the way we are going to do Commodity Credit. That's an example. All revolving funds should be treated that way. Take Commodity Credit. Once a year take inventory, find out if capital has been impaired and if it has, go to Congress and ask for 50 million to make this up. Set up these agencies on a different basis. Farm Credit is set up that way. They have no revolving fund. We set up Commodity Credit. Capital belongs to them. PWA is finished and anything they are going to draw on us in the future we can set that off on the side and the same way with RFC. And so, in the future, if any agency -- it will be either of one or two types, either it will come to the Government through the Director of the Budget or through the Committee on Appropriation, get his fund and against that we will raise taxes or we will set it up like Commodity Credit and give them their own capital and then when they want to borrow, all the Government does is guarantee their obligations.

Mr. Seltzer: In that case they don't need capital.

HM, Jr: I would like to set up all revolving funds out of the budget. I would like to look at that. That has nothing to do with Social Security. That Social Security, take a look at it, just charging to the Budget actual expenditures for help, pencils, paper, whatever goes into an expenditure, and then taking the rest of it -- if the State of New York gives us 25 millions to act as trustee and we accept that money, why should that show up as an expense?

Mr. Gaston: It does not.

HM, Jr: Well, Herbert, please don't upset me. I am trying to get an entirely new idea. Nobody has put this thing down here. I am trying to think this thing through so I can explain it to Jones or anyone in this town -- I don't understand it.

Mr. Haas: The way you are driving for, you have your budget balance now.

HM, Jr: I think so.

Mr. Haas: Does that bother you? It did bother

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us because we tried to paint a black picture.

HM, Jr: What I am trying to do on this thing -- every minute here is worth its weight in gold. I don't want to kid anybody. The last person in the world is the President. I don't want to paint it too blue. I don't want to kid myself, but after these things have been set up the way they are, if we are going to do the thing entirely new how would you do if you started right from the beginning. Let me say to you, we have Social Security. We are going to start that again. We have no revolving funds and you are going to set up a new set of books. If you set up a new set of books, how would it look?

Mr. Haas: You could handle the bookkeeping, but not the economics, because no matter what you call it if you take 800 million from the wage earners you put that to the use of retiring public debt. You are just taking tax money, using it to retire public debt. At the same time you set up a fictitious debt obligation of a new kind to the same taxpayers that won't come due until God knows when. There's the economics and bookkeeping -- separate.

HM, Jr: Say it again.

HM, Jr: I say it's easy enough to set up books for what you want and you can show a straighter budget picture than you have right now, but when you get through, you have a clean bookkeeping arrangement; you won't necessarily have clean economics, because no matter how much you call Social Security receipts tax receipts, the fact remains they are just like tax collections and if you don't currently spend them you are taking out of the public money that is not going back to the public.

HM, Jr: And the answer to that is if this picture I am beginning to see is correct, then out of these tax receipts we are getting enough and we should not try to -- if you said to me, Morgenthau, if you could write the ticket how much would you like to receive over and above expenditures, if you ran the Government on a receipts and expenditures basis, and after you balance the budget and spend and receive so much out and those two things balanced, how much over and above do you want your receipts, I would say 1 billion. If I could take in 1 billion more than I spend I would be the happiest man in the Government as far as my position goes.

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Mr. Haas: That's a very difficult thing.

HM, Jr: I never have understood it. I will be perfectly honest. You know, I never admit a thing as understanding it until I do. If we are taking 800 or 900 millions in taxes from the taxpayers, which we are as I get it, we are taking that money and we are using it, as long as we are in the red we are using it for spending purposes.

Mr. Haas: That's right.

HM, Jr: And faking it by using 3% certificates.

Mr. Haas: Instead of going to the market to borrow your money for the deficit, you are borrowing it from these workingmen.

HM, Jr: Now, if we are taking 800 or 900 million from the factories and the workingmen, but before doing that we can strike a balance, I would say that's enough for next year.

Mr. Haas: You have a perfect picture.

Mr. Gaston: We are doing that this year.

Mr. Seltzer: I would like to see Social Security funds take care of our debt retirement. Then you are O.K., because you can balance your budget and you can collect these taxes without these harmful economic factors that we are all scared of.

HM, Jr: Let's try to do one. Let's try, George if you look at anything else today I will be angry. Get Larry and anybody else. Don't answer telephone calls.

Mr. Haas: I am out.

HM, Jr: Go to your home, or go some place. In the first place, set this thing up on what would be a delight to a bookkeeper, a good auditor.

Mr. Haas: Not a Government bookkeeper.

HM, Jr: No. Do you need an auditor from outside to sit in?

Mr. Haas: No. We know enough about it.

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HM, Jr: Set this thing up. Set this year's books up on what would be Price-Waterhouse's way if they were given the job of setting up the Government books. How would they set them up. Now, if after setting them up and I find how we are financing this Government, we are financing it out of Social Security receipts and repayments from RFC. The way I would like to do would be to have enough taxes to pay for all the running expenses of the Government, and then every dollar we take in from revolving funds, Social Security, should go for debt retirement.

Mr. Seltzer: You run into the law then.

HM, Jr: Let me give that picture to the President and I know I can sell it. I will go over it again. Let me raise enough taxes to pay every dollar of Government expenditures, then every dollar that comes in from revolving fund plus Social Security should go into debt retirement. That has nothing to do with gold sterilization. That's an entirely different proposition, because then you get into the total debt which has nothing to do with it. After that, if from revolving fund and Social Security I can write down 1 billion debt and at the same time I have to borrow another 1 billion for gold sterilization, well we will treat that the very, very last thing.

Mr. Seltzer: In this bookkeeping system we are not going to say boo about your gold sterilization.

HM, Jr: I have done a lot of talking. Gaston has been very good. Now you talk.

Mr. Gaston: I think in the economic situation, probably that's all we could expect to do is just that -- have a laymen's balance of the budget and then debt retirement would be confined solely to the Social Security trust funds and old-age retirement fund plus your recovery from the agencies. You would then have a true balance without any of this sinking fund nonsense in expenditures, which is somewhat different from the proposition that we originally laid out.

Mr. Haag: This is a real balance.

HM, Jr: You know what I would call this? A business man's balance. A business man's balance sheet. That's

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what I would call it. Listen, if I have a business and I have got a \$15,000 mortgage and the fellow pays off \$1,000 a year, do I take that \$1,000 a year and add it to my revenue? No. I write down my capital by that, don't I?

Mr. Haas: Yes.

HM, Jr: I reduce my capital by \$1,000. If I went to a bank and showed him that with my receipts -- the fellow paid back the mortgage -- that I used reduction of mortgage for expenses, they would think I was crazy. What I want is not a layman's balance, because the President has put that in disrepute; what I want is a business man's balance sheet.

Mr. Seltzer: Income account.

HM, Jr: No, balance sheet.

Mr. Seltzer: Income and outgo is what you are talking about. Income account.

HM, Jr: Are either of you fellows certified public accountants?

Mr. Haas: No.

HM, Jr: Have you got one back there?

Mr. Haas: I don't know if any of the boys out there -- we have some good accountants.

Mr. Gaston: There is just this thing to be said about that, that under the theory of this Social Security thing in taking in these taxes on Social Security we are undertaking the obligation of making payment and the theory of setting up reserve accounts as you make investments each year is a liability that you are not taking into account, so I think a good many bookkeepers would say if you have only these Social Security funds to invest in debt retirement that you are short of a true balance in your books to the amount of the investment in that old age account, which would be some 600 millions of real liability that you are not taking into account.

HM, Jr: Well, listen. I can't go any further today. Have you fellows got what I want?

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Mr. Seltzer: This is not for your speech? Do we put this into your speech or a memorandum that you will show to the White House?

Mr. Haas: Here's a question I would like to ask. The second part of your speech, do you want to go on from there to show the people -- in other words, you have indicated you wanted a balanced budget. Do you want the second part of your speech to show how this is going to be done? If so, you could use this.

HM, Jr: I want to show how this can and should be done. This is the research work which, if it looks good, we will then popularize it and put it in the speech.

From now on I would like to show in the speech -- I would like to lay down the policy of what we should do on Government receipts and expenditures for next year -- what I, Henry Morgenthau, think. In order to do it I have to understand it myself and I don't yet, because you have two things in there which completely distort the picture, one is Social Security and one is revolving funds.

Mr. Haas: Then I would say the next thing to do is to get this set up, as you call it, from a research point, in a memorandum explaining it and then if you like it we will try to put it in the speech.

HM, Jr: That's right. I don't want to crowd you, but by this time tomorrow try to have something for me.

Mr. Seltzer: You don't want all these other figures?

HM, Jr: No. The question is, we have laid down the principle of what it should be balanced; now let's talk about how we are going to do it.

Mr. Haas: What is a balanced budget and that's what you are working on now.

Mr. Gaston: I think this task you are setting is not very hard and maybe it should be harder. From the picture of receipts and outgo we are having a balanced budget this year.

HM, Jr: I was willing to go before this group thinking what I was talking about was impossible. Let's take it a little from this standpoint. I am saving 10 to 12 for you tomorrow.

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Read for at [redacted] 166
at meeting
Sept 26
Oct 26.

Address of the Secretary of the Treasury, to be (now a
Delivered before the Academy of Political Science, took the
at the Hotel Astor, New York City, Wednesday Evening, meeting)
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

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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.

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.

