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Extra

THE PUBLIC DEBT

I am taking this opportunity to present the facts about the public debt—why it has been incurred, why the budget has been unbalanced, the way in which it is now progressing towards a balance, and how the debt will be met.

Much has been said and written about the size and burden of the debt. It has too often been represented as something separate and apart from the condition of the entire country. It has not been seen in its true proportions or in relationship to the country's ability to incur it, to carry it and eventually to pay it. As a result many people have been deeply and sincerely disturbed about it. They want to know and they have every right to know why the debt has been incurred, when it is going to stop growing, and how it can be paid. I am addressing myself to these sincere people, and not to the alarmists who are trying to make political capital out of a matter of grave concern to all of us. This is a subject that must be dealt with honestly and fairly. Those who are willfully misrepresenting the facts are trifling with the good faith of the nation and the integrity of the national credit.

The Government's debt must be considered, first of all in relation to the national income—that is, the income of all of the people. Their income is made up of wages and salaries, of money realized by the sale of their products and services, of dividends, interest and rentals. The sum of all of these items is the

national income. When that income is large in our country, taxes levied upon the principle of ability to pay are not burdensome, and it is easy to balance the budget. When that income has been cut in two, as it had been when I took office, the burden of taxes is doubled and it becomes difficult, if not impossible to pay them. The Government is unable to collect revenue as before and it is no longer possible to balance the budget. To impose increased rates of taxation at such a time, in an effort to keep the budget balanced, would inevitably fail of its purpose and would be fatal to recovery.

Two alternatives are left, and only two. One is to balance the budget by a drastic reduction of the government's expenditures. The other is to increase the income of the people. There were many who believed that the budget could be balanced by cutting Government expenses. The Democratic platform of 1932 advocated a drastic reduction of governmental expenditures. I accordingly proposed and Congress enacted legislation to that end. This course was given a trial but it was soon demonstrated that this was not the way out. The trouble lay much deeper.

In the first place, in order to be able to proceed with a program of recovery, without leaving the door open for hoarders and speculators to profit from the nation's disaster, it had been necessary as a first step to abandon the gold standard, as England

and nearly every other country in the world had done. The collapse in our own country had reached such extremes that the national income had fallen from 80 billion dollars a year to 40 billions in 1932. This means, simply, that what farmers, business men, employers and employees received for their products and services--that wages, salaries, dividends and rentals--had shrunk in the aggregate by one-half. One-third of our bank deposits had been wiped out. What was left was to a large extent frozen by fear. Billions of dollars had taken flight from the country or had gone into hoarding at home.

The rehabilitation of the banking system after the banking holiday and the enactment of various measures designed to correct the worst abuses of the 20's served to restore confidence in the banks and in the investment and capital markets. Something more was needed, however. It was necessary to replenish quickly the lost buying power of our people. The deflation had gone so far, the contraction of credit and of bank deposits was so great that it was essential for the Government to mobilize its own credit resources not merely to shore up the private credit structure, which the preceding administration had tried vainly to do, but, first to arrest the deflation, to stop foreclosures, forced sales and bankruptcies, and then to reach to the real root of the trouble--to supply buying power. That was the only alternative

left. It was dictated not only by every humanitarian consideration, but as a matter of common sense and sound business.

We had heard much and we still hear echoes of the theory that natural forces of recovery would cure the depression--that private initiative and enterprise would come to the rescue if let alone by the Government. I wish that were so. But the facts and the record have exploded that simple notion. We have been told and we still are told by some that these vague and undefined natural forces will miraculously bring jobs and prosperity for all today if the budget is balanced, if we will return to a currency redeemable in gold and if Government will let business get along by itself.

We had a balanced budget in 1929 and 1930; we had a currency redeemable in gold and the Government left business to sink or swim. We all know what happened. Business was going down for the third time when a change in administration made it possible for the Government to come to the rescue. You may call that interference, if you want to. In other words, the conditions on which those who profess to believe in natural forces relied before 1932, and on which they would have us rely again, existed both in 1929 and in 1930, and they did not prevent the crash of 1929; they did not prevent business from going from bad to worse and they were powerless either to prevent or to rescue us from the disaster that

overtook us.

My faith in such mystical, natural forces has long since been shattered. I am not willing to gamble with the nation's welfare by trusting again to natural forces. I prefer to place reliance upon the realistic forces of recovery which have been set in motion since 1932. And the most essential of these realistic forces was the supplying of purchasing power to a country that needed it, and needed it quickly, above all else.

