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United States Senate

COMMITTEE ON
TERRITORIES AND INSULAR AFFAIRS

May 5, 1941

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

Dear Mr. Eccles:

You perhaps have noted the efforts of the Senate Committee to find ways and means of automatically balancing the Federal budget in times of peace.

I am enclosing herewith a suggested bill and two suggested Constitutional amendments, each of which has been designed as a means to the end desired.

I would appreciate it greatly if, as soon as you find it convenient, you would look over these proposals, as well as examining the questionnaire herewith enclosed. The Committee would be very grateful if you would give us your answers to the questions propounded, and any other data which you feel would contribute to our further study.

It is likely that in the near future we will hold open hearings on this subject and would like to know if you desire to be called as a witness. We would be glad to have you, for we realize you could make a contribution to this subject which would be of value to us and the nation as a whole.

I trust we may hear from you at your early convenience concerning all these matters.

With best wishes, I am

Sincerely yours,


Chairman, Special Senate Committee

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A Suggested List of Questions for
the Senate Committee to Investigate
Federal Expenditures

(1) What, in your judgment, is the effect of a continuing unbalanced budget which results in an increase in the public debt?

(2) While the borrowing power of the federal government must be used to finance part of the national defense expenditures, what, in your opinion, is the safe limit of the public debt?

(3) What are your views concerning the new principle incorporated in this proposed legislation -- providing machinery for automatically raising revenues to balance the current budgets?

(4) Do you see any objection in Congress delegating administrative power to the Secretary of the Treasury to put into effect the flexible tax schedules constructed by Congress as provided for in this proposed legislation?

(5) If you believe in the automatic feature provided for in the enclosed bill, do you think it ought to be given a more permanent status by writing it as a provision in the form of an amendment to the Constitution, which would thereby make it difficult for succeeding Congresses to repeal?

(6) If you believe the automatic budget balancing principle ought to go into the Constitution, which of the two enclosed proposed constitutional amendments do you prefer; the one with broad powers, or the one with detailed provisions?

(7) Do you think the 20 year period provided for in the proposed legislation is too long or too short a time interval in which emergency expenditures in excess of the budget will have to be liquidated?

(8) What proportion of the national income, in any given year, do you think can safely be taken by the federal, state, and local governments in taxes? Is there a maximum?

(9) Do you favor direct taxes or indirect taxes?

(10) If you believe there should be both direct and indirect taxes, what proportion of the federal revenue should come from direct taxes (income) and what proportion should come from indirect taxes (like: (1) customs, (2) taxes on production, manufacturers' excise taxes, processing taxes, etc., (3) taxes on consumption, sale or transfer--sales taxes, based on vendors' returns and sales taxes collected through the sale of stamps, (4) estate and gift taxes, and (5) business privilege taxes).

(11) What are your views as to the federal government spending part of its funds by way of grants-in-aid to the states (as, for instance, relief appropriations, unemployment insurance, education, public roads, etc.)?

(12) While expenditures for national defense are rising in the face of large defense appropriations, do you believe we ought to continue or reduce non-defense expenditures, including those for public works?

(13) Do you think the prospect of inflation is hastened by virtue of an increasing unbalanced budget?

(14) What are your views as to the theory which has been propounded that there is no need to worry about the public debt since public expenditures increase the national income and promote the public welfare?

(15) What part will the proposed procedure for a balanced budget play in a period of post-war reconstruction?

[COMMITTEE PRINT]

77TH CONGRESS }
1st Session }

SENATE

{ REPORT
No. —

AN AUTOMATICALLY BALANCED BUDGET

APRIL —.—Ordered to be printed

Mr. TYDINGS, from the Special Committee to Find Ways and Means for an Automatically Balanced Budget, submitted the following

R E P O R T

[Pursuant to S. Res. 22]

FIRST COMMITTEE REPORT

The Special Senate Committee to Find Ways and Means for an Automatically Balanced Budget (Mr. Tydings, Mr. Thomas of Utah, and Mr. Holman) has directed the chairman (Mr. Tydings) to introduce in the Senate three proposals for an automatically balanced Federal Budget in times of peace.

