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From the desk of

GEORGE HARDING

7-31-62

Dear Congressman Ford -
Thanks a lot for
your address draft.
I'm returning same
to you. Under separate
cover I'm sending a
copy of Michigan
Tribune for July 28-62
containing your comment.

Thanks again,
Geo. A. Harding
Editor



MICHIGAN BANKERS ASSOCIATION

CONVENTION

June 23, 1962

JFK - "must list"

I. Tax Bill; current status, etc.

II. Demands for greatly increased executive power.

25 new demands 1962

III. Fiscal myths - JFK's Yale commencement address;

Turning to what he called "fiscal myths," Mr. Kennedy said:

"We persist in measuring our Federal fiscal integrity today by the conventional, or administrative, budget, with results which would be regarded as absurd in any business firm, in any country of Europe, or in any careful assessment of the reality of our national finances.

"The administrative budget has sound administrative uses. But for wider purposes it is less helpful. It omits our special trust funds and the effect they have on our economy, It neglects changes in assets or inventories. It cannot tell a loan from a straight expenditure. And worst of all it cannot distinguish between operating expenditures and long-term investments."

1). What are the types of Budgets involved in this controversy.



Speech - reaction
Comments -
1) bond allocations etc. - principal
2) Others have said - when things go wrong is good to attempt to change

a). ADMINISTRATIVE BUDGET

This budget, often called simply the conventional budget, is most familiar to Americans. It is presented to Congress by the President each January. In this document are the expected expenditures of Government agencies for the coming year and the anticipated revenues. Certain items have traditionally been included and excluded in this budget. Generally, the receipts represent anticipated cash inflows. They are figured on such estimates as future economic conditions; expenditure estimates are geared to Congressional action on new programs and the cost of current programs.

Certain large items are excluded, in particular the giant trust funds operated by the government. Two major funds are Social Security and highways. The matter of trust funds have become increasingly important as they have grown in number and size.

b). CONSOLIDATED CASH BUDGET

This budget has similarities to the conventional budget. The cash budget is designed to show the flow of money between the Federal Government and the public as a whole. It represents the addition of some estimated items



to the conventional budget totals and the elimination of certain items which would otherwise be counted twice as a result of the additional items. To obtain this budget, three basic adjustments are made in the conventional budget:

1. receipts and expenditures of trust funds and Government-sponsored enterprises are added (included in the enterprises are: the Federal Deposit Insurance Corporation, the Federal home loan banks, the Federal land banks, the banks for co-operatives and the Federal intermediate credit banks);
2. ii. intragovernmental transactions (that is, those completely within the accounts of the budget, trust funds and Government-sponsored enterprises) are eliminated because they do not involve any flow of money with the public;
3. iii. adjustments to place a limited number of non-cash transactions on a cash basis are necessary. An example of the last item is interest on savings bonds which is considered a budget expenditure as it accrues but is not included as a payment to the public until it is paid.

In comparing the budgets, it should be noted that receipts and expenditures in the cash and national income accounts budgets include the trust funds for

highways, Federal disability insurance, Federal old-age and survivors insurance, Federal employees retirements, railroad retirement, unemployment, veterans life insurance, and other smaller items.

c). Capital Budget or National Income Accounts Budgets.

Proposal would list only a part of the federal government's annual outlay as "expenses" and would set up inventories and properties as "investments" or capital assets.

To put it simply, on the one hand all federal treasury receipts would be shown as revenue but on the other hand all current federal spending would not be shown as an expenditure.

d). Let's compare the three budgets:

	1961	1962	1963
Administrative	-3,856	-6,975	+ 463
Cash	-2,286	-8,524	+1,810
Capital	-2,200	- 500	+4,410

e). "It is interesting to recalculate, from (comparative tables in the budget *investment accounts.* DEFINITION document) how the budget for fiscal '62 would look if all the \$34.5 billion investment expenditures were segregated from the current budget. We would



"then have \$54.6 billion current expenditures to be netted against estimated receipts of \$82.1 billion for a lovely current account surplus of \$27.5 billion. Yet such a surplus would be no more than an accounting fiction--- available neither for reduction of public debt, nor for lowering of tax burdens, nor for expansion of spending. The fact is that the whole of this mythical surplus, and \$7 billion besides, are scheduled to be spent."