Could the Government afford to supply that purchasing power? I have no hesitancy in saying that ~~it~~ could not afford to withhold it. The theory of recovery by natural forces had been given four years of trial. Far from inducing recovery, natural forces had intensified the depression. Far from restoring the national income, natural forces had continued to cut it down until the amount of money passing from hand to hand in wages and salaries, dividends and other payments had been cut in half, and almost everyone was desperately trying to curtail still further. For the Government to curtail likewise at such a time would have served only to aggravate the basic trouble.

What was needed was a reversal of this contraction, not its intensification, and since business men individually were unable to do it, in their frantic efforts to protect themselves, the Government, as the collective agency of all business, of all the people,

had to do it. There was no choice. And there was no other way out. Above all, there was no other way to begin working towards a balanced budget. For in no other way could the national income be restored and with it the yield in taxes necessary to accomplish a balance of the budget and thereafter the paying down of the national debt.

That this course is already vindicated is amply demonstrated by the record and the facts today. Instead of a fast dwindling national income, instead of the correspondingly rapid loss of Federal revenue, which prevailed but four years ago, the exact reverse is true today. The national income has increased by approximately 20 billion dollars a year as compared with 1932. Tax collections are running currently about 2 billion dollars a year more than in 1932. And let me call attention to the fact that the present greatly improved state of business is not reflected in these figures because tax collections lag a year behind current business since such taxes are collected this year on last year's incomes. Moreover, we have recently enacted a tax bill. Therefore, Treasury receipts will undoubtedly show a large increase next year both as a result of the improvement of business this year and the tax bill, and even though government expenditures were to remain at the present high level--and I am confident they will not--the gap between Government outgo and income would be greatly lessened--the budget would be much nearer to a balance.

I will not burden you with statistics but there are some which are essential to an understanding of what the public debt is, by itself and in relation to those things by which the debt

is large or small, bearable or unbearable. One would suppose from some of the partisan discussion of the subject that the entire national debt had been incurred under this Administration. The fact is that on the day I took office the debt had risen to more than 21 billion dollars. I inherited not only that debt load, but moreover, the current deficit was in excess of 3 billion dollars in the fiscal year ending in June of 1933.

Between that time and the close of the last fiscal year on June 30, 1936, the debt increased to 34 billion dollars. That is a gross increase of 13 billions. There are, however, offsetting items; one being Government-owned assets and the other the Treasury's cash balance. The increases in these two items amounts to 4 billion dollars. If these offsets are deducted, the net increase in the debt since I took office comes to 9 billions. This is exclusive of the 2 billion dollars derived from revaluation of the dollar. Moreover, the gross increase of 13 billions includes \$1,700,000,000 for the cashing of the veterans' service certificates, which was not a part of the relief and recovery program.

If allowance is made for the bonus, for the recoverable assets and the Treasury's cash balance, the net increase in the debt comes to approximately 7 billion dollars, exclusive of the stabilization fund set up for defense of the American dollar.

Thus, from the day I took office until the close of the last fiscal year ending June 30, 1936, the Government has spent 7 billion dollars more on relief and recovery than it collected.

But let us take the gross increase of 13 billions and measure this enlarged figure against the restored values already realized. We have no exact way of measuring the recovery in the value of our national assets out of which our national income is produced, but we do know that, as compared with but four years ago, there have been billions upon billions added to the prices of all of those assets. We know that the output of industry is 65 percent greater than it was in the depths of the depression. We know that the national income is currently about 20 billion dollars more than it was in 1932. This means that 20 billions of dollars more money is going into the pockets of our people with which to buy all the things necessary to material happiness, and incidentally with which to pay debts and taxes.

We know that the vast improvement is reflected in the recovery in value of securities of all kinds, and that, for example, stocks listed on the New York Stock Exchange--to say nothing of those listed on other exchanges or unlisted--increased in value by 35 billion dollars between July of 1932 and July of 1936, according to the bulletin of the New York Stock Exchange. Similarly listed bonds had increased in value by some 10 billion dollars.

Likewise, Government bonds have recovered notwithstanding the increase in the public debt. Some issues which sold down as low as 83 in 1932, when the debt was 21 billions, are now selling at 104 when the debt has risen to 34 billions. Why? Because despite the rise in the debt, the Government's credit is better and sounder today than it was then. And the Government credit is better because a virtually bankrupt nation has been made solvent again, the national income has been restored. The country, in other words, is far better able to support an increased debt now than it was to stand a lesser debt then. These are facts which completely refute those who talk recklessly about the debt and the Government's credit.

In relationship to the 20-billion-dollar annual increase in the national income, already achieved, and measured against the tens of billions of dollars of restored values of property of all kinds, of homes and farms, of all of our assets, the increase in the debt is scarcely a matter for alarm. Indeed, the cost of the relief and recovery program is small by comparison with the restoration. In 1932 we did have cause for alarm, and our people were fear-stricken. For then our debt was rapidly rising, the Federal income was as rapidly fading away, the values of property, of homes and farms were crumbling about us.

