Franklin Roosevelt's Credit Budgeting

by Michael Kirsch

This is Part III of a lecture given on July 29, 2013, available here. Click www.larouchepac/node/29274 for Part IV.

In Franklin Roosevelt's budget addresses of 1934-40, he is presenting the true understanding of debt upon which the Bank of the United States operated. And it becomes clear that Roosevelt generated increased productivity through that correct understanding.

So what does he do? As Hamilton did, when he became the veritable financier of the government, in the middle of the Revolutionary War or, as Alexander Dallas said when he came in as Treasury Secretary under James Madison, Roosevelt said the chief issue is restoring public credit. In his Jan. 3, 1934 budget address:

> I have outlined the steps taken since last March for the resumption of normal activities and the restoration of the credit of the Government. Of necessity these many measures have caused spending by the Government far in excess of the income of the Government.
>
> The results of expenditures already made show themselves in concrete form in better prices for farm commodities, in renewed business activity, in increased employment, in reopening of and restored confidence in banks, and in well-organized relief.

Tax receipts were way down in 1932 and 1933 because the government had taken a hands-off approach during Herbert Hoover's Administration (1929-33). Therefore, even normal functions of the government could not be carried out without creating a mounting deficit. We had to borrow a lot more than our revenues. But, we saw, now, by using the credit institutions, we had better prices for farm commodities, renewed business activity, increased employment, and so forth.

FDR continues, characterizing it as follows:

> This excess of expenditures over revenues amounting to over 9 billion dollars during 2 fiscal years has been rendered necessary to bring the country to a sound condition after the unexampled crisis which we encountered last spring. It is a large amount, but the immeasurable benefits justify the cost.
>
> It is by laying a foundation of confidence in the present and faith in the future that the upturn which we have so far seen will become cumulative. The cornerstone of this foundation is the good credit of the Government.

We would restore the public credit by creating a real physical surplus, which is the idea of a productivity budget, rather than monetary budget. And he concludes that address as follows:

> If we maintain the course I have outlined, we can confidently look forward to cumulative beneficial forces represented by increased volume of business, more general profit, greater employment, a diminution of relief expenditures, larger governmental receipts and repayments, and greater human happiness.

Under Hoover: Higher Taxes; Reduced Revenues

Later, in his Jan. 3, 1936 budget address, he comes back to this same theme, saying that in 1933, in spite of huge tax increases by Hoover, "federal tax receipts had fallen to such a low level that even normal expenses of Government could not be carried on without creating a mounting deficit." He continues:

> The national policy which we then adopted sought to stop the downward economic spiral by taking simultaneous action along a dozen fronts. The chief objectives were: To make bank deposits secure, to save farms and homes from foreclosure, to start public works on a large scale, to encourage home building, to increase farm crop values, to give useful work instead of a dole to the needy unemployed, to reduce all interest rates, to increase foreign trade in both exports and imports, to extend Government credit to railroads

Following the example of Hamilton, FDR reestablished the principle of public credit. "It is by laying a foundation of confidence in the present and faith in the future that the upturn which we have so far seen will become cumulative."

> and other privately owned activities, to reduce unsound and generally disastrous speculation, to eliminate starvation wages, to seek a higher level of values, and then to maintain those values.

And, what he ends up saying in that 1936 budget address, is you start to see these increased tax receipts come in from all of the the economic activity that is going on, due to the increased spending. And he continues to make the point throughout. Let it be remembered, he said, I want to make a point that what we are seeing coming now is not from a few taxes: "I emphasize that the great bulk of increased Government income referred to above results from increased earning power and profits throughout the Nation and not from the new taxes imposed by the Revenue Act of 1935."

There were some new taxes imposed, but he is pointing out from the budget, that it was through the increasing earning power and profits that generated the increase in tax receipts. And, he also points out, that while a great increase of expenditures of the government was required by this crisis, a lot of it was in the form of loans, which would ultimately return to the Treasury—loans through the Reconstruction Finance Corporation and other lending institutions that were going to come back.

