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REPORT ON NONDEFENSE EXPENDITURES
IN THE 1942 BUDGET

LETTER

FROM

THE DIRECTOR, BUREAU OF THE BUDGET

TRANSMITTING TO THE

CHAIRMAN OF THE COMMITTEE ON FINANCE
UNITED STATES SENATE

PURSUANT TO

A RESOLUTION OF THE COMMITTEE, A REPORT RELATIVE
TO REDUCTIONS IN EXPENDITURES FOR THE FISCAL
YEAR ENDING JUNE 30, 1942, AND TO CHANGES
IN CLASSIFICATION BETWEEN NONDEFENSE
AND DEFENSE EXPENDITURES SINCE
THE FISCAL YEAR 1940

OCTOBER 15, 1941

Printed for the use of the Committee on Finance



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LETTER OF TRANSMITTAL

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., October 15, 1941.

Hon. WALTER F. GEORGE,
*Chairman, Committee on Finance,
United States Senate.*

MY DEAR SENATOR GEORGE: There is transmitted herewith a report in response to the resolution adopted by the Committee on Finance of the Senate on August 28, 1941, relative to reductions in expenditures for the fiscal year ending June 30, 1942, and to changes in classification between nondefense and defense expenditures since the fiscal year 1940.

Sincerely,

HAROLD D. SMITH, *Director.*

III

1. The first part of the document is a letter from the author to the editor, dated 1954. The letter discusses the author's interest in the subject of the journal and the author's hope that the journal will be a valuable contribution to the field.

2. The second part of the document is a list of references. The references are listed in alphabetical order and include the following works:

- 1. [Author's Name], [Title], [Journal], [Year].
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- 8. [Author's Name], [Title], [Journal], [Year].
- 9. [Author's Name], [Title], [Journal], [Year].
- 10. [Author's Name], [Title], [Journal], [Year].

CONTENTS

	Page
I. Introduction.....	1
II. The problem of revising nondefense expenditures.....	2
A. Base used for revisions.....	2
B. Magnitude of revisions.....	3
C. General aspects of revising estimates.....	4
1. Performing functions more economically.....	4
2. Adjusting programs to improved business conditions..	4
3. Curtailing or abolishing functions.....	5
D. Legal implications of revisions.....	6
III. Allocation of committee's reductions.....	6
A. Civil departments and agencies.....	7
B. General Public Works Program.....	8
C. Aids to agriculture.....	9
D. Aids to youth.....	10
E. Work relief.....	10
F. Social security.....	11

APPENDIXES

Appendix A. Resolution of Senate Finance Committee.....	13
Appendix B. Items classified as "National defense" in the Budget documents for 1940, 1941, and 1942 and as of October 1, 1941.....	13
Appendix C. Nondefense 1942 appropriations and expenditures, and hypothetical revisions to cut Budget estimates of expenditures by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000.....	15
Appendix D. 1942 nondefense expenditure estimates by type of commitment.....	16
Appendix E. Chart: Income and industrial production.....	17
Appendix F. Chart: Employment and unemployment.....	18
Appendix G. Chart: Prices, cost of living, and earnings.....	19
Appendix H. Reductions in individual programs compared with total reductions.....	20
Appendix K. Chart: Number of persons receiving work relief.....	21

REPORT ON NONDEFENSE EXPENDITURES IN THE 1942 BUDGET

I. INTRODUCTION

This report is in response to the resolution of the Senate Committee on Finance, requesting the Director of the Bureau of the Budget to supply a revision of the estimated 1942 expenditures on the assumption of an instruction to reduce nondefense estimates by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000, respectively, and, further, to indicate changes made in the classification of defense or nondefense expenditures since the submission of the 1940 Budget. The request of the committee is based upon provisions of the Budget and Accounting Act which direct the Bureau of the Budget to furnish aid and information to the committees of the Congress having to do with the finances of the Government.

The resolution of the committee specifies that the Director shall submit his report by October 15, 1941. With this time limitation it obviously has been impossible to prepare the equivalent of three Budgets for 1942. An annual Budget, as the committee knows, contains 1,000 pages of detail and is the product of 4 months of intensive hearings with every Department and agency of the Government. Since it has been impossible to employ the usual process of hearings and detailed examination of individual estimates, it must be assumed that the committee had in mind a hypothetical approach involving a broad review of Federal programs to achieve arbitrary reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000.

This report is based upon such a hypothesis. The allocations of the committee's reductions must not be considered as recommendations of the Director of the Budget for cuts in nondefense expenditures. It should be clearly kept in mind that it is the responsibility of the President alone to submit budgetary recommendations to the Congress.

In preparing the report many difficulties of definition and classification have been encountered. The committee's resolution implies that the term "nondefense expenditures" has precise meaning and that such expenditures can definitely be segregated in the Budget. In a period of total defense effort such a segregation has little significance. Even if the interpretation of defense were restricted to military activities, segregation of nondefense expenditures could not be made simply and precisely.

For example, the beach patrol of the Coast Guard is paid from the same pay roll as its neutrality patrol in the North Atlantic. The Tennessee Valley Authority, the Bureau of Reclamation, and the War Department are transforming peacetime water control projects to meet the power needs of defense. The Federal Trade Commission, the Interstate Commerce Commission, and the Tariff Commission are shifting their normal programs in order to meet the demands for infor-

mation essential to defense. The General Accounting Office has an enormous new load of auditing defense expenditures. The Bureau of Internal Revenue has the job of collecting new taxes. In every department of the Government there are similar instances of the interrelation of defense and nondefense activities.

Because of the magnitude of the defense portion of total current expenditures, there has been a natural tendency to lump all other expenditures under a general term "nondefense." In this approach, directness of relationship to defense effort is the primary determining factor in classification. Necessarily, this requires determinations which are arbitrary. Such determinations as have been made are set forth in a table in appendix B in specific answer to the committee's request. There is but one item—United States Maritime Commission ship construction fund—included as "nondefense" in the 1940 Budget and subsequently changed to a national-defense classification.

In summary, this report makes three arbitrary revisions of the 1942 Budget, without regard to the function of the Bureau of the Budget to estimate expenditures "necessary for the support of the Government." It is apparent that many of the indicated downward revisions would seriously impair the defense effort and other vital governmental activities.

The normal process of budget building has not been followed. The departments have not been consulted; no hearings have been held; and there have been no conferences with the President.

In response to the request of the committee, the Director wishes to reiterate that three arbitrary revisions of a budget prepared 10 months ago should not be interpreted as recommendations with respect to the remaining months of the fiscal year 1942 or in any sense as a forecast of the President's Budget for 1943.

