

with letter from
12/27/39

December 26, 1939.

MEMORANDUM - 1941 Budget.

1. Gross U. S. Debt:

Estimated as of July 1, 1940	43.2 billion	
As of end of year, 1939	<u>42.0</u>	"
		1.2 billion

Estimated increases:

U.S. savings bonds (face value) ..	640.0 million	
Old age pension fund receipts ...	320.0	"
Unemployment trust fund receipts ..	<u>340.0</u>	"
	1,300.0	billion
Less, misc. debt retirement ..	<u>100.0 million</u>	
		1.2 billion

2. Assets:

Estimated excess cash balance as			
of July 1, 1940	3/4 to 1	billion	
Excess gold in Stabilization Fund	1-1/2	"	
Other assets that can be financed			
outside budget	<u>1/2 to 3/4</u>	"	2-3/4 to 3-1/4 billion

3. Deficit:

Above assets would be enough to finance estimated deficit of \$3 billions for fiscal year 1941 without new taxes; new taxes, however, if enacted at coming session would yield revenue in last half of 1941 fiscal year that could be applied either to retiring debt or increasing balances.

Recommendations:

It is estimated that for the fiscal year 1941 not less than \$2 billions will be collected on old age and unemployment insurance account and from sales of baby bonds; on basis of present program these proceeds will add to the public debt and to excess balances, unless used to retire maturing open-market debt (bills, notes, etc.).

I strongly recommend that the budget message indicate that the public debt, which it is estimated will be approximately \$43 billions at the beginning of the 1941 fiscal year, need not

be increased beyond this amount during the fiscal year ending June 30, 1941; that Congress be asked for authorization to reduce the Stabilization Fund to \$500 millions and make \$1.5 billions available to help cover the 1941 deficit. (If this is done, the proceeds could be used to pay off \$750 millions of notes and \$350 millions of bonds maturing June 15, 1940, thus reducing the debt at the beginning of the fiscal year, July 1, 1940, to \$42 billions.)

year 1940 by 1.1 billion, and reducing the deficit for fiscal

I would also strongly recommend enactment of certain types of taxes that will bear least on consumption and mainly upon individual incomes of from \$5,000 to \$100,000 and corporate incomes above \$25,000, that is, largely upon those accumulating idle funds; the purpose of such taxes being to yield additional revenue of $1/2$ to $3/4$ billion, half of which would be available in the last half of the fiscal year 1941.

As a matter for later consideration, not as part of the budget but of importance in relation to the whole fiscal program, consideration should be given to drastic modification of the baby bond program and greatly reducing the cost and volume of borrowing from this source; the cost is fully 1 per cent above that for comparable Treasury issues. To the extent borrowing from this source is reduced, it would avoid the necessity for using the proceeds to reduce other public debt carried at less cost.

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The social security program should also be modified to avoid accumulating further large reserves and thus avoid the necessity of the Treasury having to borrow these funds, using them instead to retire debt. This can be done by increasing out-payments to equal more nearly the income, or by temporarily reducing by 1 per cent the present tax rate until such time as the outgo of the fund equals the income.

One other matter of vital monetary, as well as political, importance would be to recommend to Congress, either now or later, repeal of the Thomas amendment authority to issue \$3 billions of so-called greenbacks, and at the same time ask Congress either to reduce the monetary value of silver (\$1.29) to the purchase price, or else approve the use of the \$1.5 billions of unutilized seniorage (the difference between \$1.29 and the purchase price) to reduce the public debt, thus either using the profit to reduce the debt or remove it so that no one in the future could use it. This could only be regarded by the banking and business community as a sound move, and would be evidence of your advocacy of sound money, tending to offset whatever criticism banking and business critics might make as to the use of the gold profit.