

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date July 2, 1936.

To Mr. Daiger

Subject: \_\_\_\_\_

From Chairman Eccles

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This is the tentative draft of a speech which I asked Mr. Currie to prepare and about which I talked to you on the telephone today. Kindly return it to me when you have finished with it as I do not desire any copies to be outside of my files.



MSE

### THE PUBLIC DEBT

I propose tonight to discuss the subject of the public debt. There is no subject on which there has been so much misinterpretation, misinformation and misunderstanding. There is no subject which has been more surrounded by hysteria and willful distortion. It is time that sanity and reason were introduced into the discussion of the increase in the public debt. This I propose to do, for we have everything to gain from a correct understanding and a wide knowledge of the facts of the case.

Critics of my Administration pay lip service to the application of strict accounting methods to the national finances but they fail to make this application in practice. There is a balance sheet of the American people as a nation as well as of individuals -- of national assets and liabilities, of national debits and credits, and of national income and outgo. My critics would like to forget this national balance sheet. They would like to confine their attention only to the increase in the public debt. This is what I propose they shall not do.

What would you think of an accountant who criticized a corporation for issuing bonds without attempting to inquire at the same time why the bonds were issued or how good the investment had been? And yet my critics do this very thing when they concentrate on the national debt and ignore the offsetting credits.

I want to state here and now, unequivocally and without reservation, that by every relevant test, no investment of money by the American people has ever yielded larger returns than the investment of my Administration in recovery and relief since 1933. The Democratic Party does not apologize for this investment in the protection and well-being of our citizens. On the contrary it claims it to be one of the greatest achievements of any peacetime government in any period.

First let us look at the facts. The day I came into office the public debt was \$21 billion. On June 14, 1936, the day before securities were issued both to the veterans and to the market to redeem the veterans' bonds, the public debt amounted to nearly \$32 billion. I choose this date in order to exclude the effect of the bonus payment, which was not a part of the program of recovery and relief expenditures attacked by my critics. The public debt, then, increased by approximately \$11 billion because of relief and recovery expenditures.

As an offset to this increase the American Government itself, as distinct from the American people, acquired various assets. First among these are loans to individuals and institutions which are currently being repaid to the Government. They increased by \$2 billion in this period. In addition to this \$2 billion increase in loans, the cash balance of the Treasury increased by another \$2 billion. This

is exclusive of the \$2 billion fund set aside in 1934 for the defense of the American currency system. When the increase in recoverable assets and the increase in the cash balance of the Treasury are deducted from the increase in the gross debt we are left with a net figure of \$6.7 billion. This means, in other words, that from March 4, 1933 to June 14, 1936 the Government expended on non-recoverable relief, on recovery and on the regular services of the Government \$6.7 billion more than it collected in taxes. In the same period the annual computed interest charge on the total gross debt increased only \$60 million, a negligible amount.

So much for the increase in the debt and interest charges. Let us now turn to the significance of these figures -- to the other side of the national ledger.

The first question is, were the expenditures justified? It permits of only one answer. It is yes, on every count. In terms of the resultant increase in employment and income, in terms of the prevention of destitution and the restoration of the morale of more than twenty millions of our people, in terms of the very preservation of the economic and social fabric of our country, no expenditures could be more abundantly justified.

Let me pass, then, to the second question. Granting the need for increased expenditures, was it necessary to incur a deficit? Or should expenditures have been fully covered by increased taxes? The answer is so obvious that our critics have not even dared to suggest that taxes should have been doubled and tripled in 1933. In 1932

American business operated at a staggering loss. In the fiscal year 1933 the yield of personal and corporate income taxes shrank to \$746 million. The national income had been cut more than half. To impose taxes of sufficient magnitude at that time to finance the necessary expenditures would have drastically decreased buying power and nullified all our efforts toward recovery. If we were to have recovery there was only one possible way to finance the recovery and relief expenditures, and that was by borrowing.

But, my critics claim, the borrowing was excessive. On the contrary, the excess of \$6.7 billion non-recoverable expenditures over tax collections was small in relation to the magnitude of the achievement, in relation to our national income and our national debt-paying ability, in relation to our wealth, or in relation to any other relevant consideration. Why, from April 1917 to August 1919 we increased our national debt by \$25 billion. In the year 1918 alone the Government borrowed \$14 billion. Despite the destruction of the war we emerged in the Twenties a more prosperous people than we had been before. How much more right have we to expect a far greater prosperity and well-being in the future when our public expenditures have been incurred for the purpose of rehabilitating and conserving our human and material resources and in setting the wheels of industry again in motion.