II. THE PROBLEM OF REVISING NONDEFENSE EXPENDITURES

The resolution of the Senate Finance Committee (see appendix A for full text) requests detailed revisions of 1942 estimated expenditures on the assumption that the Budget Director had been instructed to reduce original 1942 appropriations by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000. The specific request is as follows:

* * * such detailed revisions of the estimates of expenditures for the fiscal year ending June 30, 1942, as he would make if he had been instructed to prepare three budget estimates for such fiscal year in which the total annual expenditures for nondefense purposes were less by one billion dollars (\$1,000,000,000), by one and one-half billion dollars (\$1,500,000,000), and by two billion dollars (\$2,000,000,000), respectively, than the total amounts appropriated for such nondefense purposes for such fiscal year * * *

A. BASE USED FOR REVISION

The resolution of the Senate Finance Committee does not specify the base for the requested revision. The Director of the Budget has adopted as a base the estimates of expenditure in the original 1942 Budget. Estimates of expenditures rather than appropriations have been used because in many instances appropriations made for a fiscal year may be spent in future years.

B. MAGNITUDE OF REVISIONS

The significance of the \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 reductions which the Senate Finance Committee has asked the Budget Director to allocate can be easily underestimated if these amounts are related to total expenditures for defense and nondefense of \$25,000,000,000 for the fiscal year. On such a basis, a \$2,000,000,000 cut amounts to 8 percent of the total expenditures. The same cut applied only to nondefense expenditures would amount to 30 percent.

The following table illustrates the general effect of the reductions proposed by the committee. The first column of figures shows the percentages for over-all reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000, respectively, in total nondefense expenditures of \$6,600,000,000 for fiscal 1942. The second column gives the percentages if expenditures of \$3,196,000,000 that are "fixed" by contractual and legislative commitments are excluded. Such exclusions amount to almost 50 percent of all nondefense expenditures. Appendix D gives a break-down of nondefense expenditures according to the type of commitments.

It would not be reasonable to view all legal and legislative commitments as sacrosanct when a drastic revision of important governmental services is under consideration. Thus, balanced judgment would seriously question a policy of cutting sharply into such important items as expenditures for law enforcement, work relief, and the like, while leaving untouched agricultural benefits or grants-in-aid for Federal highways because they are based on prior commitments.

For these reasons the third column of the table gives the percentage reductions if the exclusions of fixed commitments are limited to an amount of \$2,094,000,000 for interest on the public debt, veterans' pensions, and the other commitments enumerated in the footnote.

Percentage reductions required to lower all or part of estimated 1942 nondefense expenditures by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000

Over-all reduction of—	Reduction based on all nondefense expenditures	Reduction based on non-defense expenditures after excluding:	
		All fixed commitments	Certain fixed commitments ¹
	Percent	Percent	Percent
\$1,000,000,000.....	15	30	22
\$1,500,000,000.....	23	44	33
\$2,000,000,000.....	30	59	44

¹ The fixed commitments excluded are interest on the public debt, veterans' pensions and insurance, transfers to trust accounts, refunds, the Federal contribution to the District of Columbia, and legislative and judicial establishments.

These percentages indicate the drastic nature of the over-all reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 posed by the Senate Finance Committee. Because of their magnitude, the Budget Director in distributing the over-all reductions among Federal programs has assumed that certain changes will be made in legislative and other commitments.

C. GENERAL ASPECTS OF REVISING ESTIMATES

In arriving at the hypothetical revisions of estimates which are presented in the following section of this report, certain general considerations are relevant. In general, there are three major approaches to Budget reduction:

1. By performing functions in a more economical manner through improvements in administrative management;
2. By reducing economic and social aid programs to adjust for improved business conditions;
3. By curtailing or eliminating functions.

1. Performing functions more economically.

The Bureau of the Budget and the various departments and agencies continuously study organization and procedures in order to evolve more efficient and economical administration. Constant effort is made to eliminate duplication and overlapping of functions.

Reductions in expenditures from further improvements in government machinery will at best contribute in minor degree to any major budgetary revision. Moreover, they may require considerable time to become effective. In many cases improved administrative management is reflected in the ability to carry an increased work load rather than in a reduction of expenditures.

2. Adjusting programs to improved business conditions.

(a) *Improvement in production, employment, and income.*—Employment and income have increased markedly during the past year. This increase has been even more rapid than was expected a year ago because it has been necessary to expand and accelerate the defense effort. Hence the expenditures for certain programs will be lower than was planned in the President's Budget for the current fiscal year. The revisions in this report are based on the assumption that the intensification of economic activities could have been foreseen last December when the original estimates were formulated, and would have been fully effective throughout the fiscal year.

Various charts which picture the improvement in economic activities are attached (appendixes E and F). Appendix E shows the increase in agricultural incomes. Enlarged sales and increased prices brought higher farm receipts. Because of this favorable development, reductions of total payments for farm aid are incorporated in the over-all reduction programs requested by the Senate Finance Committee.

General statistics showing improvement in income and production are, however, somewhat deceptive guides for the revision of estimates. The improvement of income and employment conditions is largely due to the tremendous increase in defense production. Various parts of the country, various groups of farmers, and various groups of labor are differently affected by the defense effort. Defense prosperity is spotty in its effects. There exist side by side scarcities for some types of labor, and unemployment for other types; scarcities of some farm products, and excesses of others; boom conditions in certain regions, and slack conditions in others. Therefore, an improvement in agricultural or employment conditions would not necessarily justify a corresponding reduction in farm or relief programs.

(b) *Continuous adjustment to changing conditions.*—If, in December of 1940, the improvement in business conditions could have been fully

foreseen, smaller appropriations for the economic and social programs would have been recommended. This improvement has been captured in the process of Budget administration.

Although the Budget document is only submitted once a year to the Congress, its execution is revised constantly. Budget execution is a continuous economy drive. The President's recommendation to the Congress in May of 1941 for the Work Projects Administration appropriation for the current fiscal year was \$109,000,000 below the estimate in the original Budget document. The lower figure contemplated that average Work Projects Administration employment would be 23 percent below the average on which the original Budget estimate was based.

The administration can, within certain limits, adjust current expenditures to changing needs. In apportioning available funds a certain portion of the appropriations may be placed in reserve if it is believed that a department or agency has appropriations in excess of actual needs. This reserve is withheld until the department or agency can demonstrate that the money is essential to its program.

For the fiscal year 1942 reserves of \$450,000,000 have been established. This unusually large amount appears possible in the light of improved business conditions. A larger reserve could not be established at this time without a revision of the functions and programs which are the result of congressional enactments.

Even if intense economic activity persists throughout the present fiscal year, the lowest of the three hypothetical figures requested by the committee implies curtailment of Government functions.

(c) *Price and wage increases.*—During the last year not only production, employment, and income, but also prices and wages have increased. While an improvement in economic activities permits the reduction of certain expenditures, price and wage advances may cause a rise in other items.

The considerable increases in prices and wages during the last year are indicated by the chart in appendix G. In the downward revision of estimates, the possible effect of price increases upon Government expenditures has been disregarded. First of all, price increases affect defense expenditures much more than nondefense expenditures. About 90 percent of defense costs are for weapons of all kinds, food, equipment, and construction, which are immediately affected by price rises. In contrast, only about 10 percent of nondefense expenditures are for direct purchase of material and equipment which are immediately affected by price increases. Some other items, such as rents and service contracts, will eventually be affected by price increases, but the direct effects in this field are not yet of great significance.

