

TO \_\_\_\_\_

FROM \_\_\_\_\_

**REMARKS:**

December 19, 1938 --

This is a copy of memo left with the President by Secretary Morgenthau, Mr. Bell, Frederick Delano and Chairman Eccles during 2:00 p.m. conference with the President today.

December 19, 1938.

The Fiscal and Monetary Advisory Board has been advised by the experts of the Treasury, Federal Reserve Board and National Resources Committee that:

1. The 1938 national income is estimated at \$62 billion. For the calendar year 1939 it is estimated that the national income will be between \$65 and \$68 billion.
2. A national income of around \$80 billion would provide:
  - (a) substantial reduction of unemployment;
  - (b) Federal revenues sufficient to balance the current level of cash expenditures on the basis of the existing tax structure.
3. An income of \$90 billion or more is attainable through full utilization of our man power, plant and equipment, technology and natural resources, assuming the elimination of some important bottlenecks.
4. Also it is important for Federal fiscal policy to take into account:
  - (a) changes in the volume of capital expenditures being undertaken by private enterprise, and any hindrances or bottlenecks tending to restrict the expansion of private expenditures;
  - (b) the fact that available supply of credit is so great that present and prospective Federal borrowing will not create a shortage of credit available at reasonable rates for private enterprise.
  - (c) changes in the volume of the outstanding debt of State and local governments and changes in the volume and character of their expenditures and receipts.

6. In pursuit of the objective of attaining a higher national income we make the following recommendations with respect to fiscal policy for the next fiscal year:

1. If taxes are to be increased, those selected should be such as interfere least with additions to the aggregate income of the American people. These taxes, among others, are: estate taxes, gift taxes, lowering tax exemptions as personal income rises, higher income tax on middle brackets.

2. We advise against new taxes which operate to reduce substantially consumer purchasing power. These taxes, among others, are: processing taxes, sales taxes, taxes on payrolls, excise taxes. 2)

3. The Board notes with approval the proposed changes in the budget presentation and recommends that the principles embodied in these changes be extended as rapidly as feasible. (See appended copy.)

4. (a) For the purpose of adding to the national income next year, and of preventing what promises to be a serious bottleneck within the next year or so, action should be taken to secure a large railroad equipment program.

(b) Recovery could be further stimulated by additional government activities financed through self-financing government corporations. These activities should be, in the main, such as will facilitate private investment and private expansion of private industry. A special report on such activities will be later submitted.

5. That a comprehensive survey be started with the view of immediately setting up machinery to obtain all necessary detailed information with respect to the current receipts and expenditures of State, local and municipal administrative bodies and to changes in the volume and make-up of their outstanding debt.

6. Steps should be taken at once to provide for engineering and legal planning of various public works, such public works to be ready for immediate prosecution when required to give increased flexibility in the timing of public expenditures and increased assurance of value and utility of the expenditure itself.

This program is much needed not only because of the character of current Federal, State and local public works and relief, but even more especially because of the extensive rearmament being undertaken. To make certain that the rearmament program shall not be continued as a device to reduce unemployment or to stimulate business activity, it is essential to have such plans perfected as will permit a ready transfer of employment from armament industries into needed productive public and private works projects as soon as peak activity in rearmament is passed.

DEC 21 1938

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

CONFIDENTIAL

December 20, 1938.

Hon. Marriner S. Eccles,  
Chairman, Board of Governors  
of the Federal Reserve System,  
Federal Reserve Bldg.,  
Washington, D. C.

My dear Governor Eccles:

I enclose herewith a copy of a letter I wrote to  
The President, enclosing a memorandum which I discussed  
at the meeting yesterday morning. I hope that you feel  
that I did right in this matter.

Sincerely yours,



Frederic A. Delano  
Member, Fiscal and Monetary Advisory  
Committee.

Encls.

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

December 20, 1938.

The President,

The White House.

My dear Mr. President:

At the conference which our Fiscal Advisory Committee had with you yesterday, I did not present a brief statement which Doctor Rual and I had prepared and discussed at the morning meeting at Secretary Morgenthau's office earlier in the day. At that meeting, the Committee as a whole questioned the advisability of including my brief statement in the carefully prepared statement which we later submitted to you. Nevertheless, Secretary Morgenthau saw no objection to my submitting it to you as an expression of my views.

However, as our White House meeting lasted one and a half hours, I did not feel I was justified in taking any more of your time, especially as Mr. Eccles in part covered the same ground. On second thought, I think I was wrong in not leaving this brief memorandum with you, and I therefore send it now, - because I think it is important for us all to realize the hazard of repeating the occurrence of 1937. The whole matter is to be carefully studied by our Committee and presented to you if the Committees can arrive at a common understanding.

Respectfully yours,

(signed)

Frederic A. Delano  
Member, Fiscal and Monetary Advisory Committee.

Encl.

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

December 19, 1938.

MEMORANDUM TO THE PRESIDENT:

I am making this separate statement, not because of any disagreement with the Report of the Board, but because of my desire to give emphasis to certain points not covered or only partially covered in the Report.

I believe that a special report on the possible fiscal and monetary situation in 1940 is particularly needed in the near future, since I am impressed by the facts presented to us by the experts that real danger of another sharp depression in 1940 exists, especially in view of the disappointing present estimates on national income for the year 1939.

I cannot but believe that the Federal budget has an important influence on national income; also, that some expenditures have more influence on national income than other expenditures, and that some receipts have more influence than other receipts. Accordingly, it seems to me the part of public wisdom to consider what we are able to do in the present state of our fiscal and monetary knowledge to protect our Nation against the demoralization of another economic crisis; and, if possible, to assist toward that higher national production, income, employment, and standard of living and well-being which we are convinced our national resources are able abundantly to provide.

(signed)  
Frederic A. Delano