Let me take another test. The burden of a man's taxes depends upon how much income he has out of which to pay taxes. The same is true of a nation. In 1929 as a nation we produced \$81 billion of

income. In 1932, despite an increase in population, we produced only \$59.5 billion. The burden of every dollar of debt, public and private, and the burden of every dollar of taxes, had more than doubled. In the three years following 1929 the sum of the annual declines in our national income from the 1929 level under Republican misrule was \$120 billion. The decline was even greater if allowance is made for the normal growth of income that should have occurred. Think of it! A Party that cost the American people more than \$120 billion in loss of income and an incalculable loss of wealth, to say nothing of the misery and suffering that lie behind these cold figures, now dares to criticize my Administration for a net expenditure of \$6.7 billion to restore incomes, wealth and the national well-being.

It is estimated that currently the national income is running over \$20 billion higher than in 1932. The sum of the annual increases in the national income from the 1932 level to the middle of this year must amount to around \$40 billion. I think that even Wall Street would concede that a return of \$40 billion on a \$6.7 billion investment in three years is not bad. And this is not the end. The foundations have been firmly laid for a diffused and widespread prosperity. If the Democratic Party is allowed to carry out its great task we can look forward to a full recovery and a national income increasing steadily beyond the 1929 level of \$81 billion, and a national wealth far in excess of 1929.

The figure of \$6.7 billion amounts to less than 17 percent of the sum of the increases in the national income to date, or to a little over a month's current income. Exact figures are not available but that is the order of magnitude. It amounts to a far lower percentage of the increase in wealth, listed stocks alone having risen by over \$54 billion from July 1932 to June 1936.

Now I put it to my critics. If a man's income increases \$4,000 and his net liabilities increase \$670 in the same period, is he better or worse off? If his annual income increases from \$4,000 to over \$6,000 and his annual interest payments increase \$60, has he been impoverished?

When recovery is fully achieved our annual income and our national wealth will have more than doubled their 1932 levels. The interest charge on the total debt will amount to less than one percent of our national income. On the increase in the debt attributable to recovery and relief expenditures, it will amount to a mere fraction of one percent of our net income. You will see how absurd, how hysterical, is all this loose talk of impoverishing ourselves, of paving the road for eventual bankruptcy, or, in the sober words of the Republican keynoter, of "cradles decorated by debt".

When you are greeted with this kind of talk you do not need to recall the figures I have cited to refute it. Just hold fast to the sound commonsense view that 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, its money income and its real income, which, mark you, is doing all this while at the same time maintaining the soundest money in the world, can in any sense of the term be said to be impoverishing itself or worsening its position.

I trust that my attitude on the debt question will not be misunderstood. I am not arguing that a debt is a good thing in and by itself. What I have tried to insist upon is that on our national balance sheet we must consider both sides of the ledger. When that is done I have no fear of your judgment.

I believe that the public debt should be increased only for the most urgent reasons. In the past three years the reasons were most urgent. We are now, however, approaching a point where the increased national income is making possible rapidly increasing federal revenues. These revenues will be still further augmented in 1957 by the recent enactment of a tax on undistributed corporation earnings. The addition to the public debt arising from recovery and relief expenditures will therefore be of very modest proportions before the budget is balanced.

We do not propose, however, to stop with a balanced budget. I believe we should begin to retire the emergency debt before full recovery is attained. If there is a danger of a boom it will not be from Government operations but from private speculation and excessive capital expenditures by business. I would have the Government exercise a restraining influence by having its tax revenues exceed its expenditures at such times. I would, in other words, have the



fiscal policy of the Government act as a balance wheel to compensate for the wide fluctuations in private and business spending. The Government is not a private corporation as my opponents appear to assume, but an instrumentality designed to serve the needs of the whole community. It should not intensify business instability but should moderate and prevent it.

I can cite no better proof of the confidence in the soundness of our fiscal policy than the attitude of the financial community itself. The interest rate on Government bonds has been reduced to the lowest point in 28 years. The same Government bonds which in 1932 sold under 85 are now selling over 104. The financial community eagerly oversubscribes for every new issue of Government securities. These, my friends, are not the actions of people who believe the budget will not be balanced or, indeed, who believe in any of the dire predictions about our fiscal policy their spokesmen say for public consumption. Do not be fooled by words. If you would learn what a man really believes, look to his actions.

The Democratic Party was not fooled, nor deterred, by the threats and hysterical predictions of ruin that arose from the spokesmen of the vested interests. It clung fast to the fundamental conviction that the purpose of the federal government is the protection and well-being of its citizens. We believed that any course of action that contributes to that protection and well-being is sound. The recovery movement has now proceeded sufficiently far

to demonstrate the soundness of our policies to all save those who dare not face the facts.

The position of the Democratic Party is far stronger than in 1932. It is true that by then Republican leadership had demonstrated its incompetence and its cowardice. You had to trust, however, to our ability, to our honesty and to our courage. Now we are a Party that can point to the greatest achievement of any peace-time government in our history. It is with a feeling of great pride that I present the account of our financial stewardship to the people.