The effects of future price developments must be borne in mind. If higher costs of living cause an increase in wages and salaries, a substantial rise in nondefense expenditures will take place. Thus, it is likely that a part of the economies which are now possible are only temporary and may subsequently be offset by increasing costs due to higher prices.

3. Curtailing or abolishing functions.

All three proposals for reductions involve curtailment or abolition of some functions of government. In judging relative urgency of func-

tions it is inevitable that the following factors be taken into consideration:

(a) *Defense implications.*—Many expenditures of defense importance are included in the so-called nondefense classification. All Government functions have more or less direct relationship to defense in an era of total war and total defense. In many cases this relationship is so close that curtailment of the activity of a regular department would necessitate reestablishing the same functions, possibly at a higher cost, as an activity in some new defense agency. Numerous examples could be cited.

On the other hand, it must be recognized that every possible curtailment of nondefense use of labor and material that is needed for defense must be effected. Postponement of nondefense construction may be a definite contribution to national defense. This is a factor of prime importance in any budget readjustment.

(b) *Post-defense aspects.*—Preparedness for the post-defense period is an integral part of the whole program for the defense of democracy. During the last decade experiments were made and governmental policies and instruments were developed for an effective fight against depressions. It is essential to preserve and improve these instruments so that they may be available for immediate use in the post-defense period.

It must also be assumed that the normal functioning of the Government and the execution and enforcement of laws must be maintained. It would, for example, be utter waste to wreck the machinery for law enforcement now only to rebuild it later. The damage done to the well-developed operating machinery would be entirely out of proportion to the immediate saving. Abolition of an agency would be preferable to a drastic reduction which would leave an inefficient and demoralized organization.

D. LEGAL IMPLICATIONS OF REVISIONS

The President emphasized in the Budget message of January 1941 that almost half of nondefense expenditures are for so-called "fixed commitments." These fixed commitments include contractual and legislative commitments, such as the payment of interest, pensions, transfers to trust accounts, and legislative commitments which cannot be changed without amendment or repeal of statutes. In many cases, especially with respect to highway grants to State governments, commitments are made a year or more in advance and curtailments could not become effective immediately without breach of prior commitments. Although an effort has been made to minimize the legislative changes implied in the revisions of this report, the major revisions could not be made without many such changes.

III. ALLOCATION OF COMMITTEE'S REDUCTIONS

In allocating the hypothetical reductions requested by the Senate Finance Committee, the Director of the Budget was guided by the principles set forth in the preceding section, although different weight can be given to the various criteria. It must be emphasized, however, that the reductions discussed in this report are in no sense a product of the normal budgetary process of request, review, and recommendation.

The normal budget process could not be followed within the framework of the Senate Finance Committee request. Reductions presented in this study have not been discussed with the agencies affected nor do they reflect the policy of the administration. They serve only as illustrations of a possible distribution of the over-all reductions, required by the committee, among the different Government agencies and programs.

To facilitate an understanding of the revisions by major types of activities, a summary table of percentage reductions is presented below. The amounts of expenditures on which the percentages are based are shown in appendix C. Another table, appendix H, indicates the ratio of the three over-all reductions which has been allocated to each agency and program.

The following text discusses most of the major groups of governmental activities shown in the accompanying table.

Revisions of estimated expenditures required by reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 specified by Senate Finance Committee¹

Activity (current classification)	Estimated expenditures in 1942 Budget	Percentage reductions to achieve total cut of—		
		\$1,000,000,000	\$1,500,000,000	\$2,000,000,000
		Percent	Percent	Percent
Legislative, judicial, and executive	\$41,000,000	0	0	0
Civil departments and agencies	833,000,000	9.4	12.4	16.0
General Public Works Program	533,000,000	10.3	16.1	19.0
Veterans' pensions and benefits	564,000,000	2.1	2.3	2.5
Aids to agriculture	1,061,000,000	28.6	44.1	45.5
Aids to youth	363,000,000	51.0	67.5	94.8
Social security	463,000,000	.6	1.3	11.0
Work relief	1,034,000,000	31.6	49.3	73.9
Refunds	89,000,000	0	0	0
Interest on public debt	1,225,000,000	0	0	0
Transfers to trust accounts	275,000,000	4.4	6.9	10.9
Supplemental items, regular	100,000,000	25.0	50.0	75.0
Total, excluding debt retirement	6,581,000,000	15.2	22.8	30.4

¹ These revisions reflect allocations of the total reductions posed by the Senate Finance Committee, and are not to be considered as recommendations of the Director of the Budget.

A. CIVIL DEPARTMENTS AND AGENCIES

To achieve over-all reductions of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000, cuts of 9, 12, and 16 percent, respectively, of original estimates of 1942 expenditures have been allocated to the general category of civil departments and agencies. Related expenditures for these services do not become less urgent because of improved business conditions. Moreover, it must be remembered that many of the functions have direct and immediate importance for defense although they are included in the so-called nondefense operations of the Government. Practically all Government agencies have reoriented their so-called nondefense activities to do their part in the defense program. In many cases, this adjustment has occurred without special defense appropriations or defense reimbursements.

The Census Bureau, for instance, supplies information essential to many defense agencies. This work imposes a heavy additional burden which it has been possible for that Bureau to assume only by reduction of other activities. The work of the Bureau of Internal Revenue is

another example of a nondefense agency which has a greatly increased work load.

Reductions which have been applied to the expenditures of many of the independent offices and commissions would require postponing or restricting established regulatory activities—as in the case of the Federal Communications Commission, Federal Trade Commission, Securities and Exchange Commission, and the Interstate Commerce Commission. Other reductions would necessitate greatly decreasing the number of services supplied both to the Government and to the public at large by such agencies as the Bureau of Standards and the Coast and Geodetic Survey. The postponement of maintenance work on rivers and harbors would increase expenditures in future years.

The Post Office Department showed an estimated deficit of \$51,000,000 in the Budget document submitted last January. Because post-office business has exceeded expectations, the deficit will be smaller than anticipated. If the postal deficit were to be erased, it would be necessary to raise postal rates or reduce services to the public. With the increasing demand resulting from present business conditions, the latter course is difficult. Nevertheless, the \$2,000,000,000 over-all cut might well require the elimination of the postal deficit.

B. GENERAL PUBLIC WORKS PROGRAM

The General Public Works Program would be cut 10, 16, and 20 percent, respectively, under the three reductions proposed by the Senate Finance Committee.

In the original 1942 Budget, public works expenditures were cut 10 percent below the estimated expenditures for the fiscal year 1941. From the point of view of nondefense work the cut was even greater because of a shift to large power and other projects essential to the defense effort.

Subsequent to presentation of the Budget, it became necessary to request additional appropriations for important public works projects such as new power projects under the Tennessee Valley Authority and the Department of the Interior. These projects are classed as "nondefense" expenditures, although they obviously spring directly out of the defense program.

