

NOTES FOR FISCAL POLICY BOARD
December 12, 1938

I

The Bookkeeping Deficit

With no changes in the Social Security Act:

Estimates (millions of dollars)

	<u>Treasury</u>	<u>Our</u>
Receipts	5,500	6,100
Expenditures	9,400*	8,600**
Deficit	3,900	2,500

* Includes \$500,000,000 for additional armament expenditures.

**Includes \$250,000,000 as the probable maximum administratively possible for additional armament expenditures.

Amending the Social Security Act to start old-age annuity payments in January, 1940, would result in \$150,000,000 additional cash, but not budgetary expenditures; and postponing the increase in the old-age payroll tax (Title VIII) now scheduled for January, 1940, would result in a \$65,000,000 reduction in budgetary receipts for fiscal 1940, a \$260,000,000 reduction for a full fiscal year.

The Cash Deficit

We are not in possession of complete information from the Treasury as to their estimates of the cash deficit. On the basis of the figures they have supplied, the following estimates can be built up:

Estimates (millions of dollars)

	<u>Treasury</u>	<u>Our</u>
Budgetary receipts as above	5,500	6,100
Add:		
Unemployment trust fund receipts (gross)	900	900
Cash receipts	<u>6,400</u>	<u>7,000</u>
Budgetary expenditures as above	9,400	8,600
Add:		
Old-age account expenditures	12	12
Railroad retirement expenditures	108	108
Withdrawals from unemployment trust fund	360	360
Redemptions of adjusted service bonds	<u>48</u>	<u>60</u>
Deduct:		
Transfers to old-age and other trust accounts (non-cash)	830	830
Debt retirement	<u>100</u>	<u>100</u>
Cash expenditures	9,000	8,200
Cash deficit	2,600	1,200

By amending the Social Security Act as outlined above \$150,000,000 could be added to cash expenditures, \$65,000,000 could be deducted from cash receipts, and \$215,000,000 added to the cash deficit. On the basis of a full fiscal year eliminating the scheduled

increase in the old-age payroll tax would deduct \$260,000,000 from receipts and add the same amount to the deficit.

Note that because tax receipts will be low in the six-month period July-December, 1939, and high in the six-month period January-June, 1940, most of the prospective deficit, however calculated, will fall in the first half of the fiscal year.

III

BUDGET ITEMS AFFECTED BY UNCERTAINTY OR
SUBJECT TO POLICY DECISIONSDisbursements:

Social Security benefits - As shown above, advancing the date of payment for old-age annuities will add \$150,000,000 to cash disbursements in fiscal 1940. Note that this is for a half year; much larger amounts will be added in later years as the number of annuitants increase.

Works Progress Administration - If reductions are made as they were in 1937 and 1938, only \$1,350,000,000 will be spent in 1940. If the present levels of adequacy in meeting relief needs are maintained (taking care of one-third of the unemployed) about \$2,000,000,000 will be needed. For this purpose, from \$750,000,000 to \$900,000,000 is required for the last five months of fiscal 1939.

Armaments - Any estimates of prospective expenditures should be regarded critically with these factors in mind: the administrative difficulties of virtually doubling our present expenditures for military construction and material, the delays encountered in getting the British program under way, the virtual capacity output which the aircraft industry is already producing.

Public Works Administration - There will be a sharp decline in expenditures in the last half of fiscal 1940, not likely to be offset by municipal construction independently financed, unless there is a new PWA program.

Taxes:

1. Postponing increase in payroll tax (Title VIII), discussed above.
2. Estate and gift taxes - dropping specific exemption from \$40,000 to \$20,000, moderate increase in rates on estates from \$100,000 to \$1,000,000 in size. Assessing gifts at fair market value instead of cost.
3. Adding 10 percent to corporation and individual income tax would raise about \$200 - \$250,000,000 additional income.