

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Board of Governors

Highlights of President's
Budget Message for Fiscal
Year 1941.

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Deficit

The deficit for the fiscal year 1941 is estimated at \$1,716,000,000. To obtain this figure, however, new taxes of \$460,000,000 and the recovery of \$700,000,000 surplus funds from Governmental corporations are proposed. The deficit is about \$2,220,000,000 below the \$3,930,000,000 scheduled for the current fiscal year 1940 and, with the exception of fiscal year 1938, is below that for any fiscal year since 1930.

Expenditures

Ordinary budget expenditures of \$8,424,000,000 show a decline of \$675,000,000 from 1940, despite increased expenditures of \$300,000,000 for national defense. The President, in a review of fiscal policy, strongly defends the policy of compensatory Government spending and believes that recovery has progressed to a stage that a reduction is now possible in overall expenditures. The reduction, however, should consist of a gradual tapering off rather than a sharp curtailment and he cites the experience of 1937 when the too abrupt reduction in Government net expenditures was a factor precipitating the recession which occurred at that time. The revised estimates for 1940 presented in this message indicate that expenditures from January to June will be at a very high level. The President challenges those who utter "glib generalities to the effect that if one has but the will to do so anybody can reduce Government expenditures by vast sums sufficient immediately to 'balance the budget'... to have the courage and honesty to specify where reductions should be made". He is satisfied that no lower expenditures can be attained in 1941 without "impairing the efficiency with which laws are administered or of working undue hardship on individuals and economic groups. I refuse to accept the responsibility of adopting either course."

As the expenditure recommendations are predicated upon sustained recovery, the President states that if the hopes in this respect are not realized he may request additional appropriations, particularly for relief and agricultural parity payments.

Receipts

The estimates of regular receipts for 1941 of \$5,548,000,000, exclusive of appropriations to the old-age and survivors' insurance fund, represent an increase of \$380,000,000 over 1940 but are somewhat below 1938. The failure of receipts to show a larger gain is attributed "partly to the inevitable lag of tax collections behind increasing incomes, and also partly,

it is feared, to an impairment of the productiveness of the tax base arising from the revisions in 1938 and 1939 of corporate and individual income and capital-gains taxes". This would appear to refer chiefly to the repeal of the undistributed-profits tax.

New taxes

The President recommends that Congress impose additional taxes to yield \$460,000,000 in the fiscal year 1941, or enough to cover emergency national defense expenditures in fiscal years 1940 and 1941. While the President does not specify particular types of taxes, he states that he hopes "Congress will follow the accepted principle of good taxation, of taxing according to ability to pay, and will avoid taxes which decrease consumer buying power".

Since increased taxes on corporate and individual incomes of 1940 would be reflected in income tax receipts of the fiscal year 1941 only during the period March-June, it would be necessary to provide additional income taxes of about \$850,000,000 on a full-year basis in order to obtain \$460,000,000 in the fiscal year 1941.

Return of surplus funds from Governmental corporations

The President proposes to reduce the capital funds of various Governmental corporations (without specifying which ones) by an aggregate figure of \$700,000,000. Some of these funds would be received by the Treasury as miscellaneous receipts, while in other cases they would appear as credits to expenditure items and would, in certain cases, be held in revolving funds for new subscriptions to stock when, as, and if needed.

Public debt

The message indicates that the deficit between now and the end of fiscal year 1941 will be met by a reduction in the working balance to \$1,000,000,000 and by an increase in the public debt to \$44,939,000,000, consequently the statutory debt limitation will not quite be reached. Owing to the growth of special issues in various trust funds and sales of United States Savings bonds, it may be inferred that no new cash offerings of direct open-market securities would be necessary from now until June 1941 and that, in fact, it would be necessary to have some net reduction in present outstanding open-market direct debt in order to avoid exceeding the limitation.

The President discusses the half-truths involved in a bald statement of the amount and of the increase in the public debt. He points out that although the gross debt amounts to about \$42,000,000,000, the Government has \$7,000,000,000 of cash, gold available for debt redemption, and proprietary interest in Governmental corporations. In addition, there are billions of dollars worth of durable tangible assets that are a real offset to the debt. While the public debt has increased substantially since 1933, the burden of the combined total of public and private debts has decreased. Moreover, the

Federal Government has spent \$17,000,000,000 in this period for local relief, work relief, and local public works which formerly were considered the sole responsibility of States and municipalities.

Other recommendations

The recommendation in last year's budget message of capitalizing certain expenditures that have proved to be self-liquidating is renewed. In accordance with this recommendation, it is proposed that the requirements for new self-liquidating loans of the Rural Electrification Administration be met through funds advanced by the Reconstruction Finance Corporation instead of by direct appropriation. Also the President suggests that special services and recreational facilities provided by the Government should be placed on a more self-sustaining basis by charging small fees from those who use them.

Note: A more detailed analysis of the budget message will be prepared in the near future.