Reclamation, river and harbor, and public building projects, not directly related to defense but already under way, were continued when stoppage would have meant waste. Their rate of construction is now being spread over a longer period of time than originally planned. No new public works other than those vital for defense are planned for the current fiscal year.

A big item in the public works program is the grants to States for Federal highways. These expenditures, to a large extent, reimburse States for the cost of work authorized and entered upon in the previous year. A reduction in the 1942 estimates for this function would be in conflict with legislative commitments.

Given all these circumstances, a further reduction in public works is practically impossible without curtailing works essential for defense or breaking legislative commitments. Application of the percentages of reduction mentioned in the opening paragraph of this section would require elimination of items such as the appropriations for

public land highways, many activities of the Tennessee Valley Authority, and the preparation of projects which may be essential in a post-defense period.

C. AIDS TO AGRICULTURE

Of the \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000 cuts, the tabulation shows that the agricultural-aid programs would have to contribute 29, 44, and 46 percent, respectively, of their original Budget estimates.

The original 1942 estimates were slightly below those for the preceding year. The war in its initial period affected various sectors of American agriculture in very diverse ways. Certain groups of farmers faced increasing difficulties because of the loss of foreign markets while other groups benefited from improved domestic conditions. In December of 1940, when the original program for 1942 was formulated, a small reduction in outlays for farm aid appeared reasonable. Congress, however, went beyond the President's recommendations.

In recent months the agricultural situation has shown a marked improvement as compared with conditions at the end of 1940. Influenced by further increases in domestic purchasing power and to an even greater extent by large-scale food purchases for Great Britain, farm incomes have risen rapidly (see appendix E).

General improvement in farm conditions, extending to almost all types of farmers, will permit a substantial reduction of Government aid at some future time. The words "future time" are used because there is a considerable interval between the time when farm conditions improve and the date when reduction in farm-aid payments is possible. Parity payments are intended to make up for the disparity between the farm prices of the preceding year and the parity prices of the same period. In other words, the amount of payments made in fiscal 1942 depends largely on farm conditions which existed in the calendar year 1940.

Likewise, payments for conservation and use of agricultural land resources cannot be suddenly curtailed without repudiating moral obligations. The Department of Agriculture announces its program in the fall so that the farmer can decide whether or not he intends to participate in the program for the ensuing crop year. Thus, in the late fall of 1940 payment rates for participating in the 1941 crop program were announced. These payments, in turn, will be made out of funds provided by 1942 appropriations.

In order to achieve curtailments of the magnitude indicated above, parity payments have been reduced by \$50,000,000.

Payments for soil conservation have also been decreased by \$100,000,000 in the first, and \$250,000,000 in the second and third of the hypothetical cuts. The second and third reductions might have far-reaching economic consequences. It must be remembered that the Agricultural Adjustment program now aims at planned increases in production of many commodities as well as curtailments in those crops which contribute heavily to our major surpluses. It is possible that a sharp reduction of this program would cost consumers more in the form of higher prices than it would relieve tax burdens. This consideration does not preclude, of course, the possibility that a lesser

reduction in outlays may be feasible without impairing the fundamental objectives of the program.

In order to attain the total reductions it was also necessary in each case to eliminate the annual appropriation for the disposal of surplus commodities—\$100,000,000 in the original Budget estimate and \$125,000,000 in the actual appropriation. In all three revisions a separate \$100,000,000 permanent appropriation was left untouched. This is an amount equal to the 30 percent of customs revenue which is permanently allocated to the Disposal of Surplus Commodities and mainly used for financing the stamp plan and similar projects.

Elimination of the annual appropriation means, therefore, a curtailment of the funds available for the stamp plan, free school lunches, etc., by one-half of the original estimates for 1942. In making such a revision it should be emphasized that these programs have proved to be highly beneficial in improving the diet of low-income groups among our citizens.

The revisions for agriculture show only a slight increase under the \$2,000,000,000 cut, as compared with the \$1,500,000,000 cut. A further reduction would compel either repudiation of the commitments made for parity payments or a change in the law permanently allocating an amount equal to 30 percent of customs revenue to agricultural aid. Otherwise the only other alternative would be disruption of the machinery developed for agricultural adjustment.

D. AIDS TO YOUTH

To achieve the three over-all cuts reductions of 51, 68, and 95 percent have been indicated for the youth program.

A substantial contraction of the Civilian Conservation Corps and National Youth Administration programs is already under way. Employment opportunities for youth have increased to such an extent that the number of enrollees is decreasing (see appendix K). This development has been taken into account in the reserve established for 1942.

There still remains a body of American youth for whom these programs provide worth-while training and healthful activities. In the larger perspective of national defense this work is not without significance.

Certainly there can be little doubt that some sort of youth program will be necessary in the post-defense period. It would be costly to wreck existing organization which may be urgently needed later.

E. WORK RELIEF

The original Budget estimate for work relief in 1942 was 29 percent below the expenditures of the preceding year. Subsequently the President recommended a further cut of about 10 percent in view of increased employment (see appendixes F and K).

To achieve the over-all cuts posed by the Senate committee, work-relief expenditures were reduced by 32, 49, and 74 percent of the original estimates. In considering such further curtailment of work relief, it must be remembered that the defense program has not affected certain types of workers and certain regions of the country. There are groups of people who are employable but who have great difficulty in

finding employment even in a tight labor market because their technical or other abilities do not fit the qualifications for the available employment. Many such people are now producing useful work on public programs.

The defense program is expected to absorb additional millions of persons, but it is probable that, temporarily at least, increasing defense employment will be wholly or partly offset by rising dismissals in the consumer-goods industries which are forced to lower production because of the lack of material, machinery, transportation facilities, or skilled labor. While most of these people will be eligible for unemployment compensation, needy persons who exhaust their rights before new work is found will be eligible for Work Projects Administration employment.

It also must be understood that 32 percent of present Work Projects Administration workers and 38 percent of Work Projects Administration expenditures are for defense projects. Whether Work Projects Administration is or is not the most appropriate agency for such defense work, the fact remains that elimination of such Work Projects Administration defense projects would necessitate the work being done by some other agency.

A major reduction in work relief may increase the number of general relief cases which must be taken care of by State and local governments. The question whether or not such a development is desirable is related to the whole problem of Federal-State-local fiscal relations.

Under the \$2,000,000,000 reduction program, about three-fourths of work-relief expenditures has been eliminated.

F. SOCIAL SECURITY

Reductions allocated to social-security programs are relatively minor—\$3,000,000, \$6,000,000, and \$51,000,000, respectively, for the three cuts of \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000.

The 1942 Budget provides for a 4-percent increase in social-security expenditures over the preceding year. The increase is caused primarily by additions to Federal grants necessary to match State payments to a rising number of aged persons and to match State payments for increased assistance to dependent children.