The methods to accomplish this are two, one being an act of Congress and the other by a constitutional amendment.

There has been introduced a proposed law to accomplish an automatically balanced Budget and two constitutional amendments to accomplish the same purpose.

These proposals will be submitted to outstanding persons in the field of budgetary matters, and in the future it is not unlikely that hearings will be held, in order to develop criticism of defects and weaknesses in the proposals outlined, to the end that they may be perfected and the desired objective attained.

The proposals introduced are outlines only and no doubt will need considerable improvement, in the light of further examination. The proposed law comprehends the following:

(1) It is suggested that the average annual cost of the National Government for the period from July 1, 1930, to July 1, 1940, be definitely ascertained, and that this figure be known as the "annual normal Federal expense."

(2) The amount of money which the Congress annually appropriates automatically determines the amount of taxes to be levied by the National Government in order to meet the appropriations.

(3) Consequently, it will be necessary for Congress to adopt and have in being various schedules of taxation. Schedule A, for example, would raise sufficient money to provide for the "annual normal Federal expense." Schedules B, C, D, etc., would provide for additional

expenditures over and above "annual normal Federal expense," in such years when Congress appropriated greater sums.

(4) Once the total of annual appropriations is known, the schedule automatically goes into effect which will raise sufficient money to take care of said appropriations.

(5) If because of a dull business year, or for any other reason, the schedule in effect does not raise sufficient money to provide for the year's appropriations, then the deficit thus created must be the first charge on the following year's revenue and be considered in adopting the automatic schedule of revenues for the following year.

(6) In the event that the schedule in effect raises more money than is necessary to take care of the year's total appropriations, the excess is automatically applied to the liquidation of the national debt.

(7) In years of great depression or extraordinary peacetime preparedness expenditures or any other abnormal governmental financial outlay, Congress can escape providing for such extra financial burden currently; it can provide for the payment of the extra burden over a period of not more than 20 years for the gradual liquidation of the deficit for any year. It may even provide that a hiatus of 2, 3, 4, or 5 years may run before taxes to liquidate the deficit created by the extra burden shall begin to be collected so as to liquidate it entirely in not more than 20 years from the date of its creation.

An illustration of some of the differences between the schedules might be comprehended as follows: Schedule *A* would provide for an income-tax exemption for married people with no children of \$2,400. Schedule *B* might provide for the exemption to begin at \$2,300, and schedule *C* for it to begin at \$2,200. Thus, in the drafting of a law the schedules themselves could not very well be included, but there would have to be enough of a description of the schedules so that the law would clearly show what is intended by the various schedules and to have the one that goes into effect any year take care of that year's appropriations.

CONSTITUTIONAL AMENDMENTS

The constitutional amendments are in two forms—one, a short amendment; the other, a long amendment.

The short amendment simply provides that the public debt of the United States shall not be ever greater than what is the amount of the national public debt at the time the constitutional amendment is adopted, unless additional taxes to take care of such addition in the national debt are provided, which will liquidate said debt within a period of 20 years from the date of its creation.

The long constitutional amendment follows the same general philosophy and speaks for itself.

In addition to the plans herewith submitted, the committee will entertain suggestions of other plans which are intended to accomplish the same result.

M. E. TYDINGS, *Chairman*.

1 peacetime expenses of the United States unless a law effec-
2 tive as of January 1 of such year imposes taxes, duties, im-
3 posts, or excises for such year which the Secretary of the
4 Treasury estimates will raise an amount of revenue equal to
5 (1) the amount of money appropriated for such expenses
6 during the preceding calendar year plus (2) the amount
7 of any deficit created during such preceding calendar year
8 because the amount of revenue raised for such year was
9 less than the amount estimated by the Secretary of the
10 Treasury, except that the amount of any such deficit shall not
11 be considered by the Secretary in estimating the amount of
12 revenue to be raised for the first calendar year to which this
13 section applies. If for any year the amount of revenues so
14 raised is more than the amount so estimated, the excess shall
15 be used to reduce the public debt.