He concludes the 1936 address, saying:

> The finances of the Government are in better condition than at any time in the past seven years. I say this because starting with the autumn of 1929, tax receipts began a steady and alarming decline while, at the same time, Government expenditures began a steady rise; today, tax receipts are continuing a steady climb which commenced in the summer of 1933, whereas Budget estimates for the next fiscal year will show a decreased need for appropriations.
>
> "Our policy is succeeding. The figures prove it. Secure in the knowledge that steadily decreasing deficits will turn in time into steadily increasing surpluses, and that it is the deficit of today which is making possible the surplus of tomorrow, let us pursue the course that we have mapped.

It is pretty elementary. He is borrowing from the public; he is borrowing from those banks which he has reorganized with Glass-Steagall, but the borrowed funds are going toward things that are definitely going to increase the productivity of the country. That should be an elementary idea. But today, people have become stupid: *They are thinking about a debt as an object,* unconnected, completely in a vacuum. They are not looking at the fact that the government has to appropriate things as in order to generate increased wealth.

And, people rail against taxation, while at the same time they are all for Wall Street's control of the economy, which acts itself as a tax on the people in every single transaction that occurs, through their their rigging, their speculation, and even the outright buying and hoarding of raw materials, of which JP Morgan was found guilty.

Budget Cuts and the 1937 Recession

In his Jan. 3, 1940 budget address, FDR reviews what happened to the progress that he spoke of in his 1936 address. He points out in 1940, looking back, that some people were eager to keep cutting the budget, which was the chief cause of the 1937 recession, in the course of making some other very important points.

He writes: "In the early thirties—prior to 1933—fiscal policy was exceedingly simple in theory and extraordinarily disastrous in practice. It consisted in trying to keep expenditures as low as possible in the face of shrinking national income." Sound familiar? "Persistence in this attempt came near to bankrupting both our people and our Government." And that was the "simple machine" policy of Andrew Jackson. Roosevelt continues:

> Following 1933, the fiscal policy of the Govern-

ment was more realistically adapted to the needs of the people. All about were idle men, idle factories, and idle funds, and yet the people were in desperate need of more goods than they had the purchasing power to acquire.

People were out holding money, banks were doing nothing, because they had not been reorganized yet. They were sitting with real wealth, but they also had ballooned speculative wealth, and the actual wealth that banks had through the savings of people and larger productive entities could have been put into use, but had to first be reorganized.

He continues:

> The Government deliberately set itself to correct these conditions by borrowing idle funds to put idle men and idle factories to work. The deliberate use of Government funds and of Government credit to energize private enterprise … had a profound effect both on Government and on private incomes.
>
> …The national income in four years rose 69 percent from 42 billion dollars in 1933 to 72 billion dollars in 1937, the largest absolute rise for any four-year period in our history, not even excepting the rise during the World War.

And then he says, as mentioned above, that unfortunately, some people wanted to balance the budget, so they started pulling back the whole system that was being created.

> Rapid progress was made toward a balanced budget. By the calendar year 1937 excess of Government cash outgo over Government cash income had dropped to 331 million dollars. Unfortunately, just at the time when it seemed that the Federal Government would be able safely to balance its budget on the basis of a national income of approximately 75 billion dollars, maladjustments in the economic system began to appear and caused a recession in economic activity. The recession was due to a variety of causes stemming in the main from over-optimism which led the Government to curtail its net expenditures too abruptly, and business to expand production and raise prices too sharply for consumers' purchasing power to keep pace. A large volume of unsold goods piled up.

He concludes with a brilliant statement, attacking the false view of debt which was holding back progress and was behind the assumptions, while providing the clear concept that was coincident to the actual increases of productivity that were generated. He writes:

> Debt, whether individual, corporate, or governmental, cannot be judged in a vacuum; it must be considered in light of earnings, assets, and credit standing. When the increase in the national debt is viewed against the background of what was accomplished by the growth of useful physical assets, and of effective national earning power, and by the strengthening of the Nation's credit and morale, there is no economic ground for anxiety, so far as the national debt is concerned, as to the Nation's future. And if our citizens understand the capacity of the Nation to produce increased national income and act thereon with all possible faith and practical energy, they will be in a position to anticipate balanced budgets without curtailing essential social programs.