The debt, as I said in the beginning, has to be considered not by itself but in relation to our ability to finance it, and to

pay it. And four years ago though the debt total was less the burden was infinitely greater, for we did not have the incomes with which to pay taxes. Interest charges were far steeper. The cost to the Government of carrying the debt was proportionately much higher and our revenues, instead of increasing as they are to-day were steadily diminishing. We are far better off today despite the larger debt, because the national income has grown so much faster than the debt. Moreover, interest rates have steadily declined and so brought down the relative cost of carrying the debt.

Let me remind you also, that the corporations of the country whose combined operations reflected a loss of \$3,750,000,000 as evidenced by their tax returns to the Treasury four years ago are now showing profits comparable to pre-depression levels. Stockholders are again getting dividends; bondholders are once more collecting their interest. Yes, the rates of interest have come down, but that is hardly a reason for legitimate complaint. Not only have lower interest rates stimulated recovery and hence the returns to investors, but the investors and also the millions of our people who have small savings in our banks, in building and loan associations and in insurance policies, are better off today with a lower rate and an assured interest return than they were in the days when they were promised a bigger rate, which could not be sustained and vanished, along with their principal, in countless cases. The high interest rates of the 20's did not prove to be to the real advantage

of the savers and investors of the country as they later found out. It is an old axiom that the higher the rate, the greater the risk. The high rates of the 20's tended to encourage and to feed the speculative fever which led to the collapse and brought about vast losses of principal as well as of interest. Today, although the interest return is smaller, the principal is far safer and the return much surer.

What have we to show for the recovery and relief expenditures? Have they proved a good investment for the American people? Has the money been wasted?

First of all, these expenditures represent a discharge by a civilized community of its inescapable responsibility to provide at least the minimum requirements of living for all its people.

Secondly, public works and works relief expenditures have reduced the wastage of that most perishable of all things, labor. It is idleness that impoverishes a nation. In setting people to work the recovery program contributed to the material well-being of our nation by maintaining and adding to the nation's equipment of all kinds--equipment that in many cases will long continue to yield goods and services. Much of this addition to the community's equipment does not take the form of a saleable commodity and is on that account sometimes referred to as unproductive. But it is a

strange sense of values which appraises as productive only what is produced for sale. There can be no question of the usefulness of highways, of bridges, of schoolhouses, of water systems, and of countless other projects constructed in the past few years.

Coincident with the investment genuine recovery began, for the investment supplied jobs and buying power to our people to buy goods which thereupon had to be produced and which, therefore, created more jobs, more pay envelopes and still more buying power. That in turn produced income and profits to countless businesses, big and little. It meant an increase of incomes both to employers and to workers. In turn it increased buying power of farmers as well as of industrial workers; and with it came the first great resurgence of confidence since the depression began. Far from retarding recovery it gave recovery its greatest impetus. At no time in history has recovery been more rapid than during the last eighteen months.

Was the money wasted? No nation which is conserving its human and material resources, which is rapidly increasing its production, consumption and capital equipment, which is adding to its wealth and its income, which is doing all this while at the same time maintaining a sound and stable currency, can in any sense of the term be said to be either impoverishing itself or squandering its money.

The money might have been more wisely, more effectively spent had we as a nation been prepared for the depression. But most of us lived in a fool's paradise in the 20's when we were told that prosperity was about to be realized for all of us and that poverty was to be banished from the land forever. We planned only for a perpetual bull market. We were caught totally unprepared by the holocaust that came instead. We have paid a price for lack of preparedness—a price we must not pay again.

But the money that has been spent, though it might have been more wisely spent, had we been prepared, was spent in our country among our own people. It did not go for the devastation of war. It did not go over the seas or into the sea. It went first of all to those here at home who needed it most, whom private business had failed to employ. It was spent by our own people among our own people and this money, far from being thrown away, was put into circulation here at home. It not only rescued and rehabilitated banks, insurance companies and the credit structure generally; it not only helped the needy and the destitute; it not only built highways, bridges, schoolhouses and innumerable other public works of permanent value, but above all, it created buying power, income and profits and it is today on deposit in our banking system. For our deposits had shrunk by more than one-third as a result of bank failures, of hoarding, of

contraction of bank loans and investments. The money that has been spent has served to replenish these lost deposits. More than that it has helped to make possible the prevailing easy money conditions, permitting the lowering of interest rates on home and farm mortgages, the refinancing of corporate debt and the financing of new enterprise on favorable terms. It has provided an abundance of funds for investment in all lines of enterprise, in home building, among others. It has made possible the payment of current as well as delinquent taxes in our states and counties and cities, bringing solvency to many communities and putting them again in a position where they can gradually take over from the Federal Government their proper share of the relief of the unemployables. This they were unable to do when I came into office.