16 “(b) No money shall be appropriated by the Con-
17 gress for emergency or wartime expenses of or expenditure
18 by the United States unless the law appropriating such
19 money contains a provision imposing such taxes, duties, im-
20 posts, or excises as the Secretary of the Treasury estimates
21 will raise an amount of revenue, within a period of not
22 more than twenty years after such appropriation is made,
23 equal to the amount of money so appropriated. If the
24 Secretary finds during such period that such provision will
25 raise an amount of revenue less than the amount of money

1 so appropriated, he shall transmit such finding to the Con-
2 gress, who shall, as soon as practicable thereafter, enact a
3 law imposing such additional taxes, duties, imposts, or ex-
4 cises as the Secretary estimates will raise an amount of
5 revenue, within such period, equal to such estimated deficit.
6 All amounts of revenue so raised during such period shall
7 be used to reduce the public debt.

8 “(c) If on January 1 of any calendar year the public
9 debt is less than \$10,000,000,000, the provisions of this
10 section requiring the imposition of taxes, duties, imposts,
11 or excises shall become and remain inoperative until the
12 next succeeding calendar year at the beginning of which
13 such debt is \$10,000,000,000 or more.

14 “SEC. 2. The provisions of section 1 shall take effect
15 on the 1st day of January of the second year beginning
16 after the year during which this article is ratified.

17 “SEC. 3. This article shall be inoperative unless it shall
18 have been ratified as an amendment to the Constitution by
19 the legislatures of three-fourths of the several States within
20 seven years from the date of its submission to the States
21 by the Congress.”

[COMMITTEE PRINT]

APRIL 29, 1941

77TH CONGRESS
1ST SESSION

S. J. RES.

JOINT RESOLUTION

Proposing an amendment to the Constitution
of the United States to provide for a bal-
anced Budget.

By Mr. TYDINGS

APRIL , 1941

Read twice and referred to the Committee on

1 on the date of ratification of this article unless each law
2 authorizing an increase in the public debt in excess of such
3 limitation contains a provision imposing such taxes, duties,
4 imposts, or excises as will raise an amount of revenue, within
5 a period of not more than twenty years after the enactment
6 of such law, sufficient to pay the principal and interest of such
7 increase. Until the principal and interest of such increase
8 shall have been paid in full, such provision imposing taxes,
9 duties, imposts, or excises shall not be repealed and the
10 revenue so raised shall not be used for any other purpose.

11 “(b) No such law authorizing such an increase in the
12 public debt shall be effective for a period of more than
13 twenty years after such law is enacted.

14 “SEC. 2. This article shall be inoperative unless it shall
15 have been ratified as an amendment to the Constitution
16 by the legislatures of three-fourths of the several States
17 within seven years from the date of its submission to the
18 States by the Congress.”

[COMMITTEE PRINT]

APRIL 29, 1941

77TH CONGRESS
1ST SESSION

S. J. RES.

JOINT RESOLUTION

Proposing an amendment to the Constitution
of the United States limiting the size of the
public debt.

By Mr. TYDINGS

APRIL , 1941

Read twice and referred to the Committee on

COMMITTEE PRINT

APRIL 29, 1941

77TH CONGRESS
1ST SESSION

S.

IN THE SENATE OF THE UNITED STATES

APRIL , 1941

Mr. TYDINGS (for the committee) introduced the following bill; which was read twice and referred to the Committee on

A BILL

To provide for a balanced Budget.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) the Congress hereby finds that continued deficit
4 financing and the mounting public debt are matters of
5 grave national concern; that a balanced Budget as soon as
6 practicable is as necessary to our continued form of gov-
7 ernment as an adequate national defense; and that a pay-
8 as-you-go basis, although entailing great hardship and sac-
9 rifice, is of such paramount importance as to no longer
10 permit delay in the matter.