The social-security public-assistance programs are not related to defense, but are part of the declared long-range policy of the Congress to aid the helpless indigent. The payments do not directly reduce either labor or materials available for defense.

Like any income payment, assistance payments may contribute to the inflationary pressure through making more funds available which the recipients can spend. But by providing a minimum income to people on the bottom of the income pyramid, such payments create purchasing power which is used primarily for goods and services that are neither scarce nor compete with defense.

In allocating the committee's reductions this report has precluded revisions of certain fixed commitments such as debt service, minimized reductions involving legislative changes, and avoided reductions which would disrupt law enforcement and other essential operations of the Government.

Under this approach, those social and economic programs which are not fixed by legal commitments must bear the brunt of any major reductions.

A substantially different result is obtainable only if the approach is changed. If, for instance, to make a \$2,000,000,000 reduction, veterans' pensions were cut, debt service reduced, and Federal grants-in-aid curtailed, then it would be possible to preserve a substantial part of the social and economic programs. Still other approaches to allocation of reductions are possible.

This report presents one schedule of revisions based on the resolution of the committee.

APPENDIXES

APPENDIX A

RESOLUTION OF SENATE FINANCE COMMITTEE

Resolved, by the Committee on Finance of the Senate, acting under the authority vested in it by section 20 of the Budget and Accounting Act of 1921, That the Director of the Bureau of the Budget be requested to transmit to the chairman of said committee, as promptly as possible, but not later than the 15th day of October 1941, such detailed revisions of the estimates of expenditures for the fiscal year ending June 30, 1942, as he would make if he had been instructed to prepare three Budget estimates for such fiscal year in which the total annual expenditures for nondefense purposes were less by one billion dollars (\$1,000,000,000), by one and one-half billion dollars (\$1,500,000,000), and by two billion dollars (\$2,000,000,000), respectively, than the total amounts appropriated for such nondefense purposes for such fiscal year, and to transmit to the chairman of said committee, together with such revisions of estimates, complete data showing all items which were classified or considered as being nondefense expenditures in the Budget estimates for the fiscal year ending June 30, 1940, and which, in the Budget estimates of expenditures for the fiscal year ending June 30, 1941, or for the current fiscal year, have been included, directly or indirectly, as defense expenditures, and are now classified or considered as being defense expenditures.

Resolved further, That the chairman of said committee be directed to transmit to the chairman of the Committee on Appropriations of the Senate and to the chairman of the Committee to Investigate Nonessential Federal Expenditures established by the Revenue Act of 1941 copies of the revisions of estimates and other data transmitted by the Director of the Bureau of the Budget pursuant to this resolution.

Resolved further, That the chairman of the Committee on Finance of the Senate be directed to transmit a copy of this resolution, immediately upon its adoption, to the Director of the Bureau of the Budget.

Adopted by the Committee on Finance of the Senate, August 28, 1941.

(Signed) WALTER F. GEORGE,
Chairman.

APPENDIX B

Items classified as "national defense" in the Budget documents for 1940, 1941, and 1942, and as of Oct. 1, 1941

Items	How classified			
	In 1940 Budget document	In 1941 Budget document	In 1942 Budget document	On Oct. 1, 1941 (current)
War Department—military activities..	Defense.....	Defense.....	Defense.....	Defense.
Navy Department.....	do.....	do.....	do.....	Do.
Other agencies:				
Executive Office of the President:				
Bureau of the Budget—national-defense activities....	(¹)	(¹)	do.....	Do.
National Resources Planning Board—national-defense activities.....	(¹)	(¹)	do.....	Do.
Office of Government Reports—national-defense activities.....	(¹)	(¹)	do.....	Nondefense.
Office for Emergency Management.....	(¹)	(¹)	do.....	Defense.
Emergency funds for the President.....	(¹)	(¹)	do.....	Do.
Defense aid (lend-lease).....	(¹)	(¹)	(¹)	Do.

¹ Indicates that item was provided for after submission of Budget document.

Items classified as "national defense" in the Budget documents for 1940, 1941, and 1942, and as of Oct. 1, 1941—Continued

Items	How classified			
	In 1940 Budget document	In 1941 Budget document	In 1942 Budget document	On Oct. 1, 1941 (current)
Other agencies—Continued.				
Civil Service Commission—national-defense activities.....	(1)	(1)	Defense.....	Defense.
Federal Communications Commission—national-defense activities.....	(1)	(1)	do.....	Do.
Federal Power Commission—national-defense activities.....	(1)	(1)	do.....	Do.
Interstate Commerce Commission—national-defense activities.....	(1)	(1)	(1)	Do.
Selective Service System.....	(1)	(1)	Defense.....	Do.
U. S. Maritime Commission:				
Emergency ship construction.....	(1)	(1)	(1)	Do.
Ship construction fund.....	Nondefense...	Nondefense...	Nondefense...	Do.
Tennessee Valley Authority—additional power installations.....	(1)	(1)	Defense.....	Nondefense.
Federal Security Agency:				
National Youth Administration—defense training.....	(1)	(1)	do.....	Defense.
Office of Education—education and training.....	(1)	(1)	do.....	Do.
Public Health Service—emergency health and sanitation activities.....	(1)	(1)	(1)	Do.
Social Security Board—selecting, testing, and placement of defense workers.....	(1)	(1)	Defense.....	Do.
Federal Works Agency:				
Defense public works (community facilities).....	(1)	(1)	(1)	Do.
National-defense housing.....	(1)	(1)	Defense.....	Do.
Commerce:				
National Inventor's Council.....	(1)	(1)	do.....	Do.
Civil Aeronautics:				
Development of landing areas.....	(1)	(1)	do.....	Do.
Civilian pilot training.....	(1)	Nondefense...	do.....	Do.
Interior:				
Government in the Territories—construction of Palmer-Richardson Road, Alaska.....	(1)	(1)	(1)	Do.
Bureau of Mines—helium plants and other national-defense activities.....	(1)	(1)	(1)	Do.
Reclamation—protection of project works.....	(1)	(1)	(1)	Do.
Justice:				
Federal Bureau of Investigation—national-defense activities.....	(1)	Defense.....	Defense.....	Do.
Special national-defense unit.....	(1)	(1)	(1)	Do.
Labor:				
Office of the Secretary—apprentice training, health and safety work, and Commissioner of Conciliation.....	(1)	(1)	(1)	Do.
Bureau of Labor Statistics—post-defense economic reconstruction problems and occupational outlook studies.....	(1)	(1)	(1)	Do.
State: National-defense activities.....	(1)	(1)	Defense.....	Do.
Treasury:				
Coast Guard—national-defense activities.....	(1)	Defense.....	do.....	Nondefense.
Procurement Division—strategic and critical materials.....	(1)	Nondefense.....	do.....	Defense.
War (nonmilitary), Panama Canal:				
Additional facilities.....	(1)	Defense.....	do.....	Do.
Protective works.....	(1)	do.....	do.....	Nondefense.

¹ Indicates that item was provided for after submission of Budget document.