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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 prolonged 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;

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and that their solution, though requiring other techniques as well, will best be furthered in the present juncture by a balanced Federal budget.

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

Today the situation is greatly changed. We are now in the eleventh month 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

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surpluses of housing accommodations, capital equipment, et cetera. We have not reached the stage of full employment. 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 present favorable circumstances. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when private capital funds are actively employed in productive enterprise. One of the most important ways of doing this ^{at this juncture} 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 available for private industry, nor did it absorb taxpayers' funds available for private consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to make use of capital funds that would otherwise have remained idle.

The situation today is greatly changed. Our industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. During the first nine months of the present calendar year,

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the weekly reporting member banks of the Federal Reserve System reduced their holdings of Government securities by fourteen hundred forty-five millions in order to meet actual and prospective demands for commercial credit. The obligations that they sold, plus an amount equal to the ~~securities~~ 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. The sizeable national problems that remain should be attacked, in my opinion, strictly within the limits of the balanced budget.

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There is a further consideration of great importance that I should like to emphasize. That is, that the basic philosophy of our deficit spending of the past few years requires that a program of substantial debt retirement be undertaken shortly.

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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.

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

However, this unimpeachable credit position of the Federal Government has been maintained because of the conviction of investors that the Federal budget was only

temporarily out of balance; that with business recovery substantially achieved, the President, the Congress, and the American people generally could be trusted to join in a whole-hearted and successful determination to balance the budget and to reduce the public debt.

That time has now arrived.

To keep faith with the investors in Government bonds; to maintain the integrity of the credit and currency of the United States; to avoid draining capital funds from private industry; and to keep open unimpaired the future possibility of the use of deficit spending by the Federal Government as a stabilizing factor in industrial breakdowns, it is essential that we now fix our course to bring about a full balancing of the Federal budget for the fiscal year beginning next July 1.

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That time has now arrived.

To keep faith with the investors in Government bonds; to maintain the integrity of the credit and currency of the United States; to avoid draining capital funds from private industry; and to keep open unimpaired the future possibility of the use of deficit spending by the Federal Government as a stabilizing factor in industrial breakdowns, it is essential that we now fix our course to bring about a full balancing of the Federal budget for the fiscal year beginning next July 1.

Let me turn finally to the immediate practical prospects of budget balancing, beginning this very next fiscal year. I want to be completely frank with you: The difficulties will be almost insurmountable.

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"Balance the budget" is a kind of slogan that many people voice without a real understanding of what it involves. Budgets don't get balanced merely by a general desire to balance them. Specific expenditures must be cut, which involves painful curtailment of otherwise desirable activities; or revenues must be increased, which usually means a reduction in private expenditures. There is no painless magic way to balance the budget.

First of all, to eliminate this year's net deficit of seven hundred millions and to provide six hundred millions for debt retirement, we must somehow bring about a net improvement of thirteen hundred million dollars next year over this year's budgetary position. That means, unless receipts should increase, we would have to limit our total net expenditures to six billion dollars as compared with seven point three billions this year.

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Now see how difficult it will be to do this, despite all the good will and determination in the world:

The ordinary operating expenses of the Federal Government, including national defense and interest on the public debt, are running about the same as in 1932; and I do not believe that significant savings can be looked for here. Indeed, because of added responsibilities, these expenditures might even be expected to increase.

If we assume, however, that they will run no higher next year than this year, and if we add provision for social security and for actual appropriations already voted and available for next year's public works, we reach a subtotal of about five billion dollars. This would mean that to keep within the limit of six billions of total net expenditures, we would have to cut our aggregate outlays for unemployment relief, the C.C.C. camps, and the agricultural

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adjustment program to a total of one billion dollars, or about half the amount allowed for these purposes during the current year -- unless, of course, receipts increase or other expenditures are curtailed.

I have already indicated how difficult it would be to curtail other types of expenditures. Let me now point out that, on the contrary, certain other types of expenditures, at least, are likely to increase.

Let us look first at the effects of the statutory provisions which govern Federal grants to the States for public highways. Last December the Secretary of Agriculture under these statutes apportioned two hundred sixteen million dollars of Federal money to the States for highway projects for the current fiscal year; and he is scheduled to make a further apportionment of a like amount this coming December

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for the fiscal year 1939. Against these apportionments, Congress has thus far actually appropriated only twenty-four millions. The States, meanwhile, are making their plans and commitments for highway projects under these apportionments. As the Secretary of Agriculture approves these projects, more than four hundred million dollars of additional appropriations, though not all of it in 1939, will be necessary to meet the program already provided for by existing statutes.

Finally, as you are all aware, discussion is now taking place in Congressional committees with respect to an enlarged program of soil conservation and agricultural adjustment. The figures that I have cited would appear to indicate very definitely that the Federal Government cannot significantly increase its aid to agriculture within the limits of a balanced budget unless tax revenues are increased to meet any new requirements.

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I have cited these very real difficulties in the path of budget balancing because I want no one to be under any illusions. The budget will not be balanced without very real sacrifices and the very vigorous cooperation of all sections of the public.

On the other hand, I do not want to leave you under the impression that the picture is a hopeless one. We have already made considerable progress this year toward this second phase of our fiscal program -- a balanced budget and adequate debt reduction; and with the wholehearted cooperation of the public the present fiscal year should prove to be the year of transition between unbalanced and balanced Federal budgets.

The business recovery of the past year has enabled us to make reductions that will total some three-quarters of a billion dollars in our outlays for unemployment relief this year below those of the previous year. If another substantial

reduction can be made next year, with the prospect of a continuing tapering off in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions for public works of all kinds for the fiscal year 1939, and if suitable alterations in our highway program can be made at an early date, these sources of fiscal deficits will be eliminated.

Further, in his Summation of the 1938 Budget, the President announced that no further new commitments would be made by the Reconstruction Finance Corporation or the Public Works Administration, thereby eliminating other sources of our past deficits.

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These are some reasons for encouragement on the spending side of our budget picture. On the receipts side, I can report to you a far greater degree of improvement than many people have believed possible.

The plain fact of the matter is that the Federal revenue structure is stronger today than ever before in the history of our country.

When this Administration came into office, the total receipts of the Treasury had fallen to just over two billion dollars a year. In each year since that time, they have shown marked increases -- the result both of improvements in our tax structure and of the revival in business. For the present fiscal year, the revised estimates of receipts total six billion six hundred and fifty millions.

In the tax revisions that Congress is scheduled to make during the next regular session, the primary aim will not be

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to increase the total amount of revenue to be collected.

It is my hope that, on the basis of the large amount of information which the Treasury has assembled for the use of the Congress, adjustments in existing taxes will be made in the interest of greater equity and of reducing any demonstrated hindrances to legitimate business transactions.

Unless appropriations are voted in excess of anticipated receipts, the revenue yielding power of the present tax structure will be great enough both to supply current requirements and to permit adequate provision for debt retirement.

In closing, let me remind you that it was the strong support of the American public that made it possible for us to bring this country out of the depression. We shall need this same vigorous support to provide for a prompt and full balancing of the Federal budget.

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Now see how difficult it will be to do this, despite all the good will and determination in the world:

The ordinary operating expenses of the Federal Government, including national defense and interest on the public debt, are running about the same as in 1932; and I do not believe that significant savings can be looked for here. Indeed, because of added responsibilities, these expenditures might even be expected to increase.

If we assume, however, that they will run no higher next year than this year, and if we add provision for social security and for actual appropriations already voted and available for next year's public works, we reach a subtotal of about five billion dollars.

If, now, we assume that relief expenditures and the C.C.C. camps combined can be cut to twelve hundred millions, our expenditures would total six point two billions, exclusive of the agricultural adjustment program. And if this

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program were limited to the present year's outlay of four hundred seventy-five millions, our aggregate expenditures would reach just under six point seven billions.

In other words, in the absence of an increase in receipts, and if no other expenditures were made, we would just about balance our budget, exclusive of any provision for debt retirement.

Now, let me point out that I have ignored some expenditures that are almost certain to be made.

Let us look first at the effects of the statutory provisions which govern Federal grants to the States for public highways. Last December the Secretary of Agriculture under these statutes apportioned two hundred sixteen million dollars of Federal money to the States for highway projects for the current fiscal year; and he is scheduled to make a further apportionment of a like amount this coming December

October 27, 1937
10:15 am

PRESENT:

Mr. Haas
Mr. Gaston
Mr. Seltzer
Mr. Bartelt (for part of the meeting)

HM,Jr: (Reading attached draft.)

That thing about war material, that's new. I think that's a good illustration.

Mr. Gaston: Yes. Yes.

Mr. Seltzer: Yes. Their surpluses are always exaggerated in post war years.

Mr. Haas: And gives the base for cutting taxes when they should have left them up.

HM,Jr: That's new to me, that point.

Mr. Seltzer: There is some more on the typewriter on the Social Security aspect of it.

HM,Jr: Yes, but do you want to talk it to me?

Mr. Seltzer: Yes. I suggest that you look at what Mr. Gaston wrote.

HM,Jr: I did. I have it right here.

Mr. Seltzer: That thing is something like this. We had real taxes for the old-age part of the Social Security thing. They come into the General Fund and are taxes like any other taxes, but the expenditures that we make will not, for the most part, be cash expenditures for a great many years to come, so that for every year we get a large amount of cash for which we make only a bookkeeping appropriation, so we have a lot of money available for debt retirement. It's the only thing we can use that money for. Now, when we include that Social Security account with its real cash receipts and its non-cash expenditures in the regular budget we distort the budget

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picture. It ought to be treated separately.

