



TREASURY DEPARTMENT  
THE ADMINISTRATIVE ASSISTANT TO THE SECRETARY  
WASHINGTON

December 13, 1938.

Dear Marriner:

I am sending you herewith copy of a memorandum relating to proposed changes in the Budget prepared by Dan Bell and approved by both the Secretary and the President. The Secretary has asked me to furnish this copy for your information.

The memorandum should, of course, be considered confidential for the present.

Sincerely,

A handwritten signature in dark ink, appearing to be 'W. H. McReynolds', written in a cursive style.

Wm. H. McReynolds

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

O.K. Magrath - Ditto + SP

12/12/38

FOR SECRETARY MORGENTHAU:

Objectives:

- I. Business man's budget: (a) To provide a business man's budget by excluding from the budget capital outlays for loans and stock investments. (b) To make an annual appraisal of assets and liabilities of all governmental corporations and lending agencies. (c) To appropriate annually for impairment of capital. (d) To include in the annual budget losses causing impairment of capital.
- II. Administrative expenses of corporations: (a) To require Budget Bureau approval of all estimates for administrative expenses of all corporations. (b) To include them in annual budget for consideration of Congress. (c) To set authorized amounts up on books of Treasury as appropriation accounts, subject to audit and settlement of General Accounting Office in accordance with rules and regulations applicable to appropriations of executive departments and establishments.
- III. Civil service: (a) To cover employees of governmental corporations into the United States civil service. (b) To make future appointments in accordance with civil service laws, rules, and regulations.

Explanation:

I. BUSINESS MAN'S BUDGET.

On July 1, 1938, the Treasury took the first steps to provide a business man's budget. It went as far as it could in that direction under existing law. At the coming session of Congress it is proposed to ask for the necessary legislative authority to enable it to complete the job. The proposition involves --

- (a) Exclusion from budget of capital outlays for loans and stock investments; and
- (b) Inclusion in budget of losses, if any, arising from such loans and investments.

There are two classes of funds from which loans are made --

(a) Corporate money. These were removed from the budget on July 1, 1938, as already indicated. They include RFC, CCC, Export-Import Bank, and other loans from RFC money.

(b) Appropriated money. This includes PWA, FSA, FCA, REA, and Maritime Commission. It also includes the Farm Tenant Act, and loans by Housing Authority from old balances. The total amount involved is about 233 millions for 1939, and about 214 millions for 1940. Total budget expenditures for these two years would be reduced accordingly.

A draft of legislation for the purposes indicated is now being prepared.

Self-liquidating projects. Consideration is also being given to the proper treatment of expenditures and recoveries in connection with self-liquidating projects, such as the Boulder Dam, and other reclamation projects. This involves a much more difficult problem than the handling of loan transactions since the Treasury would have to rely for information on other departments. The Treasury does not have authority either to prescribe or supervise accounting procedures in the several departments. It would be unable to exercise accurate accounting control on the basis of its own records which must be kept strictly according to appropriations.

II. ADMINISTRATIVE EXPENSES OF CORPORATIONS.

The Budget Bureau now reviews the estimates for administrative expenses of all governmental corporations for inclusion in the annual budget.

The First Deficiency Act of 1936 provided, with respect to the various governmental corporations, that they could not incur obligations for administrative expenses except pursuant to annual appropriations. However, in the annual appropriation acts for 1939, instead of providing annual appropriations from the Treasury, Congress merely placed limitations on the amounts which the corporations may expend for administrative expenses from their own funds, as follows:

Reconstruction Finance Corporation .....	\$ 9,250,000
Home Owners' Loan Corporation .....	26,500,000
Federal Housing Administration .....	8,500,000
Federal Farm Mortgage Corporation .....	10,000,000
Export-Import Bank of Washington .....	50,000
Electric Home and Farm Authority .....	400,000
Commodity Credit Corporation .....	520,288
Federal Savings and Loan Insurance Corporation .....	277,000

Congress also provided, except as to RFC, that the amounts so authorized were to be set up on the books of the Treasury as appropriation accounts. Accordingly, except as to RFC, administrative expenses of corporations are now handled by Treasury and audited by the General Accounting Office the same as appropriations of executive departments and establish-

ments. There appears to be no good reason why RFC administrative expenses should be excepted from the usual accounting requirements.

*AWB* *EGB*