APPENDIX C

Nondefense 1942 appropriations and expenditures, and hypothetical revisions to cut Budget estimates of expenditures by \$1,000,000,000, \$1,500,000,000, and \$2,000,000,000

[In millions of dollars]

Activity	Estimate of appropriations in 1942 Budget	Estimated expenditures in 1942 Budget	Actual appropriations to Oct. 5, 1941 ¹	Revised estimate of expenditures, 1942 (Oct. 5, 1941)	Hypothetical expenditures under Budget estimates of expenditures (column 2) of—		
					\$1,000,000,000	\$1,500,000,000	\$2,000,000,000
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Legislative, judicial, and executive.....	43	41	41	39	41	41	41
2. Civil departments and agencies.....	807	833	880	823	755	730	700
3. General Public Works Program.....	450	533	623	620	478	447	427
4. Veterans' pensions and benefits.....	575	564	575	566	552	551	550
5. Aids to agriculture.....	915	1,061	1,101	1,155	758	593	578
6. Aids to youth.....	372	363	339	290	178	118	19
7. Social security.....	473	463	467	468	460	457	412
8. Work relief.....	995	1,034	886	940	707	524	270
9. Refunds.....	82	89	82	87	89	89	89
10. Interest on the public debt.....	1,225	1,225	1,275	1,275	1,225	1,225	1,225
11. Transfers to trust accounts.....	274	275	274	268	263	256	245
12. Supplemental items—regular.....	100	100	50	50	75	50	25
Total, excluding debt retirement.	6,311	6,581	6,593	6,581	5,581	5,081	4,581

¹ Includes supplemental estimates pending before Congress, Oct. 5, 1941, and an estimate of further supplementals to be transmitted.

APPENDIX D

1942 nondefense expenditure estimates by type of commitment—estimate as of Jan. 3, 1941

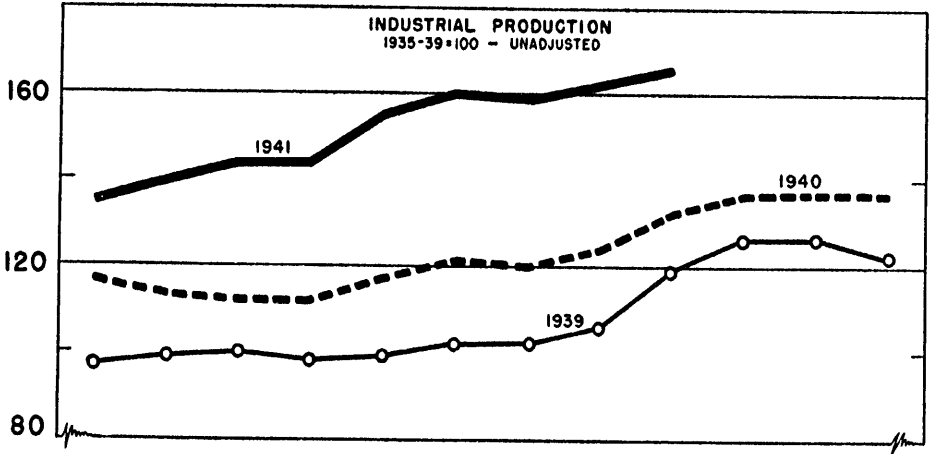
[In millions of dollars]

Legal and quasi legal commitments:	
Interest on the public debt.....	1, 225
Refunds of receipts.....	89
Veterans' pensions and insurance.....	461
Transfers to trust accounts.....	275
Social-security grants in aid.....	436
Total legal and quasi legal commitments.....	2, 486
Legislative commitments:	
Legislative and judicial.....	38
Civil departments and agencies.....	123
Grants in aid for public roads.....	160
30 percent of tariff receipts to remove agricultural surpluses.....	100
Parity payments.....	205
Sugar Act administration.....	48
Reduction in interest rates.....	36
Total legislative commitments.....	710
Total fixed commitments.....	3, 196
Other expenditures:	
Executive office.....	3
Civil departments and agencies.....	726
General Public Works Program.....	363
Veterans' benefits (hospitalization, administration, etc.).....	104
Aids to agriculture.....	672
Aids to youth.....	363
Social security (administration).....	26
Work relief.....	1, 028
Supplemental items—regular.....	100
Total other expenditures.....	3, 385
Total nondefense expenditures.....	6, 581

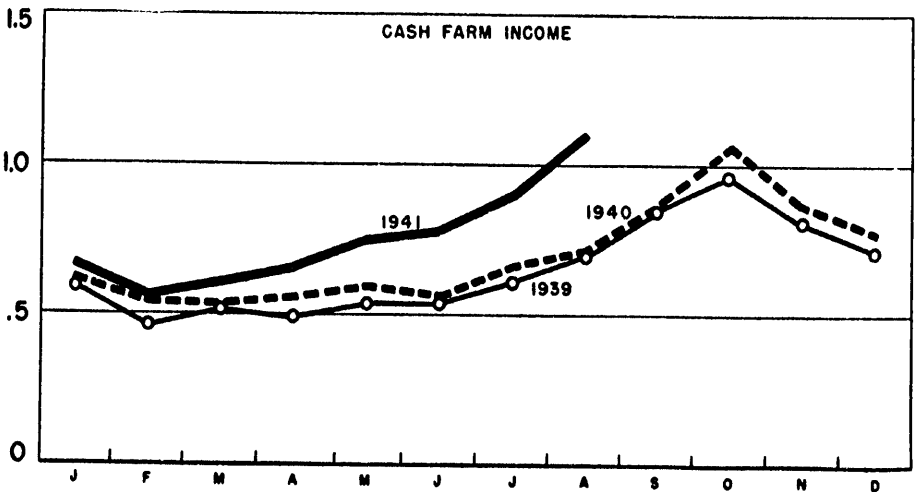
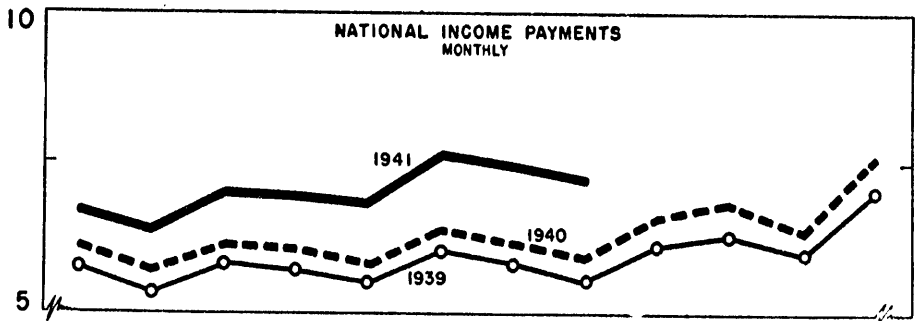
APPENDIX E