HM, Jr: Bell wants to see you so he can give you some figures.

(Mr. Seltzer leaves the room.)

HM, Jr: While we are waiting, I talked to Jake Viner about this and I said what we were thinking of doing and it was so important I would like other people than Viner and Rieffler to look at it and whom did he suggest. The first suggestion he made was Dean Himmelblau. He said he's dean of Northwestern and a certified public accountant.

Mr. Haas: Accounting is his field.

HM, Jr: And Jake said, What you want to know is how this will react on the business man. He's an accountant.

Mr. Haas: He was quite helpful the last time he was down.

HM, Jr: I asked what about Hague, of Columbia.

Mr. Haas: He would not know this. He would know something about it, but that is not where he is outstanding.

HM, Jr: I read his thing in the Yale Review on balancing the budget and it was this old hackneyed stuff. But I think Himmelblau, besides everything else, he has a private practice, 250 small businesses that he advises on accounting and taxes. But the only person Jake could think of was Himmelblau.

Mr. Haas: You might have somebody who is just a business man in whom you have confidence.

HM, Jr: The best business man in town and the most successful, according to Bell, is Biggers. He's head of Libby, Owens and they have a 25 million cash reserve. Dan thinks he's topnotch. Everything that Dan says is that Biggers is the tops and is very keen to meet me.

Mr. Haas: And then I have another thing. Herbert is a better judge than I. Some of these good press men, if you could trust one of them, to get the reaction because they will be writing it up.

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HM, Jr: I wouldn't bother so much on that.

Mr. Gaston: No.

HM, Jr: No; you can't trust them.

Mr. Gaston: There are some people you could trust, but you would be spreading it a little too wide.

HM, Jr: But you could bring in fellows like Biggers and show it to him.

Mr. Haas: I would do that.

Mr. Gaston: A newspaperman who is going to cover the story dislikes to be taken in confidence in advance; interferes with his dispassionate review of the speech.

HM, Jr: Just let me clear up one thing in my mind, one thing I haven't got clear. We started using Herbert Gaston's figures.

Mr. Gaston: I took in only Social Security funds. I did not take in any other trust funds.

Mr. Haas: Do you want to see a table on this thing?

(Mr. Seltzer returned.)

HM, Jr: This afternoon we are going to have Gaston, Haas and Oliphant. We are going to have a preview on what Magill prepared. He's going to read it to you this afternoon. I wanted you to be a little patient.

Mr. Gaston: That will satisfy a great personal curiosity.

HM, Jr: I consider it one of the most important documents if the President will put his O.K. to it.

Seltzer, come around and explain this table.

Mr. Seltzer: Here's your operating budget receipts and expenditures.

HM, Jr: That's for this year?

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Mr. Seltzer: 1937-1938. These are operating receipts, incoming taxes, miscellaneous, etc., down to 1936-1937. In other words, this is the year we are in now.

HM, Jr: This is the way it is set up now?

Mr. Haas: No. That period, the one you are looking at, is but that is supposed to be a representation of a businessman's budget.

HM, Jr: All right. This is operating receipts, income and profit taxes. What is that figure?

Mr. Seltzer: There is a difference between collections and daily Treasury statements.

HM, Jr: Need I bother with that?

Mr. Seltzer: No.

Mr. Seltzer: Total internal revenue.

HM, Jr: You are bringing this figure down, plus customs plus miscellaneous get that much?

Mr. Seltzer: That's right. Those are your total operating expenses.

HM, Jr: I thought we would say 6 billion 650. Oh! You have taken our Social Security.

Mr. Seltzer: Sure. We have also taken our that R.F.C. stuff too.

HM, Jr: Operating expenses, legislative, national defense, veterans, unemployment relief, total operating expenditures, 7 billions; deficit, 2 billion 8. This is just what I was going to do. You are one ahead of me. That's 692, which checks with --- it shouldn't check.

Mr. Seltzer: That checks. All you have other than that

HM, Jr: Why should this check if -- have you got Social Security in here?

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Mr. Seltzer: No. When you come down

Mr. Haas: On the expenditures side they check because most of those would be attributed to operating.

HM, Jr: We received that much in '37 and we are paying out that much in '38. Why do you put it minus?

Mr. Seltzer: It's a negative expenditure. We received that much more than we paid out.

HM, Jr: Why won't it be plus?

Mr. Seltzer: It's a negative expenditure. If you want to say receipt, it would be under receipt.

HM, Jr: That's such a funny one under expenditure. How much have we spent, net?

Mr. Seltzer: In this year we spent, net, a negative 250 million. We got in 250 more than we paid out, but in this current year we are paying out 850 million net.

HM, Jr: I will come back in a minute. It seems to me like a double negative. Would the sentence change your figures if I changed words?

Mr. Seltzer: No use in

HM, Jr: Expenses for recoverable assets, net recovery.

Mr. Seltzer: You see, in some years there are going to be net receipts. In other years they will be net expenditures.

HM, Jr: Would net investments -- would you mind that?

Mr. Seltzer: I prefer that.

HM, Jr: All right. Net investments for recoverable assets. I mean the net amount we paid in. We not only put it in but we took back 250 million. Well, for my purposes, I am going to make that plus. And this year I am going to put that minus.

Mr. Seltzer: O. K. As long as you know what you are doing.

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HM, Jr: Our net investment. We gained 250 million this year.

Mr. Seltzer: We reduce our investment by 250 this year. We increase it by 108.

HM, Jr: Old age benefit program?

Mr. Seltzer: Here, let me give it to you the way I would like to set it up. I put at the top, total receipts minus administrative expenses. Then I would say minus appropriation for old age reserve account, balance should be zero, so that thing is a self-cancelling proposition.

HM, Jr: But it isn't.

Mr. Seltzer: Well, it isn't because we had not gotten the figures for administrative expenses.

HM, Jr: All right. Now on this side.

Mr. Seltzer: That's another year.

HM, Jr: And you get a total last year of 2 billion 8. This year 896.

Mr. Seltzer: I crossed this out because you had sinking fund including deficit and I did not want to include it in there.

HM, Jr: What's what I have been groping for. Now when the President said over the 'phone, the other day, that he wanted three budgets, he did not mean that, but he's been groping just for this. The thing that frightens me about this -- I want to talk quietly -- I don't want this thing to look so good that the drive for economy will stop.

Mr. Seltzer: It does not look very good, not from what Bell tells me.

Mr. Haas: For 1939.

HM, Jr: Well, what I was going to say is I want the three years. 1936-1937, 1937-1938, and now I want 1938-1939.

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Mr. Seltzer: There you run into this. He has had two hearings. He doesn't know the total figures. He gave me his rough guesses to go on this sheet. They total up, including 600 million for debt retirement, to 7 billion 375; without debt retirement, 6 billion 775. Now, he says, I can take some money out of that. Now, he said that these are very rough figures. I just dashed them off on my cuff and I have them down the line for these items.

HM, Jr: Yes. But have you got in that -- have you picked out Social Security?

Mr. Seltzer: No. No. This is just on this basis here.

HM, Jr: Well, now, supposing Social Security doesn't enter into that

Mr. Haas: Yes, it does.

Mr. Seltzer: Social Security enters into it.

HM, Jr: But suppose you put in net expenditures for Social Security, like here?

Mr. Seltzer: If you took out your tax receipts also you wouldn't be ahead.

HM, Jr: You wouldn't?

Mr. Seltzer: No.

HM, Jr: Oh, you wouldn't?

Mr. Seltzer: No.

HM, Jr: Well, those figures, I did not have them yesterday. You see, when I had my figures you said I was away off.

Mr. Seltzer: Well, I am not so sure about these figures, nor is Danny. He says, For example, up here I ought to be able to knock off 50 millions, and here, I ought to be able to knock off 60 millions.

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HM, Jr: Let me do this again, as of yesterday. Have you got your sheet, expenditures for next year?

Under that first thing there: estimate for 1938, we get a figure of 3 billion 263 for that first bracket.

Mr. Seltzer: Now, for that he gives me a figure of 3 billion 310.

HM, Jr: Well, you see, the President says 3 billion. All right, 3 billion 310.

Mr. Seltzer: Then, for the next group, 705 millions, Public Works. Then, for Unemployment Relief, 1 billion 330.

HM, Jr: All right. I had better keep to his figures, hadn't I,

Mr. Seltzer: Yes. They are gross figures. You can cut them. Then he did not total Agricultural Adjustment, Social Security, miscellaneous, but the total amounts to 1 billion 580.

HM, Jr: (Asked the operator to tell Bartelt to come down right away.)

Mr. Seltzer: These three items here are 1 billion 580.

HM, Jr: No use my totaling. How much does he allow for agriculture?

Mr. Seltzer: 600 million. This is what happens. His regular expenditures run up to 6 billion 925. Then he figures he will recover 150 millions from loans. That will bring it down to 6 billion 775. Then if you add 600 million for debt retirement you get 7 billion 375.

HM, Jr: Well, we will use his figures, 6 billion 775. Here's where we keep going around in circles. If we just bodily lift all Social Security out on both sides, it doesn't make any difference?

Mr. Haas: No; except your debt retirement.