f.) "The attraction of the capital budget is the opportunity it affords to achieve an artificial balance in the operating budget by shifting outlays from the current accounts to the capital budget by changes in definition."

g.) "The United Nations, against this broad background, put out in 1951 a pamphlet on "Budgetary Structure and Classification of Government Accounts" which warned:

..... asset acquisition, taken by itself, is not an adequate justification for government borrowing, and a separation of current and capital accounts should not be undertaken for the purpose of rationalizing government debt creation. "



II. With this background I would like to express several personal opinions.

I am most fearful that the Kennedy Administration will propagandize and sell this theory of account juggling and then use a fictitious surplus to justify a tax reduction and at the same time continue its reckless policy of spending tax revenues and borrowed money.

I firmly believe without a change in budgetary practices but by the *determined* reduction of federal expenditures a surplus can be accumulated for use in reducing the national debt or for a bona fide tax reduction.

III. What is a myth?

(A). (Dictionary definition) MYTH. (Greek "mythos" myth, fable, tale, talk, speech, of uncert. origin;) 1. A story, the origin of which is forgotten, that ostensibly relates historical events, which are usually of such character as to serve to explain some practice, belief, institution, or natural phenomena. Myths are especially associated with religious rites and beliefs, so that mythology is generally reckoned a part of religion; a non-religious story of mythical character is generally called a fable or a folk tale. Among the classes of myths commonly distinguished are: Culture myths, comprising stories in which some hero (man, god, or animal) is said to have imparted the arts of life to man; Nature myths, in which phenomena of nature are fictively described esp. as to their origins; Theogenic myths, narrating the origin of gods;

Etiological myths, stories of fictive events given as causes of given rites or customs. 2. a. A similar story invented as a veiled explanation of a truth; a parable or allegory; esp. one of Plato's philosophical allegories. b. The ~~time~~ theme or plot of a mythical tale occurring in forms differing only in detail. 3. A person or thing existing only in imagination, or whose actual existence is not verifiable. 4. Myths collectively; mythical matter.

B. My observations *- based on this definition :*

1. It is a myth to say that this proposal is new.

a). President Roosevelt and his "brain trust" originally proposed in 1930s.

Daniel Bell, President of American Security & Trust Co., Director of Budget for several years beginning in 1935.

b). Beardsley Ruml said, August 12, 1953, in testifying before House Committee on Ways and Means: "This change has been recommended for years by students, organizations, and Government agencies."

2. It is a myth to contend that the federal government's true fiscal situation is improved by a bookkeeping technique. *The* Capital budget

*Dodge
Thoughts
Bourgeois
Stars*



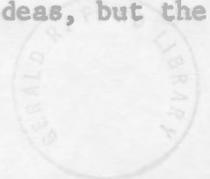
proposal is a gimmick to get rid of the bad word "deficits" and make a better political impression.

Senator Byrd ^{recently} said: "I am opposed to it. I think it's fantastic to try to take all the capital outlay and outright investments by the Government in buildings and construction and appropriations for defense equipment and not charge them to regular expenditures. You would never know where you stood. It's just a way to cover up real deficits. We must not try to fool the people!"

3. Unfortunately the ruthless and powerful propaganda forces of the Executive Branch of the federal government are being marshalled to sell to the unsuspecting American public the myth that the ^{fiscal} ~~apparent~~ ^{strength} ~~solidity~~ of the U. S. Government can be resolved by the use of bookkeeping legerdemain.

In my judgment we will not solve our basic fiscal problems by such a gimmick. "All this brings to mind the quip that Prime Minister Harold Macmillan, head of the Conservative Party in Great Britain, made in 1959 during his campaign against the Socialist Labor Party. He said: 'The opposition has some sound and original ideas, but the

Bell

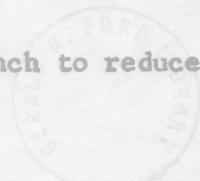


trouble is that some of the original ideas are not sound and some of the sound ideas are not original.' The idea of a 'capital budget' is not original with Mr. Kennedy, and it has been proved unsound every time it has been publicly debated from the days of *Franklin D. Roosevelt* ~~FDR through the years of the Eisenhower administration."~~