INCOME AND INDUSTRIAL PRODUCTION

INDEX NUMBERS



BILLIONS OF DOLLARS

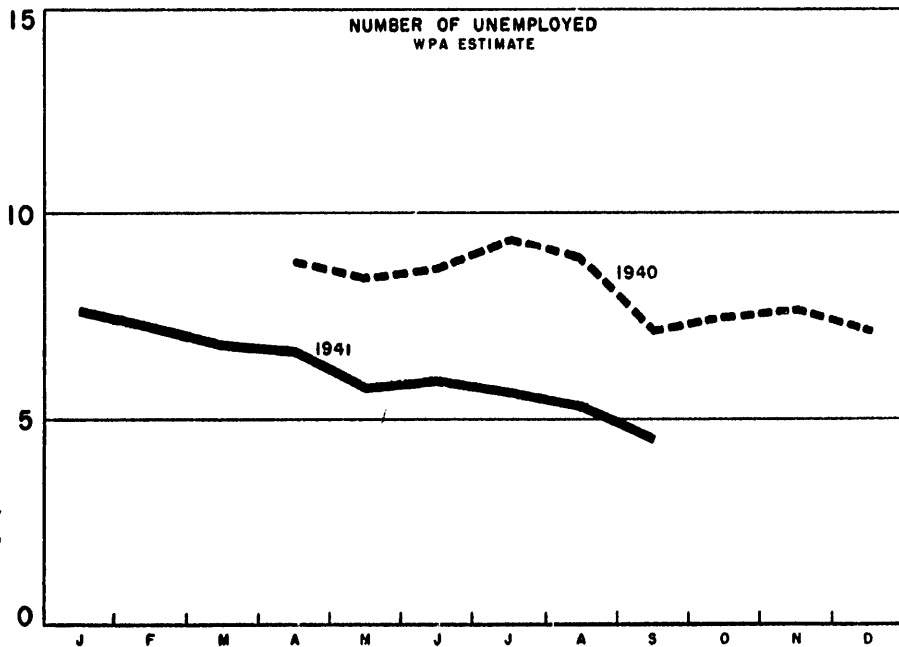
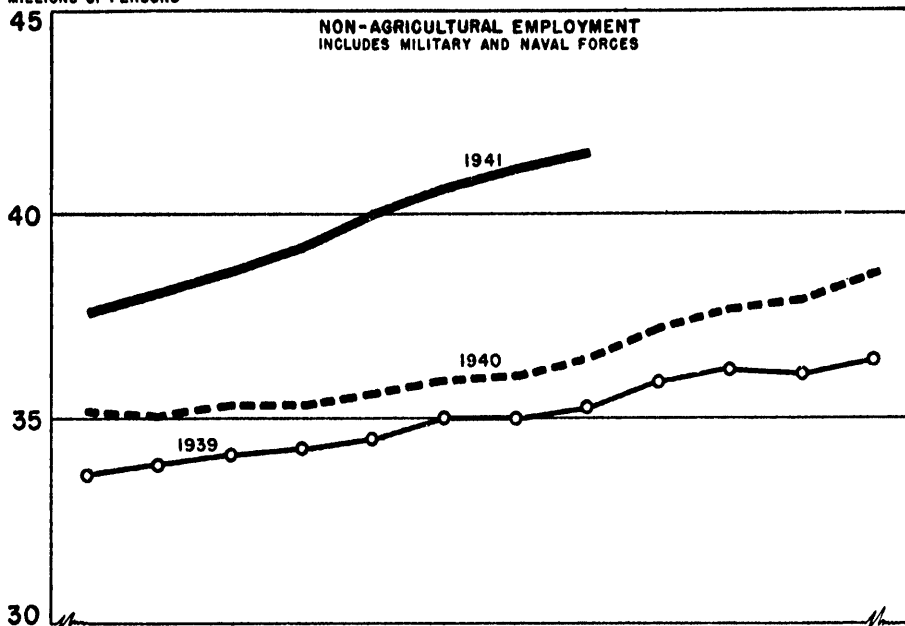


SOURCE: F. R. S., DEPT. OF COMMERCE, DEPT. OF AGRICULTURE

APPENDIX F

EMPLOYMENT AND UNEMPLOYMENT

MILLIONS OF PERSONS

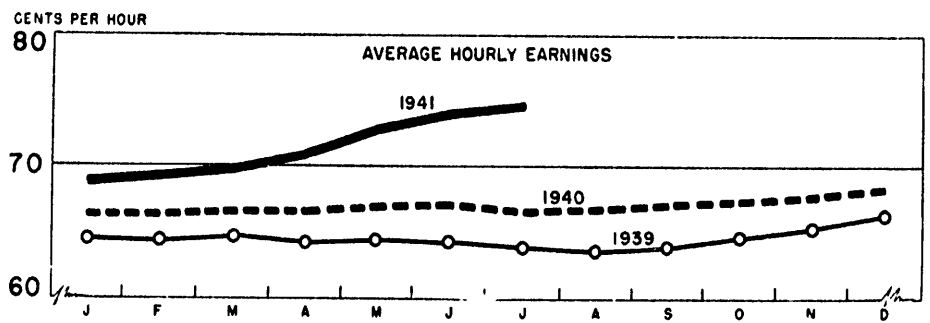
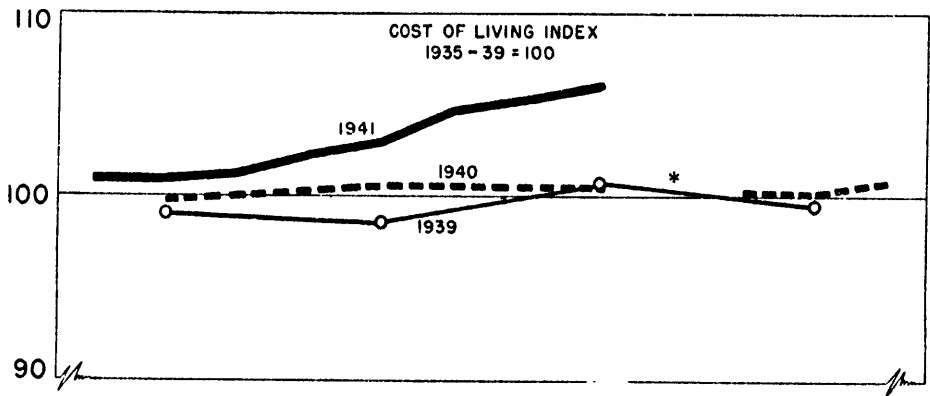
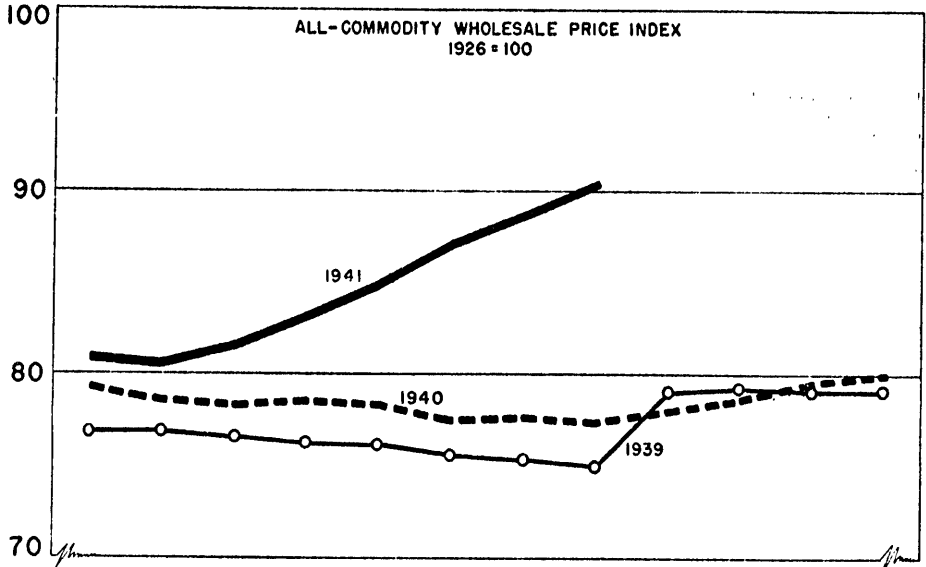