Mr. Seltzer: It doesn't on your bookkeeping. But if you decided that all the debt you wanted to retire was

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1 billion and if you could retire that out of Social Security, you take out 600 million for debt retirement.

HM, Jr: If you take it out on both sides, doesn't it reduce this figure? I mean, how can you retire that figure of 1 billion debt retirement?

Mr. Seltzer: For this reason.....

(Mr. Bartelt arrived.)

HM, Jr: Bartelt, I have been sitting around 3 days waiting for the figures on agriculture. It shouldn't be so difficult to get one department.

Mr. Bartelt: You know what's involved.

HM, Jr: It seems incredible. I just sit and wait and wait.

Mr. Bartelt. I will bring them right down. I will show you what a job it is. (Bartelt left.)

Mr. Seltzer: These figures total 6 billion 775. They include non-cash expenditures.

HM, Jr: Such as?

Mr. Seltzer: Such as for the old-age reserve account.

HM, Jr: But, as I say, let's leave that out bodily. We put it down at the bottom.

Mr. Haas: I think I can explain it, Mr. Secretary.

HM, Jr: I mean, if you are going to spend your receipts it goes round and round.

Mr. Seltzer: What you will spend for Social Security you will spend mainly for retiring the public debt.

HM, Jr: May I correct you there? Now, you are not doing that. Somebody is fooling somebody along the line. If using round figures (Bartelt returned.) Just sit, (Bartelt) and wait until I get through with this thing. If we take in $1\frac{1}{2}$ billions from the States and Social Security,

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I am approximately right, am I not?

Mr. Seltzer: Right.

HM, Jr: And we use about 250 million for expenses. Just let me say that my figures are right for a minute. Talking about next year. Then we take that billion and issue 3% certificates or 2½% certificates and put that into the Treasury, and then we turn around and spend that money -- use that money -- spend it for other Departments.

Mr. Seltzer: No. If your budget is otherwise balanced, use that to retire debt.

HM, Jr: But if it isn't balanced?

Mr. Seltzer: To the extent it isn't balanced.

HM, Jr: Let's make it, if Danny's figures are right, 8 billion 775. Let's just say, using that figure, 8 billion 775, regular expenditures, and receipts were exactly equal. But in that, on the receipt side, come Social Security.

Mr. Seltzer: Right.

HM, Jr: Now, the two things just don't mix. If expenditures for Social Security and receipts for Social Security and still the budget only balances, you can't balance the budget and also retire 1 billion public debt. You can only retire 1 billion public debt if you spend it.

Mr. Haas: There is a catch there.

HM, Jr: Wait a minute. The fact that these fellows are saying because we have a billion dollars' worth of Social Security money and issue 3% certificates that means we don't need to borrow an additional billion, that's one thing. That's what we are doing this year.

Mr. Seltzer: In part.

HM, Jr: Yes, in part. We don't increase our public debt by the exact amount we have surplus in Social Security. What I am trying to get at, if next year our

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budget is balanced out of receipts exclusive of that, then we would have 1 billion dollars and then we could reduce our public debt by every dollar over and above that we have from Social Security. But we can't do that. But what I can't get through my head is that the way the picture stands, unless you leave the whole Social Security out, we won't have any extra money next year.

Mr. Seltzer: That's where I differ.

Mr. Gaston: We are taking in, in all these Social Security funds, 1 billion 182. That's both unemployment and trust funds and the taxes. 1 billion 182. Of that we are spending 182 millions for Social Security expenditures. That leaves a clean billion. Now then, we have an operating deficit of 695 millions, so that 695 millions of that billion we are spending for operating expenses. We will expect to have left, if the budget summation proves out, we should expect to have, June 30th, 306 millions which will be used either (a) to retire that amount of debt or (b) to increase the General Fund in that amount.

HM, Jr.: That makes sense.

Mr. Haas: That's right.

Mr. Seltzer: Take your figures, 6 billion 775. Suppose our total receipts were written down to 6 billion 775. You will balance your receipts and expenditures, but since your expenditures will include 1 billion of non-cash expenditures you will have a billion to retire debt.

HM, Jr.: This next year? Just on your figures? Say it again.

Mr. Seltzer: Suppose that our expenditures are no less than Danny figures, 6 billion 775. Suppose our receipts are also 6 billion 775. We will be in balance, but some of the expenditures included in the 6 billion 775 are non-cash expenditures.

HM, Jr.: Such as?

Mr. Seltzer: Such as special certificates that you give to your old-age reserve account. We will have all

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that cash, representing these non-cash expenditures, of a billion or so to reduce the debt.

Mr. Haas: Here's the catch: that over a year you have this list of expenditures that goes up to 8 billion 775, but the way you spend the billion of the Social Security is to keep the cash in your till and issue some certificates. Now, you have your till cash built up or you can reduce it down to normal balance and use that balance to buy debt in the market.

HM, Jr: Which all goes back -- the only way I can understand this thing is let's take this year and set up this thing this year -- never mind next year -- removing all expenditures and receipts of Social Security and put them down in section 2. It would be very easy to take Herbert Gaston's figures and put them down at the bottom. Before we did that we would have a cash deficit of

Mr. Gaston: A cash surplus of 300 million this year.

Mr. Haas: Yes, you would have to show that and under that would come receipts from Social Security, old-age and unemployment, 1 billion 1.

HM, Jr: How much of that 1 billion 1 do we actually spend for unemployment. How much do we spend of that? You don't show that.

Mr. Gaston: If you are doing it on the old basis you have 1 billion 182.

HM, Jr: This is the way the budget today would look: at the bottom here would be surplus 300 million. Then you would draw a couple of lines, then say Social Security receipts 1 billion 182. Expenditures happens to be 182 millions, leaving 1 billion. Now what do we do with that thing in the budget?

Mr. Selzer: Used 695 million to finance the deficit, your operating deficit.

HM, Jr: And then the billion we have, issue how many certificates against that?

Mr. Haas: The full amount.

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HM, Jr: Now we will get right down to the guts of this thing. Bartelt ought to know something about this.

Mr. Bartelt: I do.

HM, Jr: 1 billion 182. We spend 182 millions, leaving roughly 1 billion. Then we issue 1 billion in certificates on that?

Mr. Haas: Yes, but we still have the cash.

HM, Jr: But we issue 1 billion in certificates. Now do those billion in certificates show up in the public debt?

Mr. Seltzer: Yes.

Mr. Gaston: Yes.

HM, Jr: They do show up in the public debt? Well, that's point number 2. When they show up, what's all this talk about?

Mr. Gaston: We create a new special debt.

HM, Jr: What's the difference?

Mr. Seltzer: It's quite a lot different.

HM, Jr: All right. Well, I still say we have a net this year of a billion. Then the way for a bookkeeper to show that is that with that billion of surplus from Social Security we used 700 million to finance the Government and then we had 300 million left.

Mr. Gaston: Yes. And we used that, not to reduce the gross debt; we only used it to reduce the character of the debt.

HM, Jr: All these writers haven't got that right.

Mr. Bartelt: That's shown up in the Treasury statement on page 3, the new form.

HM, Jr: Yes, but how many people read that?

Mr. Bartelt: There is quite a bit of comment about it.

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Mr. Seltzer: From a economic standpoint, this book-keeping presentation is not the right one.

HM, Jr: Now, then, second

Mr. Seltzer: The only reason that shows up in the public debt is because that's the way the law is written.

HM, Jr: This is the first time I have done it. That's why I am so slow at it. I have never done it. I still have to read it in print. The net position of our public debt statement doesn't change a bit? We issue a certificate that is in our hands instead of in the other fellow's hand?

Mr. Seltzer: That's right.

HM, Jr: Now, looking at next year's, suppose we did this on the same basis for next year.

Mr. Seltzer: You would not have any change in the public dent.

HM, Jr: But supposing we pull this thing down, how much are we going to take in next year for Social Security from the States? $1\frac{1}{2}$ billions?

Mr. Haas: From both sources.

HM, Jr: All right. Then we have that down there below. Then say, roughly, our expenditures for next year will be 250 millions. Again we would have a balance of 1 billion. Q.E.D. If the general cash expenditures of the Government are balanced by receipts, then that billion could be used to reduce the public debt by the net amount of 1 billion?

Mr. Haas: In the hands of the public.

Mr. Gaston: No. Just change the character. Transfer it from one classification to another. If you are figuring on a bookkeeping deficit of 250 millions there ...

HM, Jr: But wouldn't we be 1 billion dollars better off? We wouldn't spend it.

Mr. Seltzer: You would in practice, but you wouldn't on the books.

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HM, Jr: We wouldn't spend it.

Mr. Haag: Let me explain it.

HM, Jr: But we wouldn't spend it next year.

Mr. Haag: I agree with you. Really we would not. Really we would be reducing the public debt, but on the books you would show no change on the books in the public debt.

HM, Jr: To hell with the books! I have it straight. This year, keeping this Government on a strictly cash basis and taking the Social Security into account, everything else, we will end the year, if the figures are correct, 300 millions to the good. Looking forward to next year, if we keep our tax receipts up to 6 billion 775, if we took in that much money, using this set of figures we then would balance our books on a cash basis and would have 1 billion left over which we wouldn't use. Now, what would we do with that billion dollars?

Mr. Gaston: It doesn't belong to us. It belongs to Social Security funds.

HM, Jr: All right. We are using it this year.

