

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 19, 1939.

To Chairman Eccles

Subject: Total public expenditures,

From Lauchlin Currie

Fiscal 1937-1938.

LC

These are the figures you particularly asked me to check. Mr. Krost's memorandum is a bit detailed but I asked him to do a thorough job on it.

To: Mr. Currie
From: Martin Krost

January 18, 1939

FIGURES IN THE BYRD SPEECH ON
TOTAL GOVERNMENTAL EXPENDITURES IN THE UNITED STATES

In the paragraph of the Byrd letter beginning "Furthermore, if you take the total of all expenditures....," the statement that all governmental expenditures increased by \$1,000,000,000 between fiscal 1937 and 1938 is repeated from Byrd's Boston speech. This statement is presented as a rebuttal of Eccles' statement that there was a reduction in Government expenditures in 1937 as compared with 1936.

1. Chairman Eccles' statement was entirely correct. He said there was a "reduction amounting to more than \$3,000,000,000 in the Government's net contribution to community buying power in 1937 as compared to 1936." The exact figures are as follows:

	<u>Cash deficit</u> <u>(Millions of dollars)</u>
Calendar 1936	3,764
Calendar 1937	584
Reduction	3,180

2. The figures cited by Senator Byrd are for the wrong periods of time. Chairman Eccles was referring to the calendar years 1936 and 1937. The figures cited by Senator Byrd refer to the fiscal years 1937 (July, 1936-June, 1937) and 1938 (July, 1937-June, 1938).

3. The wrong series of figures are cited by Senator Byrd. Mr. Eccles plainly was referring to net expenditures. Senator Byrd cites figures for gross expenditures.

4. Senator Byrd's statement that total governmental expenditures increased by a billion dollars in fiscal 1938 implies that the admitted decrease in Federal gross (budgetary) expenditures in fiscal 1938 was more than offset by an increase in State and local gross (budgetary) expenditures. This statement is not only irrelevant to the argument, as demonstrated in the preceding paragraphs, but is also, in all probability, inaccurate.

5. An analysis of the Byrd figures is necessary to demonstrate their inaccuracy. By subtracting Federal budgetary expenditures from the totals used by Byrd, an implied total for State and local expenditures can be obtained:

	<u>1937</u>	<u>1938</u>
Total expenditures	17,516	18,415
Federal	8,105	7,766
State and local	9,411	10,649

The 1938 figure for State and local expenditures is the same as an estimate which appears on page 107 of the Twentieth Century Fund study, Facing the Tax Problem, published in March, 1937. The 1937 figure is within \$50 million of an estimate which appears on the same page.

a) The Twentieth Century Fund estimates are almost two years old. They were made almost 18 months before the end of the fiscal year 1938.

b) No reasonably complete reported figures for State and local expenditures exist for either fiscal 1937 or fiscal 1938. One way of assessing the probable accuracy of the estimated figures used by Byrd is to compare them with estimates of the National Industrial Conference Board. This organization is not likely to underestimate, either deliberately or by chance, the total of all governmental expenditures; its president is Virgil Jordan, one of the most vigorous and vocal opponents of Government spending. The Conference Board estimates in a study published May, 1938 that State and local expenditures in fiscal 1937 were \$8,800,000,000, a figure \$600,000,000 less than the figure used by Byrd. In making this estimate, the Conference Board had the advantage of doing its work about 14 months later than the Twentieth Century Fund, almost a year after the fiscal year 1937 had ended. The Conference Board has no estimate for fiscal 1938.

c) Net expenditures of State and local governments certainly did not increase appreciably between fiscal 1937 and fiscal 1938 and probably did not increase at all. State and local indebtedness in the form of tax-exempt securities decreased by \$116,000,000 in the fiscal year 1938; State and local deposit balances decreased by about \$90,000,000, leaving a net decrease in tax-exempt securities made from current revenues of about \$26,000,000. It is possible but not probable that the floating indebtedness of States and municipalities increased enough to offset this decrease and to finance a small amount of net expenditures. There are no figures of any sort on floating indebtedness.

d) The size of the increase in State and local expenditures in 1938 implied by the Byrd figures suggests doubts as to the plausibility of the 1938 figure. The implied increase, \$1,238,000,000, is fifty per cent larger than occurred in any year since 1923. The largest increase

in that period was \$800,000,000 in 1924. The increase implied by the Byrd figures for the single year 1938 is almost as large as the increase over the whole of the three-year period, 1927-1929.

e) Consideration of the question of how this increase was financed casts further doubt on the plausibility of the 1938 figure. The figures cited in paragraph (b) above show that no appreciable part of this increase could have been financed by borrowing. There are no reported figures as to State and municipal tax yields in 1937 and 1938. It is possible that collections of income taxes and property taxes may have increased in 1938, because of the relatively high incomes and values of 1937, but these increases must have been offset in large part by decreased sales tax collections. An increase of \$1,238,000,000 in State and local tax collections would have been more than twice as large as the largest increase that took place in any year since 1923.

f) The figures cited by Byrd fail to take account of the duplication in total governmental expenditures caused by the fact that Social Security grants to the States by the Federal Government are counted as Federal expenditures and counted again as State expenditures. These grants amounted to \$167,000,000 in fiscal 1937 and \$272,000,000 in fiscal 1938.

g) The figures used by Byrd fail to give effect to a change made by the Treasury in July, 1938, in the method of presenting Federal expenditures. The expenditures of the RFC and Commodity Credit Corporation were removed from the total of budgetary expenditures and placed in a section of the Treasury Statement dealing with the fiscal operations of self-financing agencies; that is, they were put "outside the budget." The effect of this change was to increase total Federal budgetary expenditures by \$441,000,000 in fiscal 1937 and reduce them by \$75,000,000 in fiscal 1938.