We are told by those who would have us depend on the theory of natural forces that consumer demand would be released but for the alleged interference and the spending by the Government. There has never been any lack of demand by the consumer. He was always in need of goods. That has never been the trouble. The trouble has been that his demands were not backed by buying power to satisfy them. Spending by the Government served to provide the buying power at a time when private enterprise, far from supplying buying power through its own payments of wages and other disbursements, was in fact discharging workers, reducing wages,

curtailing expenditures wherever possible. Private industry did not do this because it wished to do so, but because in most cases it had no choice because it had no customers for its products.

At such a time it became not only the duty of Government but it was sound business sense to draw on its credit and use its resources to supply the lack of buying power that was the root of the evil. Only by this means was it possible to restore the market at home for the products of industry.

It became profitable once more for business to resume activity, to take on more and more workers, and to begin to add to the restoration of the lost purchasing power. That process is going on today so rapidly that it is only a question of time, and I believe a short time, when private enterprise, by restoring purchasing power and reemploying the employables will make it possible for the Government steadily to withdraw from the field.

Where did this money come from? Did it come out of the hard won savings of widows and orphans? Will the money to balance the budget and to pay down the debt come out of their savings? Will the cradles of future generations be decorated with debt?

No! The money has come from two sources. First from those individuals and corporations who had idle surplus funds and who invested these funds in Government bonds because there

was no other safe and profitable field in which to invest them. And this put into circulation money that would otherwise have been hoarded or remained idle in banks. But a larger portion of the money, possibly as much as sixty percent of it, has come from the creation of new deposits through the purchase of Government securities by the commercial banks. This is money newly created, not taken out of your savings or mine or out of the widows' and orphans'. When a bank makes a loan to anybody, whether a person, a corporation or the Government, that bank creates a new deposit in the banking system. These funds did not come, as some people would have you believe, by forcibly taking the money from the banks or from individuals or from corporations or from anybody else. Nor did the Government force these securities upon the banks as is evidenced by the fact that the banks were eager to subscribe to every Government issue, and at lower interest rates than have prevailed for many years. Nor is the Government taking money away from business, as we sometimes hear. The Government has created new deposits, new funds available for investment, and the abundance of such funds for business and for investment is evidenced by the low interest rates. If there were a scarcity of funds, if the Government were competing with business for these funds, the exact reverse would be true of interest rates. They would be high, not low.

Nor is the debt going to be paid by oppressive taxation upon future generations, or by taking away the hard won savings of the present generation. It isn't going to be paid out of existing wealth, but out of future incomes increased as a result of recovery. It is not going to be paid by the average citizen, but largely out of the future profits of individuals and corporations on the equitable basis of their ability to pay. They will not be impoverished by taxation for they will be better off after paying the taxes out of increased incomes—they will have far more left over after paying taxes than they had in the lean years. The taxpayers will be able to get their hands on something with which to pay taxes.

With increased incomes higher rates of taxation are not necessary to balance the budget and pay down the debt. If we had a full utilization of our man power and our productive facilities it might even be possible to have a reduction of tax rates because the resultant vast increase in our total national income would yield a correspondingly large volume of revenue to the Government.

We are far on the road to full recovery. We have worked as rapidly towards a balanced budget as the demands on the Government and the progress of the recovery movement would permit. In every fiscal year since 1934 the recovery and relief expenditures have diminished. In every fiscal year since 1934 the deficit, ex-

clusive of debt retirements and bonus payments, has declined. The recent enactment of a tax on undistributed corporation earnings will permit still more rapid progress in closing the gap between decreasing emergency expenditures and increasing revenues. A balanced budget is definitely in sight.

I am not for a moment arguing that a government debt is by itself a good thing, but it is far from being the calamity that certain alarmists would make it appear. It is a better thing than to permit millions of our workers to be idle and our factories shut down. This is the wastage which no nation can afford.

What has been far worse than the debt is this unrecoverable loss arising from failure to utilize our economic resources in the production and distribution of things wanted and needed by our people. The nation can afford to incur a temporary Federal debt for the purpose of utilizing our man power and our productive facilities, but it cannot afford the needless waste of idle men and idle facilities. Since private industry discharges workers when their services can no longer be profitably used, then the Government must conserve these resources by using on socially beneficial public projects the services of those thus thrown out of work through no fault of their own. In this way, the Government can provide buying power that otherwise would not exist, and thus call forth the production of goods that otherwise would not be produced.