Mr. Gaston: Yes, by increasing our debt, our theoretical debt including Social Security obligations.

HM, Jr: This year what will we do with the 300 million this year extra?

Mr. Seltzer: This year you had your gold sterilization program.

HM, Jr: Yes, but just say we didn't have that.

Mr. Seltzer: You reduce your outstanding debt by 300 million in the hands of the public, but you don't reduce your gross debt, but it is increased because you have transferred 1 billion Social Security trust funds and reduced the other debt, the outstanding debt, by 300 millions so you have a net increase in the gross debt of approximately 700 millions.

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HM, Jr: Which gets back to the same thing.

Mr. Seltzer: There is a real distinction between your bookkeeping and what you are doing.

Mr. Bartelt: I don't agree with that. I think you have a liability which is growing here and it's just a question of whether you are going to put it on the books or simply issue a public debt obligation. Now, if I may, I would like to review this situation just a little bit. When the Civil Service Retirement Act was enacted, we deducted 2 1/2% from the salaries of all employees and the Secretary of the Treasury was directed to invest those moneys in Government obligations and the Secretary did that. He went into the market, bought Liberty bonds and other bonds and put them in that Trust Fund. Later it was decided, after some consideration in the Treasury, that the Treasury could save commissions and that it would be an easier financing operation if the Secretary of the Treasury should issue to that fund a special 4% obligation. Now, this old-age reserve fund is patterned along that identical line. Instead of going out in the market and investing these moneys in your regular obligations, you find an easier way of doing that. You issue a special obligation to this fund and in lieu of that you go in the market if you have the available excess cash and retire debt in a formal manner. Now that is about the situation.

You could, you know, they blame a lot of things on bookkeeping, but you could, it is true, simply set it up as a bookkeeping proposition on the books, but it would always be, in my opinion, a big danger to you. I think the best thing to do is put it in the public debt so people can see it.

HM, Jr: Nobody is arguing ...

Mr. Bartelt: What he wants to do is put it on the books and keep it out of the public debt.

HM, Jr: You take this personally.

Mr. Bartelt: Noo I don't, but I think you blame too many things on bookkeeping when they don't understand what's involved.

HM, Jr: I will tell you what is wrong with this thing.

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You give me the answer. Let me put this up to you, from a bookkeeping standard. Let's say that the next fiscal year that our cash expenditures were met, to the dollar, by our receipts from taxes, customs. We took in as much cash as we spent.

Mr. Bartelt: You include Social Security taxes in that?

HM, Jr: No. And I do not include in that any net amount that we will get from PWA or R.F.C. What I am talking about is taxes, customs receipts, what we take in through internal revenue.

Mr. Bartelt: But exclusive of Social Security.

HM, Jr: Exclusive of Social Security, exclusive of PWA, exclusive of any receipts from revolving funds. Now, you have got my premises?

Mr. Bartelt: I have.

HM, Jr: Now, the amount we spend is exactly equal to the amount we take in from internal revenue. We don't change our procedure of issuing to these different funds a special Treasury obligation. See?

Mr. Bartelt: Yes.

HM, Jr: We don't change that. In the case of States we issue a $2\frac{1}{2}\%$ obligation and in case of Social Security taxes we issue a 3% and for Government Retirement it's 4%, and we show that up right in our public debt. What I am asking you -- oh, yes! and the expenditures for Social Security would not be shown in this either, what Social Security costs us next year. Now, how would you show this up? I mean, what would you do? The figures they give me, roughly, next year from old-age and from the States we will take in about $1\frac{1}{2}$ billion and it will cost us about $\frac{1}{2}$ billion. My figures I think are approximately right. So from those two sources we take in $1\frac{1}{2}$ billion from the States which wish to deposit the money with us and from Social Security and it costs us 250 million to run it. We have 1 billion left. What are you going to do with that?

Mr. Bartelt: That billion ordinarily would be used to retire obligations, debt in the hands of the public. That would reduce your public debt in the hands of the

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public by 1 billion dollars. But from the standpoint of the deficit you would have this what might be called an accruing liability that Congress appropriates each year and that would go into the special obligations. In other words, your debt in the hands of the public would come down 1 billion dollars, but your debt in special obligations, representing this accruing liability, would go up.

HM, Jr: So far we are together. In the hands of the public generally.

Mr. Bartelt: Yes.

HM, Jr: In the hands of the Treasury for an equal amount that they issue. Now, but we have 1 billion notwithstanding that. The net result is have we got a billion dollars' worth of debt retirement?

Mr. Bartelt: I understand the assumption was you used that billion excess cash and went out in the market and bought a billion dollars worth of your obligations and, therefore, you don't have your cash. It has been paid out in debt retirement.

HM, Jr: All right, but let's say, in round figures our debt is 37 billion. We go out and retire debt in the hands of the public of 1 billion dollars. We use our cash for that purpose, but on our books -- which would take us down to 36 billions -- we would have to use another billion, special certificates, so we are back to 37, where we were, but we spend a billion with the public to retire the public debt.

Mr. Bartelt: That's assuming, all along the line, that your budget is balanced.

HM, Jr: Yes. Now, Mr. Bookkeeper, having spent a billion dollars' worth of Social Security money to go into the open market and buy the debt, should I -- and this is the crux of the question -- add another 600 million taxes to retire another 600 million? There's the whole thing. On top of that, should I go out and tax the American public another 600 million on, say, gasoline

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or liquor in order to go out and retire another 600 millions so instead of having 37 billion debt my figures would be 36 billion 400?

Mr. Bartelt: You should if in your premise the sinking fund was not in your figure when you said your receipts and expenditures were balanced.

HM, Jr: No, it wasn't.

Mr. Bartelt: If you want to get an orderly retirement of your debt including sinking fund, you must go out and get more money.

HM, Jr: For the first time, I understand it and it's the whole thing.

Mr. Gaston: We are all together.

HM, Jr: Let me give it fresh once more. At least it is clear in my own brain. We are going to use more or less approximate figures to make the picture look pretty. What I am saying to you is that removing all Social Security receipts and expenses to one side on our cash balance next year, the budget is balanced. We take in as much as we spend. I got, net, left out of $1\frac{1}{2}$ billions from the States one billion and it costs me 250 millions to run it. I take that billion cash, go out and buy 1 billion of Government bonds, spend the money and then, in turn, I set up -- they give me a billion, they have to have a receipt, I give them a receipt. So when that operation is finished, what have I done with that billion? I have spent every dollar of it, not for Government expense, the way I did this year, but I have spent it to retire the public debt. When I have done that, have I done all I should or should I go out and spend another 600, the tax money?

Mr. Seltzer: That's precisely the problem.

HM, Jr: It's clear with me for the first time.

Mr. Bartelt: Let's assume you have a billion in cash over and above your expenditures. You went into the market and bought a billion of your obligations. Let's assume, just for simplicity, that you at the same time increase your special debt 400 million because of this Social Security.

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HM, Jr: Start over again.

Mr. Bartelt: Let's assume that you had 1 billion excess cash that you used to retire debt in the hands of the public. Let's say that that was offset to the extent of 400 million in special securities in your own possession for this special reserve. Your debt has gone down 600 million. Is that right?

HM, Jr: Why?

Mr. Bartelt: Your gross debt. Because you have reduced debt in the hands of the public and your old-age went up 400. Now, if your sinking fund is 600 million for that year, your budget is balanced and there is no need for taxes.

HM, Jr: I can't do that unless my receipts are 600 million.

Mr. Bartelt: I assumed in the illustration that you gave that your receipts were.

HM, Jr: Six hundred more than my expenditures?

Mr. Bartelt: Oh! I assumed that your budget was balanced except sinking fund. Well, then, my remark that I made before stands.

HM, Jr: I should have known a year ago.

Mr. Gaston: I would like to say this: that it will be a continued source of embarrassment to us if we continue to absorb net repayments from these revolving funds for current expenses, so it would be a desirable picture if you were able to have your budget balanced without the net repayments for the sinking fund, and actually to reduce your debt in the hands of the public to the amount of any net recovery that you might have from sinking fund, but I would say the whole question is one of the position of the national economy. In spite of the fact that these expenditures appear in the budget, we are taking this year more than 1 billion from the. We are taking this year 306 million more from the public than we are paying out for Government expenses and in order to get that we are taking

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1 billion 182 in payroll taxes, which is a serious deflationary thing.

HM, Jr.: Now I will tell you where you are wrong, always going to the assumption of the gold. Take this year. If we did not have the gold, what would I do with that 300?

Mr. Seltzer: Retire debt.

HM, Jr.: Sure. Does not that money go into the hands of the public? That's the answer to this whole argument.

Mr. Gaston: You are taking over a billion from the lower level of taxation.

HM, Jr.: Now I have the answer. I will stick to my billion figure. Let's just forget the 300 million for this year. Let's stick to the billion. Sure I have got -- if I did not retire the debt in the hands of the public -- supposing I did not go out and supposing I kept that billion, then we would be one billion ahead, but this talk that I am taking it out of the mouths of the working man, what am I doing? The billion goes right back into the hands of the public because I am paying cash for those bonds.

Mr. Seltzer: Are the people who get that money going to use it? That's important in determining how much you want to retire in any given year.

HM, Jr.: But the fog is dispelling at last. I am pounding myself until I get it. Supposing we went along five years this way, each year be just balancing the budget; each year having 1 billion dollarsworth of this money left, and each year we retire one billion of the debt in the public hands and set up another one. When do we begin to have to pay this out?