11 (b) It is hereby declared to be the policy of this Act

J. 313715—A

1 to secure permanent financial stability for the United States
2 Government by providing the machinery for an automati-
3 cally balanced Budget.

4 SEC. 2. (a) There shall be enacted as soon as prac-
5 ticable after the date of enactment of this Act a schedule
6 of taxation, to be designated Schedule A, imposing such
7 taxes, duties, imposts, or excises as will raise an amount
8 of revenue with respect to any calendar year equal to the
9 average annual expenditures of the United States for the
10 period July 1, 1930, to June 30, 1940, both dates inclusive.

11 (b) There shall also be enacted as soon as practicable
12 after the date of enactment of this Act fourteen other
13 schedules of taxation, to be designated Schedules B, C, D,
14 E, F, G, H, I, J, K, L, M, N, O, respectively. Each
15 such schedule shall impose such taxes, duties, imposts, or
16 excises as will raise an amount of revenue with respect to
17 any calendar year 5 per centum greater than the amount
18 that would be raised by the schedule immediately preceding it.

19 (c) Each such schedule of taxation shall contain varying
20 rates of taxes, duties, imposts, and excises; shall provide
21 different exemptions and credits; shall be in simplified form
22 and written in clear and concise language; and shall follow
23 a basic pattern with respect to penalties, procedure, adminis-
24 tration, and the imposition and collection of such taxes, duties,
25 imposts, and excises,

1 SEC. 3. (a) Beginning with the calendar year 1943,
2 and for each calendar year thereafter, there shall be in
3 effect as of January 1 of each such year such schedule of
4 taxation, enacted under section 2, as the Secretary of the
5 Treasury estimates will raise an amount of revenue with
6 respect to such year (1) equal to the amount of money
7 appropriated during the preceding calendar year for the
8 normal peacetime expenses of the United States plus (2)
9 the amount of any deficit created during such preceding
10 calendar year because the amount of revenue raised for
11 such year was less than the amount estimated by the Secre-
12 tary of the Treasury. The amount of any such deficit shall
13 not be considered by the Secretary in estimating the amount
14 of revenue to be raised for the calendar year 1943. If
15 for any such year the amount of revenue so raised is more
16 than the amount so estimated, the excess shall be used to
17 reduce the public debt.

18 (b) On or before December 31 of each year, the Secre-
19 tary of the Treasury shall specify the schedule of taxation
20 which he estimates will raise the required amount of revenue
21 for the succeeding calendar year and the schedule so speci-
22 fied shall be published in the Statutes at Large and the
23 Federal Register.

24 SEC. 4. No money shall be appropriated by the Con-
25 gress for emergency or wartime expenses of or expenditures

1 by the United States unless the law appropriating such
2 money contains such schedule of taxation, enacted under
3 section 2, as the Secretary of the Treasury estimates will
4 raise an amount of revenue, within a period of not more than
5 twenty years after such appropriation is made, equal to the
6 amount of money so appropriated. If the Secretary finds
7 during such period that such schedule will raise an amount
8 of revenue less than the amount of money so appropriated,
9 he shall transmit such finding to the Congress, and such
10 additional schedule of taxation, enacted under section 2, as
11 the Secretary estimates will raise an amount of revenue,
12 within such period, equal to such estimated deficit, shall take
13 effect on the first day of the month following such trans-
14 mission. All amounts of revenue so raised during such
15 period shall be used to reduce the public debt.

[COMMITTEE PRINT]

APRIL 29, 1941

77TH CONGRESS
1ST SESSION

S.

A BILL

To provide for a balanced Budget.

By Mr. TYDINGS

APRIL , 1941

Read twice and referred to the Committee on