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As: no decision expected  
and deficit as stated.

December 15, 1938.

Policy

The Fiscal and Monetary Advisory Board agrees that:

The objective of Federal fiscal and monetary policy is to assist in increasing national income, production and employment (and to make such preparations as may seem advisable for the administration of fiscal and monetary policy toward mitigating the severity of future booms and depressions.)

*maintaining a high degree of economic stability*

Data

The Board has been advised by the experts of the Treasury, Federal Reserve Board and National Resources Committee as follows:

1. That for the calendar year 1939, barring the appearance of factors not now known, national income will be between \$65 and \$68 billion. For 1938 national income is estimated at \$62 billion.

2. That a national income of about \$80 billion is required to provide substantial reduction of unemployment; and that an income of \$90 billion or more is attainable through full utilization of our man power, plant and equipment, technology and natural resources.

3. That with a national income of about \$80 billion (at present price levels) existing revenue sources and rates will provide sufficient income to balance expenditure at present levels.

4. That the 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.

5. That the influence of the budget upon business activity is in large part conditioned by the source of receipts and direction of expenditures.

6. That it is extremely important for Federal fiscal policy to take into account:

(a) the outstanding debt of state and local governments, and their fiscal operations, both as to expenditures and receipts

*changes in*  
(b) the volume of capital expenditures being undertaken by private enterprise.

*in quarters*

*o.k.*

*o.k.*

*split in 2*

*o.k.*

*(approx) current*

*o.k.*

*o.k.*

### Recommendations

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

1. New and additional taxes should be imposed only if there is a corresponding increase in aggregate expenditures, and then only if such expenditures add more to national income than new taxes take away.

2. If taxes are increased, they should be those interfering least with additions to the national income. These are arranged in order of preference:

- (a) Inheritance taxes
- (b) Gift taxes
- ✓ (c) Capital gains
- ✓ (d) Undistributed profits
- (e) Modification of income tax exemptions
- (f) Income tax on middle brackets

3. We advise against taxes which operate to reduce substantially consumer purchasing power. These are arranged in order of least desirability:

- (a) Processing taxes
- (b) Sales taxes
- (c) Taxes on payrolls
- (d) Excise taxes
- (e) Taxes on low incomes

(4. In view of the fact that the anticipated deficit will be greatly less in the second half of the coming fiscal year than in the first half, and in view of the consequent decline in additions to buying power contributed by the Government, we recommend that

(a) benefits in connection with old age annuities should be liberalized and payments begun in 1940, and

(b) that the 50 percent increase in old age payroll taxes scheduled to begin in 1940 be postponed to the following year.

(The addition to buying power resulting from the adoption of these two proposals would amount to \$250 - \$300 million during the second half of the fiscal year 1940.)

*Board*

5. The ~~Committee~~ notes with approval the proposed adoption of the principle of the "Businessman's Budget" and recommends that the principle be extended as rapidly as feasible, ~~to include~~

(a) ~~the shift of certain assets to self-financing government corporations~~

(b) ~~the shift of certain appropriations to self-financing government corporations. Examples: Farm Tenancy Program, R.E.A., U. S. Maritime Commission, etc.~~

6. (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 ~~stimulate a large railroad equipment program through a self-financing government corporation.~~

*Scump*  
(b) Recovery could be stimulated without adding to the deficit by an extension of certain other government activities through the device of self-financing ~~in-~~government corporations. Examples are toll roads, bridges, tunnels, public garages, ~~etc.~~ and *parts of a broad health program.*

7. 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.

8. Arrangements should be made at once that would make possible engineering and legal planning of various public works which would be available 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.