Mr. Seltzer: We would have an approximate debt of 36 billions on that basis.

Mr. Haas: I wouldn't do that indefinitely.

Mr. Gaston: But the question is, is it enough to go this far next year? Isn't it enough just to say that

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all Social Security funds do go to retire debt in the hands of the public? I say if we retire any more, I would say it's because we do a little bit better than we expect.

HM, Jr: Let me try out this thing. We are living for our future. We could go on this way indefinitely. Let me think out loud, because we are taking Social Security money, taking debt out of the public but building it up in the Treasury, and at the end of the year this public has 1 billion less of Treasury debt but we owe this to the workingman, so we issue ...

Mr. Seltzer: That's what you are supposed to do under the Social Security Act.

HM, Jr: Yes, but some day -- suppose we went on...

Mr. Seltzer: You are never supposed to pay off that debt in the Social Security fund. You are supposed to earn interest and meet these benefit payments in the future.

HM, Jr: Yes, but look! Using your figures, if at the end of this year, exclusive of gold, we are 300 millions to the good, that means that we had a deficit of 695 million and we ate into this billion to the extent of 700 million. In other words, we fall short of a balanced budget this year by 700 million, not by 300 million but by 700. And we had to take 700 million of Social Security money to spend.

Mr. Haas: You borrowed it.

HM, Jr: We borrowed it for spending purposes. Now, I would say that if next year we simply balanced it on a cash basis, we would not even be attempting to pay back 700 million that we borrowed.

Mr. Gaston: That's right.

HM, Jr: Now, we are 700 million in the hole and if we were 700 million to the good, on the plus side, if we took in 700 million more than we took in the difference between this year and next year would be 1 billion 4

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Now, the difference between last year and this year is 2 billion. We are 2 billion better off this year than last year. We would go ahead next year -- 1 billion 3 better than this year. 1937-1938 is 2 billion better than 1936-1937. If we had 300 million debt, statutory stuff, we would be 1 billion better off.

Mr. Gaston: That's true. The whole question is whether business can stand it.

HM, Jr.: It's something much more important to me. I am afraid if we do this -- the other school of thought..

Mr. Haas: No. It's a question -- you are borrowing money from two places, from the market and the public. You have two markets, the public market and Social Security receipts. The question is, next year do you want to bring it in balance so you are not increasing your debt? You just have a balance and no net retirements. Debts of two characters, Social Security and debt in the hands of the public. Is that enough for next year? Next year you might do better.

HM, Jr.: This whole argument boils down: should we have, what do you call it, debt retirement?

Mr. Bartelt: Statutory debt retirement. Sinking fund.

HM, Jr.: Sinking fund. Should we have that and how you set it up is really unimportant.

Mr. Haas: I think it is some important because the difficulty is with people understanding it. It would be much more understanding if broken down in parts.

HM, Jr.: Yes, broken down. We get it down on one piece of paper and let Bartelt take a look at it. But on the next line I want 1938-1939 on this.

Mr. Seltzer: This is something I should like to mention. Under the Social Security Act you are going to have a debt of 47 billion. You have to meet the present law. You have to build up securities in that fund, which will amount to 47 billion. I don't think

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that's such a terrible thing. That's a piece of book-keeping. That comes out of Mr. Bell's shop, for this reason. When you get right down to the Social Security Act, in order that the future may not have the complete burden of making these payments and the problem of paying interest on public debt, let's retire the present public debt out of Social Security so in the future you will not have that debt to bother with. For the present, it seems to me, we are doing what we are supposed to do.

HM, Jr: Do they draw on us for cash or do they just take interest.

Mr. Haas: According to estimates it will run up to 47 billions.

Mr. Bartelt: Mr. Secretary, I thought possibly a little later on you might want to give consideration to a chance of policy whereupon this would be treated on a cash basis -- a pay-as-you-go basis.

Mr. Seltzer: If you kept your taxes you would be rolling in surpluses right now. Under the present law you are going to build up a debt of 47 billions under the Social Security Act anyhow.

Mr. Haas: Can't get around it.

Mr. Seltzer: Unless the law is changed, you have to go into debt 47 billions. That's a very special kind of debt because it is a bookkeeping arrangement to provide for retirement of the existing debt and to provide interest on that 47 billion to maintain benefit payments. You never pay off the principal. That being so you fulfill all requirements of the Social Security Act if you use that money to retire public debt and you don't need to use any other money than your recoverables to retire public debt because 1 billion retirement of debt is as healthy as can take place in any year.

HM, Jr: Now you say we have to build this up to 47 billions?

Mr. Seltzer: I say as far as reducing your total public debt, that's out of the question anyhow because

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under the statute you have to build up 47 billions debt reserve for old-age account besides what you build up for the unemployment trust fund and it is not contemplated that you will ever pay off the principal of the old-age. You build that up so the interest will take care of interest payments and the whole idea back of the thing was to prevent future generations from having double burden of the present public debt and those benefit payments. So if we use these old-age taxes to retire public debt, we are relieving the future of that public debt. Now, the practical question becomes this: should we in addition to that also take the regular sinking fund and reduce the public debt further?

HM, Jr: I can say this here, it is all my fault that I have never understood this, but we have never gotten it down as simply as this. I can understand this now. Maybe I had to go through this rocky road to get this. But I understand it.

Mr. Haas: I think the proposition comes down to this, Mr. Secretary. You have had a situation this year and do you want to retire, make such a rapid change that you would retire, in the next fiscal year -- you are talking about more than one billion of debt from the market, not for budgetary reasons, but for its effect on capital markets, etc. From the budgetary point of view, you are taking care of the situation, as Larry pointed out. You might add to that, that all these recoverables that come in -- that you don't make a mistake and add that to the billion so it will be somewhat more than a billion.

HM, Jr: Now you are coming along. I won't commit myself, but today if I could set this picture up so that every dollar of recoverables would go to debt retirement plus every net dollar of Social Security for debt retirement and we raise enough taxes to pay the cash expenditures of the Government, I might be willing to decide on that.

Mr. Seltzer: For next year.

HM, Jr: Yes. How much would we get from recoverables?

Mr. Seltzer: Only about 100 million.

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HM, Jr: Wouldn't it be more than that? We are shutting off PWA.

Mr. Bartelt: RFC is down for 150 million, but it's doubtful if we get that.

HM, Jr: Of course, George, I am not committing myself.

Mr. Haas: I am not asking.

HM, Jr: Of course, George, from the capital market standpoint, the more money that we put into the hands of the bankers by paying them cash for their Governments, the more money they have to find employment for.

Mr. Haas: It's just a question of rapidity.

HM, Jr: What I would like you to do is continue that sheet there. Show it this afternoon to Eddie Bartelt, setting it up just the way you set up 1936-1937 and 1937-1938 and 1938-1939, just the way you started, and show it to him and we will meet again tomorrow morning about 9:30.

Mr. Seltzer: How about the speech part?

HM, Jr: This is what I have been waiting for from Bartelt. Do I have to read all of this? (Two reports.)

Mr. Bartelt: That depends. If you want a complete picture of the agricultural proposition you would have to read it all. I tried to give you a comprehensive picture. Of course, you can stop here if you wish, but you said you wanted the total list. I have listed about 1 billion 590 million that will go into agriculture this year and I have indicated what major agencies and I have tried to give you a little detail and the total

HM, Jr: I did not realize it was a big a job as this. I had no idea!

Mr. Bartelt: If you will read this, you will see what I tried to do for you.

HM, Jr: (Reading) Department of Agriculture, including \$350 millions for good roads, 1 billion 116 million; Farm Credit, 114 million; Commodity Credit, 100 million; RFC,

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3 million; CCC, 49 million; Rural Electrification, 33 million, WPA 175 million, total 1 billion 590 million. This is worth waiting for.

Mr. Bartelt: I want to tell you that that involved a lot of work. I was down here to midnight last night, but I do think I have a good analysis of the agricultural situation.

HM, Jr.: You had to work until midnight last night?

Mr. Bartelt: Until midnight, in order that you might have it today. It's not a matter of figures; it's a matter of analysis. I am now having the figures checked because I don't want to give you anything that is not right.

HM, Jr.: (Continuing to read) That's 2 billion for this year!

Mr. Bartelt: That's 2 billion, but I go on to explain. It does not mean that they are going to spend all of the 2 billion.

HM, Jr.: You have done me a great job and I appreciate it.

Now you ask me about my speech. I want Eddie to go somewhere with you and do this now. Let's just forget everything else we have been talking about. When I boil it all down, PWA is under control. RFC is under control. Relief, under control. I can devote any amount of time in talking about the balance of next year's budget, except Agriculture. I want Eddie to sit down with you. There are two things -- because no matter what we do about the public debt -- let's say I go along and say we should not have any of this statutory debt retirement and just take recoverables. Then it is all the more important that I should stress economy. Now, the two things which the public has not got and which this fellow (Bartelt) has given me: commitments of PWA up to.....

Mr. Bartelt: 1942. All public works.

HM, Jr.: All public works to 1942. It shows the thing we are facing, the commitments there, and then this darn agricultural picture. And until we get those two things within control, any talk of a balanced budget on a cash

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basis is out of the question. Have you (Bartelt) got an hour?

Mr. Bartelt: Yes.

HM, Jr: And don't work tonight. I did not realize what a job it was. You look played out.

