

April 25, 1939.

DRAFT OF SUMMARY OF PROGRAM

I - Need for Further Recovery Measures

Assuming a lessening of international political uncertainty, the prospects are that a resumption of the recovery movement, on a moderate scale, will occur this year. Any recovery that may get under way this year, however, will, in 1940, run into the combined restrictive influences of increasing saving and reduced net federal expenditures. There is grave danger that the volume of private capital expenditures that can reasonably be expected to occur in 1940 will not be sufficient to offset these restrictive influences. In order to insure the continuance of recovery in 1940, therefore, action is called for at this time.

II - Broad Type of Action Called for

Since our fundamental difficulty lies in under-consumption relative to our capacity to produce, or over-saving relative to private outlets for savings, recovery measures should take the form of providing outlets for savings and/or increasing consumption relative to our national income.

III - Limiting Considerations

1. A continuation of annual deficits and any further substantial increase in the public debt, incurred for other than national defense purposes, is meeting and will continue to meet increasing popular resistance.
2. There is danger that the current drive for tax revision may increase the deficit without stimulating consumption.
3. A very drastic reduction in work relief expenditures is on the cards.

IV- Elements of a Feasible Program

In view of the nature of the action called for and of the limiting

political considerations, the following outlined program appears desirable and feasible:

1. Old Age Security

Amalgamate the old age insurance and the old age pension programs and finance the latter partly out of the proceeds of the old age payroll taxes and partly out of general revenues, as at present.

This would be sound economically and feasible politically. It would increase consumption without increasing budgetary expenditures, since appropriations to the Old Age Reserve Fund are now classified as expenditures.

2. Railroad Equipment

Increase the loan authorizations of the R. F. C. for equipment loans. Announce that, for a period ending June 30, 1940, the R.F.C. will make loans covering the full cost of equipment for long maturities and at a low rate of interest. Such loans would be financed out of the proceeds of R. F. C. guaranteed obligations and hence would not be a charge on the budget.

3. Housing

(a) Upon the passage of the pending F. H. A. amendments, reduce the maximum rate of interest on F. H. A. mortgages from five percent to four and a quarter percent. This would mean an effective rate to the borrower of four and three-quarters percent, allowing for the insurance premium. Make this change effective by having the Federal National Mortgage Association purchase F. H. A. mortgages to yield

three and a half percent instead of the present four and a quarter percent. This would entail no additional charge on the budget.

(b) Secure a substantial increase in the loan authorization for U. S. H. A. and in the appropriation for interest subsidies.

4. Public Works

Provide for the continuation of non-federal public works through loans and interest subsidies, rather than outright grants of principal. In this manner \$1 billion of additional expenditures could be secured at an annual charge on the budget of \$20 million, if the loans were secured from the R. F. C., or slightly more if the loans were raised in the open market.

5. Public Self-Liquidating Investments

Capitalize various existing revenue-yielding assets of the Government and substitute guaranteed for direct debt. Finance current expenditures on self-liquidating projects through the issue of guaranteed debentures.

6. Work Relief

Regardless of administrative changes, the principle of work relief, as distinguished from direct relief, should be preserved and an effort be made to secure the \$1.5 billion appropriation requested for the fiscal year 1940.

7. Agricultural Payments.

Additional agricultural parity payments, going out in the spring of 1940, would be particularly well-timed from the point of view of other changes in the budget and of the requirements of recovery at that period. The same considerations apply to increased payments for cotton growers.

8. Foreign Loans

Loans to Latin America and to China, the proceeds of which are to be expended in this country, would serve both America's political and economic interests and could be financed outside the budget.

9. Loans to Small Businesses

The insurance against a certain percentage of loss of bank loans to small businesses could be made self-financing, could meet a widespread demand, and might prove a minor aid to recovery.

10. Taxation.

(a) Corporate taxes. As a desirable gesture and as a means of securing support for other elements of the program, substitute a flat corporate income tax for the present corporate income tax, undistributed profits tax, capital stock tax and excess profits tax and permit a one-year carryover of losses. Graduated rates in favor of the small corporation should be retained and the new corporate rate should be determined so as to entail no net loss of revenue to the Treasury.

(b) Individual surtax rates. Again, for trading purposes, reduce the rates on the highest brackets. At the same time increase the rates on brackets from \$2,500 to \$50,000. A net gain in revenue can be effected with very little deterrent effect on consumption.

(c) Inheritance and gift taxes. Increase sharply the rates on inheritance and gift taxes. Virtually no revenues from this source are derived at the expense of current consumption, and it cannot be said

that such taxes discourage risk taking. Additional income and inheritance taxes would be consistent with the recommendations of the Budget Message.

V - Recapitulation and Conclusion

The above ten-point program is designed to stimulate consumption and hence private capital investment while at the same time permitting an approach to be made to a balanced budget. It provides avenues through which a necessary continuing volume of public investment may be carried out without entailing a budgetary deficit. The additional taxes proposed are designed to increase revenues without decreasing consumption.

The wholehearted adoption of this program would insure the continuance of recovery throughout 1940, would enhance the prestige and influence of our foreign policy at home and abroad, would meet the popular demand for more adequate old-age pensions, and would permit a near balance to be presented in the budgetary estimates for the fiscal year 1941 without danger to business.

A detailed discussion of the various points follows.