4. In evaluating our current fiscal situation may I present some hard and perhaps discouraging facts. Let me assure you this data is not mythical: --

a). On June 15, 1962 the public debt was \$299 billion, approximately \$8 billion more than it was one year earlier.

b). President Kennedy has demanded that the Congress increase the public debt limitation to a new, all-time high of \$308 billion, and during consideration of the legislation by the House of Representatives last week unbelievable pressure was exerted on members of the House to vote for this increase despite documentation that a lower debt limitation was possible without curtailing national defense programs providing there was a will and determination on the part of the Executive Branch to reduce non-essential domestic spending.



c). "DEFENSE SPENDING NOT THE CAUSE: I must point out that

expenditures for the national defense are not the cause of the increase in federal spending in recent years. The great jump in expenditures came in non-defense spending.

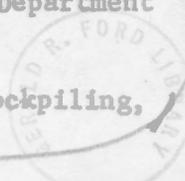
The Korean conflict ended in mid-1953. Using fiscal year 1954, which began on July 1, 1953, as a point of reference and carrying through the current fiscal year ⁽¹⁹⁶²⁾ we find a 9 percent increase in defense spending but an increase in non-defense spending of 85 percent.

Taking the President's 1963 budget and projecting expenditures through next year, we find defense expenditures up only 12 percent while non-defense spending will be increased by 94 percent over 1954.

~~These percentages~~ are based on the budget expenditures for national defense of \$46.9 billion in 1954 and \$52.6 billion in 1963. Comparable figures for non-defense functions are \$20.5 billion and \$39.8 billion. And under defense spending is included not only the regular operation of the Department of Defense but also Selective Service, defense stockpiling,

omit

1962 - 9% / 85%
63 - 12% / 94%



Bunt

military construction, military foreign aid, and the Atomic Energy Commission. Defense spending for our national security is not responsible for continued deficit financing and the enormous public debt.

d). In the past 31 years the federal government has balanced its budget - income versus expenditures - only six times. In 1947, 1948, 1951, 1956, 1957 and 1960.

The cumulative net deficit during this period totals approximately \$270 billion.

During that period of time the purchasing power of the dollar through inflation has eroded to a value of 48¢.

" If we continue on this course of economic recklessness and fiscal brakemanship, we are playing Russian roulette with our freedom and our destiny." -- Maurice Stans, budget director under President Eisenhower, ."

e). Despite some short-term expedients taken to meet the continuing problem of the balance of payments it must be admitted that this most urgent economic problem still confronts the U. S.



calendar
In 1961, our balance of payments deficit was reduced, but this improvement was limited to the first half of the year and must primarily be credited to advance repayments on long-term U.S. Government obligations by foreign governments. In the second half of 1961 our balance of payments position worsened dramatically and thus far in 1962 there is no encouraging trend.

"The longer-range and fundamental solution to our balance-of-payments problem will depend on our ability to increase earnings abroad through an expansion of exports of goods and services, and income on foreign investments, to such magnitude as will generate a favorable balance of payments in the private sector sufficient in size to cover our foreign expenditures under governmental programs.

"This essential correction can be achieved only if the costs of production of American goods are competitive in an increasingly competitive world market.

"This focuses attention upon the urgent need to eliminate monopoly power from both labor and industry, wherever present, so that the forces of the free market can operate to bring about the needed improvements in the efficiency of our economy.



"It also focuses attention on the urgency of maintaining confidence in the integrity of the dollar and of avoiding the generation of inflationary forces. This requires the exercise of fiscal discipline and the avoidance of inflationary finance.

"If we are to fulfill our responsibilities at home and abroad, and deal effectively with our balance-of-payments difficulties, we must overcome the obstacles which stand in the way of our economic progress.

"High on the agenda of reforms needed to promote a better economic climate is a fundamental revision of our tax system, including depreciation reform to induce greater savings, and increased investment in domestic productive enterprise."

5. With this background we should ask the question, Has not the Kennedy Administration changed fiscal policy for the federal government?

6. COMPARISON of Eisenhower fiscal year 1962 budget and Kennedy fiscal year 1963 budget.

MARTIN