Mr. Bartelt: That's perfectly all right. I was just trying to do a good job.

HM, Jr: Where are we going to get the money to finish public works which run into 1942, and talk about it. What about agricultural expenditures, 1 billion 6, and show it. There's nobody in the world knows what agriculture is costing us and I have a chance of talking it just on the eve of Congress meeting. Here's Marvin Jones' farm program, just came over the ticker. Will you fellows do that?

If I am going to do this other thing-- let's say I am going to decide not to ask for any taxes to retire the debt.

Mr. Haas: Don't make up your mind on that.

HM, Jr: I am not. Then I am talking about a balanced budget next year. All the more important to explain how difficult it is and what's been going to agriculture and public works and even though we have 695 millions to spend next year the commitments which run through 1941 and 1942 -- and how careful we have to be not to make any more commitments until we have liquidated what we have and what this agricultural program is. The agricultural writers have done one of the cleverest jobs they have ever done. They take one-sixth of all the money and get away with it.

Mr. Bartelt: That's a staggering sum of money!

HM, Jr: That's the thing. And you (Bartelt) go home this afternoon. You look tired.

Mr. Bartelt: No, I don't want to do that.

HM, Jr: You are not going to work tonight?

Mr. Bartelt: That depends on what develops today.

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HM, Jr: I want these boys to absorb this thing. I had no idea what I was asking you. I have been groping and groping to see what this agricultural picture is. And public works. How long did it take you to do this?

Mr. Bartelt: That was quite a job, but it was entirely different from the agricultural.

HM, Jr: There's the whole business and I have not had a chance to study up carefully and if you could go in there -- I think those are the two things. Isn't that enough to bite on, public works plus agriculture, future commitments, 1939?

Mr. Seltzer: When do we finish the draft?

HM, Jr: I had figured on seeing the President on this on Monday morning, but I may not. We will do the best we can.

Mr. Seltzer: One question about taxes. Do you want to be against raising taxes?

HM, Jr: In Magill's statement -- this is extra, extra confidential -- the tax schedule must be between 7 and $7\frac{1}{2}$ billions for next year. We must raise between 7 and $7\frac{1}{2}$. Which all fits into what we are doing here.

Mr. Seltzer: We will come out with revenue estimates considerably under that.

HM, Jr: I told Magill this morning what we are doing. It's much easier to cut down. If Magill came out and said he only wanted 6 billion and I showed a picture a week later where we needed $7\frac{1}{2}$

Mr. Bartelt: I want to say these are figures based on estimates of agriculture and the Bureau of the Budget has trimmed some.

HM, Jr: But this is the whole picture. You have got enough to do.

Mr. Haas: We can sit down with Eddie ..

HM, Jr: If I can't get it Monday, I can't. What

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this speech is doing is serving the purpose of crystalizing what I had in my head as budget policy of next year and when I make up my mind, with the assistance of you people, I want to try to sell it to the President. When I am through with this my job with the budget is finished because the policy of the budget is not my job, but I do think it is my job to lay down limits. What you fellows are helping me to do is decide what the budget policy should be next year, but how much Agriculture, or War Departments get out of it, I don't care.

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I am glad to avail myself of the opportunity presented by the invitation of the American Academy of Political Science to discuss the subject of government spending in its relation to the balancing of the Federal budget.

Right at the beginning I wish to say that I believe it is imperative that the budget for 1958-1959 -- the next Government fiscal year, beginning July 1, 1958 -- should be in balance. This means that anticipated revenues should equal or exceed the total of planned expenditures, including sinking fund provision of some 500 to 600 million dollars.

Now, don't misunderstand me. I am not saying that the Federal budget should have been balanced in 1932, or 1935, or 1935, or even in 1938, the current fiscal year. What I am saying is that for next year -- the fiscal year which begins next July -- it should be and must be in balance.

I am not among those who make a fetish of a balanced budget, who say that every year anticipated revenues should equal planned expenditures.

I know that there are apparently sincere people who take that view, whose cries for a balanced budget as the remedy for economic ills were heard all through the depression and were redoubled as we began to come out of it. I think if we had taken their advice we would have found it, in the first place, administratively impossible to realize, and, in the second place, economically ruinous. These are but mild words for the disaster which I believe would have befallen us. I think their advice was just as bad in 1935 as it was in 1933. Recovery is not an easy plant to rear; it must be nurtured carefully. To change the metaphor, at any time in the last few years, it would have required only the application of what some short-sighted people call "sound business principles" -- such as sharply cutting off work relief, for instance, or withdrawing all aid to agriculture -- to send us into another economic tailspin.

Deficits are not novel in the history of Government finance. I look over the records of the Treasury Department and I find that in 147 years of our government we have had yearly deficits 55 times. Most of those deficits might be called accidental. We always got them in time of war and we always got them in depression. Whether we will it so or not, we're always going to have

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deficits in either of those two situations. That is morally certain -- if history teaches us anything. I will go further and say that we should have them.

Our deficits of the last few years have been different from some of our other deficits in that we planned to have them. I think we would have been criminally stupid if we had not. But in that respect they are not different from our war-time deficits. We planned those too.

Nineteen years ago tomorrow we signed the armistice that ended the World War. In the two years ended June 30, 1919, we spent thirty-one billions of dollars and created a deficit of twenty-two billions. With the Nation in peril, we did not hesitate to run up a bill of tremendous proportions. It is a bill that we are still paying. It ran right along during the late depression, adding to government deficits every year. What we call the cost of fighting the depression is in part the cost of fighting that war two decades ago -- and not an inconsiderable part.

What makes our recent depression deficits unique among our planned deficits is that the enemy was of a different sort; but it was an enemy no

less menacing. Instead of striking at one home in thirty or one home in one hundred, it struck at practically every home in the land with the sort of terrors neither you nor I want to recall, the terrors of physical lack and suffering and the terrors of mental torture.

If there was anything that could be done by governmental action to meet and vanquish that enemy, not only common humanity but common sense dictated that it should be done. It dictated, moreover, that we should do something, even if some that we did or much that we did turned out to be wasteful or even wrong. We had before us a greater problem and a greater necessity than a mere annual balance of the Federal budget. What was attempted was to balance the whole budget of the American people — to give them revenue to meet their urgent needs. Of course mistakes would be made; they are made in any human enterprise — even in war.

I am not going into detail of the situation that President Roosevelt faced in 1933. It is too painfully familiar to all of you. I shall give some attention to the character of the expenditures that were made and the amount of them. During the four years ended June 30, 1937, our total expenditures,

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exclusive of debt retirements, were fourteen billions of dollars in excess of our receipts. That is the unpaid bill for the war on the depression, in the four years up to last June.

It is a great sum. It is just over \$100 per capita for our whole population. But it is not as great by eight billions as the two-year war bill that remained unliquidated in June, 1919. And it is not as great as the unliquidated cost of the World War that we had hanging over our heads when the depression and recovery deficits started. Our whole National debt today is about evenly divided between war and depression costs. We had heavy depression deficits for two years before the Roosevelt recovery program was inaugurated.

What were the major items accounting for this four year fourteen-billion-dollar deficit?

The arithmetic is simple. The largest single item, nine billions, arose out of unemployment relief, which included the Civilian Conservation Camps and the great volume of useful services performed in connection with

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thousands of local projects. Another two billions went to the Agricultural Adjustment program. Another two and two-tenths billions went for the prepayment of the soldiers' bonus, an obligation previously incurred but due in 1945. Three and two-tenths billions went for public works. And one and one-half billions went for recoverable investments in governmental agencies making loans to farmers, home owners, railroads, banks and others. The total of these items is eighteen billions; but increased tax collections and savings in the ordinary operating expenses of the Government reduced the net deficit to fourteen billions.

The final net cost of our four-year spending program will be much less than this figure. We have made a number of substantial expenditures, aggregating about six and a half billions, of the kind that will directly reduce the budget requirements of future years.

One of these, amounting to more than two and two-tenths billions, was for the payment, nine years in advance, of the soldiers' bonus, which would otherwise have been a regular charge upon the budget until 1945.

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Another, amounting to more than one and a half billions, was to provide funds for governmental corporations and credit agencies that made loans to farmers, home owners, railroads, banks and so on. Loans to a very considerable amount, notably to banks and to railroads, were made under the prior administration, so that although the expenditures on this account in the four-year period of which I am speaking were but one and a half billions, the proprietary interest of the United States in these agencies now amounts to about three and three-quarters billions. The peak in expenditures of this type was passed two years ago and repayments in the future will be available for reductions in the public debt.

Finally, our outlays for permanent public works during the past four years were 1.7 billions in excess of the outlays for these purposes in the preceding administration and more than four times those of the one before that. These increased outlays in part anticipated future requirements.

I shall not attempt any bookkeeper's listing of these or other assets of the Government as an offset against the fourteen-billions, because it is immaterial to my discussion. The substance of the matter is that in

four years we have incurred deficits to a total of fourteen billions that we incurred them in a deliberately planned effort at National recovery.

Did that effort meet with any success? I won't argue that point, either, because I think the country has spoken on it. I merely make mention of the fact that we had a National income under forty billions in 1932 and that the National income for 1937 will be in the neighborhood of seventy billions.