SOURCE: B.L.S., W.P.A.

APPENDIX G

PRICES, COST OF LIVING, AND EARNINGS

INDEX NUMBERS



SOURCE: B.L.S.

* MONTHLY AFTER SEPT. 1940

APPENDIX H

*Reductions in individual programs compared with total reductions*¹

[In millions of dollars]

Activity	Reductions to achieve total cut of—					
	\$1,000,000,000		\$1,500,000,000		\$2,000,000,000	
	Amount	Percent	Amount	Percent	Amount	Percent
Legislative, judicial, and executive.....	(²)	0	(²)	0	(²)	0
Civil departments and agencies.....	78	7.8	103	6.9	133	6.6
General Public Works Program.....	55	5.5	86	5.7	106	5.3
Veterans' pensions and benefits.....	12	1.2	13	.9	14	.7
Aids to agriculture.....	303	30.3	468	31.2	483	24.1
Aids to youth.....	185	18.5	245	16.3	344	17.2
Social security.....	3	.3	6	.4	51	2.6
Work relief.....	327	32.7	510	34.0	764	38.2
Refunds.....	0	0	0	0	0	0
Interest on the public debt.....	0	0	0	0	0	0
Transfers to trust accounts.....	12	1.2	19	1.3	30	1.5
Supplemental items, regular.....	25	2.5	50	3.3	75	3.8
Total reductions.....	1,000	100.0	1,500	100.0	2,000	100.0

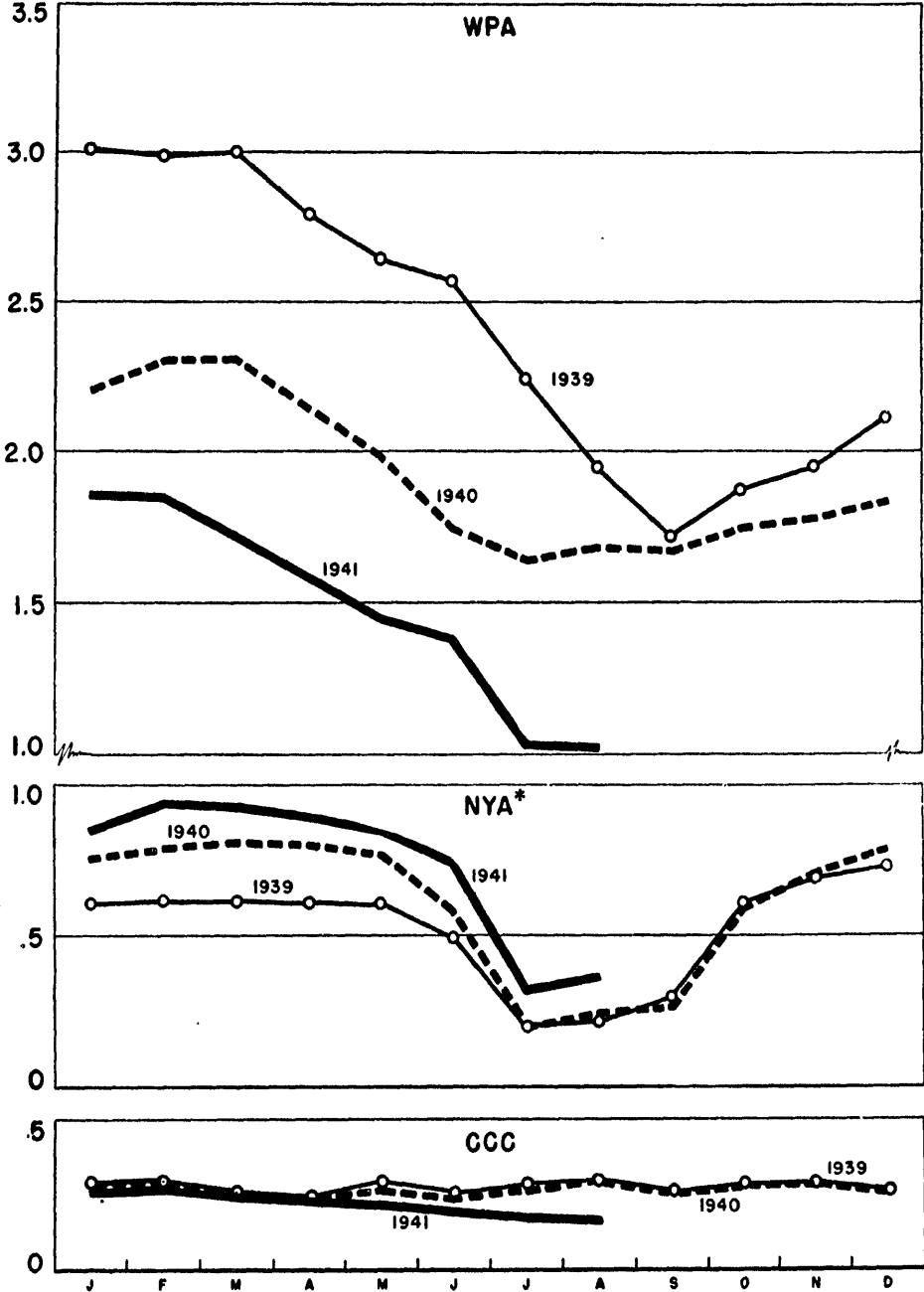
¹ These revisions reflect allocations of the total reductions posed by the Senate Finance Committee, and are not to be considered as recommendations of the Director of the Budget.

² Less than \$500,000.

APPENDIX K

NUMBER OF PERSONS RECEIVING WORK RELIEF

MILLIONS OF PERSONS



SOURCE: SOCIAL SECURITY BULLETIN

*INCLUDES DEFENSE TRAINING SINCE JULY 1, 1941