I am fully aware that there are some who challenge the right of government to attempt to control or direct or modify the national economy -- to interfere with normal business and private initiative, as it is sometimes expressed. The outcries against government interference were not so loud, however, when banks were failing right and left, when factory chimneys were black, when fear choked all the normal avenues of credit and when private initiative was in hiding. The need then was support for tottering financial structures and money spending from any source to feed the hungry and get the wheels of production going. The spending came from the one reservoir of

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sound credit from which it could come, the borrowing power of the Federal Government. That power coaxed capital from its hiding when nothing else could coax it out, and trod a path for private financing, at the same time it gave bread to the hungry and shelter to the homeless.

It is very easy to reduce this argument against government interference to an absurdity. Every act of government at any time affects our industrial economy, and to say that that government is best which does least for its people is to say that we would be better off without public roads and streets, without water systems, without parks, without police, without protection against fire, without any restraint over extortion and monopoly. The truth is that all of us recognize many things that we can do most effectively through governmental action -- things that affect ^{our} own welfare and our ability to earn a living. Where we differ is in the things we want most of government.

This has a bearing both on our planned expenditures to fight this most recent depression and the steps we take to prevent and to conquer future

depressions -- in other words, on our future Federal government budgets.

The Federal government never has been confined to the mere role of a policeman. It has always had within its sphere of action the control over natural resources, the promotion of agriculture and industry, science and invention and the immensely important function of providing a monetary supply and safeguarding its use. It can not be expected to abdicate any of those fields. What the people will demand of it is rather that it shall be more efficient in its operations within them.

Realistic financial planning must have all these facts in its view.

But to be realistic it must never lose sight of the fact that financial strength and complete solvency is a basis essential that must be met if the government is to be an enduring instrument of service to the people.

Emergencies call for deficit financing and if the emergency be great as in a major war or a major depression expenditures can not be on a niggardly scale. Action must be bold and prompt. But it is self-evident that for the Government to be able to act on this pattern in an emergency it must in other years reduce its debt through a surplus of revenues. We

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can't have cycles that turn only downward; they must make the up-grade too.

What this means is that if there are heavy deficits in a depression and recovery period there must be rather large surpluses in periods of great business activity. It also means that in the transition from one condition to the other a median stage will be reached when the deficit must vanish even if the surplus is not great. It is my considered opinion, based on a great many factors, that we have arrived at that stage now.

The rise in National income, the increase in industrial production, the expansion of payrolls, the increase in Federal revenues all argue that we have reached a position where expenditures should no longer exceed receipts in the budget of the Federal government. This means, viewed from one side, that at whatever level we fix the need for expenditure, we must have revenues to match it. Viewed from the other side, it means that we must cut our expenditures to fit the cloth of the revenues we can attain without hardship on our people or interference with recovery.

I do not believe we shall find it feasible to make any substantial additions to the revenue we can attain on our present level of National

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prosperity. In other words, I think our tax structure is strong enough, that increase in revenues should come only from increase in the earnings of our people. It seems to me that any changes we make in our tax structure in the near future should be in the direction of better distribution of the tax load; not of increasing it.

There are other circumstances than the increase in National well-being and the consequent increase in the Federal revenues that indicate that we have arrived when a balance of the Federal budget should ^{not} merely be sought, but should be attained. They have to do with the position of the National debt and the capital markets.

Some of 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 were obtained through an expansion of bank credit.

To this extent, our spending did not absorb capital funds available for private industry, nor did it absorb taxpayers' funds available for private

consumption expenditures. Even to the extent that our bonds and notes were purchased by non-banking investors, the effect was largely to make use of capital funds that would otherwise have remained idle because of the absence of attractive investment opportunities in private industry.

Today the situation is greatly changed in these respects. Our Industrial recovery has created large new demands for private capital. Our commercial banks are now utilizing their credit resources again for the financing of private industry. Any deficit spending that takes place from now on must be financed in large part by capital funds that would otherwise be available for business purposes.

I need hardly say that it is the aim of this Administration to foster and strengthen the conditions favorable for private business. We want to see capital go into the productive channels of private industry. We want business profits to grow. We believe that a large part of the remaining unemployment will disappear when capital funds are actively employed in producing enterprise.

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For these reasons we wish to minimize any further borrowing by the Federal Government; for such borrowing, unlike that which took place during the depression, would be at the expense of the funds available for industrial expansion.

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

This unimpeachable credit position of the Federal Government, however, has been maintained because of the conviction of investors that the Federal budget was only temporarily out of balance; that with business recovery substantially achieved, the President, the Congress and the great American public could be trusted to join in a whole-hearted and successful determination to balance the budget and to reduce the public debt.

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The President has given full consideration to all the factors I have mentioned and he has determined and has announced the definite plan to bring the budget into balance for the fiscal year 1958-59. I am very confident that with the cooperation of Congress and the American people he will succeed.

Now let us give some consideration to the working aspects of the problem. I have given you my opinion that it would have been unwise to have slashed expenditures too radically at any time in the last few years. The shock to the National economy would have been too great. What was required was a tapering off and a gradual approach to a balance. That in fact is precisely what is occurring. While we are anticipating a net deficit of 695 millions for this fiscal year, that is a sharp reduction from the net deficit of two billions seven hundred millions for the fiscal year 1957.

Some of the favorable aspects of our present problem are these:

The accumulated deficit of the last four years does not represent any deterioration in the efficiency with which the ordinary operating departments of the Government are administered. We have actually spent less during

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the last four years for the operation of the legislative, judicial, and the ordinary civil establishments of the Federal Government, despite their greatly increased responsibilities, than was spent during either of the two previous administrations.

We have spent more for purposes of national defense, but mainly to make up for previous neglect.

Despite the increase in the public debt, our annual interest charges are less today than they were in 1925.

The aggregate of the regular operating expenditures of the Federal Government, including all the items that I have mentioned, plus veterans' pensions and benefit payments, is running today at around 5.2 billion dollars annually, or less than in 1932.

It is clear, therefore, that a tight rein has been and is being kept on the ordinary operating expenditures of the Federal Government.

The fact that outlays for unemployment relief bulked so large in the deficits of the past four years is a fact of great promise now. The number of the needy unemployed has been drastically reduced.

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As a matter of fact, we have already made important reductions in expenditures; and the present fiscal year may be considered as the year of transition between unbalanced and balanced Federal budgets.

During the current fiscal year, we have been reducing our outlays for unemployment relief by approximately three-quarters of a billion dollars below those of the previous year. If, next year, we reduce these outlays by another four hundred millions or so, down to the level of twelve hundred millions, inclusive of the Civilian Conservation Corps camps, with the prospect of a further tapering off of these expenditures in the future, the largest single source of our past deficits will have been reduced to manageable proportions.

Similarly, if no substantial additions are made to the already-available appropriations of seven hundred millions for public works of all kinds for the fiscal year 1939, and such expenditures in subsequent years are brought down to the half-billion dollar level, this source of fiscal deficits will be eliminated.

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These are some reasons for optimism on the spending side of our budget picture. On the receipts side I can report to you a far greater degree of improvement than many people have believed possible.

The plain fact of the matter is that the Federal revenue structure today is stronger as well as more equitable than ever before in the history of our country.

When this Administration came into office, the total receipts of the Treasury had fallen to just over two billion dollars a year. In each year since that time they have shown marked increases -- the result both of improvements in our tax structure and of the revival in business.

In the fiscal year ended last June, our total receipts rose to five billion three hundred millions. Even this figure does not adequately reflect the strength of our present tax structure nor the great improvement in the national income that has occurred, because of the usual lag in tax collections. This means that there will be another very substantial increase in our tax revenues during the present fiscal year.

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Some people are worried lest we curtail expenditures too rapidly.

What I can tell you in this respect may reassure such people.

The plain fact of the matter is that the unspent appropriations already made for public works and similar projects are so great that large expenditures for these purposes will continue into the fiscal year 1959 even if Congress does not appropriate another dollar for them.

When we entered the fiscal year 1958 last July 1, the total appropriations available for public buildings, public highways, river and harbor improvements, flood control, P. W. A. grants, soil erosion, emergency housing, and similar purposes, stood at more than one and a half billions. Some eight hundred sixty-nine millions of this will be spent during the present fiscal year. This will leave approximately seven hundred millions to be spent in the fiscal year 1959 without a single dollar of additional appropriations.

It is obvious that even if we wanted to, we could not suddenly cut off all of our emergency spending.

It is by no means necessary, even if it were possible, to make

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immediate wholesale eliminations of Federal expenditures. It is necessary, however, that we see precisely where we are going; and that we see the picture whole.

But when I say that I am confident that we shall balance the budget during the coming year without violent disruption of existing programs, I do not mean to say that the job will be an easy one, or that it can be accomplished without stepping on anybody's toes.

The United States Chamber of Commerce is on record as strongly in favor of an immediate balancing of the budget. But what happens in every local Chamber of Commerce when a proposal is made to eliminate a nearby Civilian Conservation Corps camp or to reduce an allocation for a local public works project? Letters and telegrams pour in upon the Congressman and Senators, complaining of the great harm to local interests if these Federal expenditures are reduced.

Balancing the budget is your problem -- the problem of every citizen of the country, no less than the problem of the legislative and executive

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branches of the Government.

It was the strong support of the American public that made it possible for us to bring this country out of the depression and to carry through many important reforms. With this same support, we shall accomplish the simpler task of balancing the Federal budget and keeping the Federal finances in an unassailably strong position to meet the stresses of the future.

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