

MESSAGE TRANSMITTING THE BUDGET

To the Congress of the United States:

Herewith is transmitted the Budget of the United States for the fiscal year ending June 30, 1928. The receipts and expenditures shown in detail in the Budget are summarized in the following statement:

Summary (exclusive of postal revenues and postal expenditures paid from postal revenues)

	Estimated, 1928	Estimated, 1927	Actual, 1926
Receipts:			
Customs.....	\$601, 800, 000. 00	\$616, 800, 000. 00	\$579, 430, 092. 86
Income tax.....	2, 090, 000, 000. 00	2, 190, 000, 000. 00	1, 982, 040, 088. 58
Miscellaneous internal revenue.....	568, 985, 000. 00	619, 685, 000. 00	855, 599, 289. 26
Miscellaneous receipts.....	511, 968, 077. 00	600, 295, 688. 00	545, 686, 219. 44
Total receipts.....	3, 772, 753, 077. 00	4, 026, 780, 688. 00	3, 962, 755, 690. 14
Total expenditures (including reduction of the public debt required by law to be made from ordinary receipts).....	3, 572, 049, 214. 00	3, 643, 701, 593. 00	3, 584, 987, 873. 50
Excess of receipts.....	200, 703, 863. 00	383, 079, 095. 00	377, 767, 816. 64

In carrying out the purposes of the Budget system so wisely prescribed by the Congress in June, 1921, the executive branch and the legislative branch of the Government have been collaborators. It has been a great demonstration of cooperation made possible by our form of government. The results of this united effort have gone directly to the people of this Nation. The real object back of this united effort has been to make the greatest possible return to the people of the money which was taken from them to finance the World War. And this has been accomplished not to the detriment of the Federal service, not by the withholding of funds for necessary and worthy purposes, but to the advantage of that service and of the business of the people. It has required us to put our house in order and to provide for its management in a scientific business way, not alone for its current operations, but also for its future requirements.

In the span of a little more than five years there have been three substantial reductions in taxes. The direct result of this has been that the people have been permitted to retain more of their own earnings for their own use and productive investment. And from this, and probably to a greater extent than from any other cause, has come the great prosperity which now exists in almost all lines in this country.

In considering the question of further tax reduction there are many factors which should be taken into account. During the past five fiscal years the Treasury has had the benefit of receipts aggregating \$950,000,000 representing returns from moneys theretofore expended by the United States, and, in addition, there has been received \$400,000,000 from income taxes for past years in excess of refunds. In the present fiscal year the net income from these items represents about \$250,000,000 of our expected receipts. They are now about at an end, and in the fiscal year 1928 it is estimated the net return from this source will amount to less than \$50,000,000. We have come to the point, therefore, where we will have to rely for the future entirely upon current taxes. The yield from current taxes of the Federal Government is measured by the prosperity of the American people. When business is good and national income is high, our revenue from income taxes based upon a percentage of income is also high. But should the national income decline, the Government would experience a material loss of revenue even under existing rates of tax. Miscellaneous taxes and customs duties are dependent upon the purchasing power of the people, which also is subject to variation with prosperity, and we must expect a decrease in Government revenue from these sources with any drop in the purchases of the American people. Under these conditions our estimated surplus of \$200,000,000 for 1928 is none too large an operating margin in a business involving an annual expenditure of more than three and one-half billions of dollars payable from ordinary receipts, or more than four billions of dollars when we include our postal expenditures payable from postal receipts.

The revenue act of 1926 has been in effect but nine months, and the reduction in miscellaneous taxes has not yet been fully reflected in revenue. We have had too short an experience with the new law to permit an intelligent permanent reduction of tax rates. It must be clear to all that a permanent reduction of rates affects not only the current fiscal year, in which, as I have said, there are included nonrecurring items aggregating \$250,000,000, but the next and succeeding fiscal years in which nonrecurring items will no longer be material and when current taxes may feel the effect of any change in our prosperity. Business can easily adjust itself to less expenses brought about by less taxes, but it is much more difficult to make an adjustment for more expenses made necessary by more taxes. This

is particularly true with respect to Federal taxes, since the necessity of imposing additional taxes would arise from a decline in prosperity which would decrease governmental revenue below governmental expenditures, a decline which must also affect all taxpayers. Increased taxes to meet Government requirements would come at a time not of prosperity but of depression, and would aggravate the depression. For these reasons I do not advise the present session of Congress to reduce permanently our tax rates or abolish any particular tax. Each of the three reductions in taxes which have been enacted by the Congress since the fiscal year 1921 have been predicated on an assurance that our financial condition warranted it. No such assurance can be given to-day as a warrant for future permanent tax reduction.

With our still enormous national debt amounting to nearly nineteen and one-half billion dollars, a surplus can be no embarrassment, since it can be applied without difficulty to the reduction of the interest-bearing obligations of the Government and thus effect a saving in interest costs. Interest is the largest single item of Government expenditure, and its decrease offers the most fruitful subject for permanent reduction of governmental expenditure. We have had since the close of the war an established program of debt reduction through the sinking fund and application of receipts from foreign-debt settlements. This should not be disturbed. But surplus is a factor in debt reduction in addition to the items I have just mentioned. In considering the question of a lessening of the surplus for the current fiscal year it is necessary to weigh the desirability in the present of temporary relief to the American taxpayer against desirability in the future of greater debt reduction now. Should Congress be of the opinion that the surplus estimated for the current fiscal year based upon receipts expected to be received under the existing law is too large, then I suggest a temporary tax reduction measure which will cut down this expected surplus by leaving the excess in the pockets of the American taxpayers.

In determining the form such temporary tax reduction should take, if the Congress proposes one, I believe we should adopt the simplest practical plan which will do equity. It is administratively difficult to consider any arrangement affecting the December 15, 1926, tax payment. Many individuals have already paid their income taxes in full, and time is too short for action by Congress and by the Bureau of Internal Revenue before the December payment. It would not be practicable, either, to postpone the date of the December payment, since there are \$452,000,000 of United States certificates of indebtedness maturing on December 15, 1926, and the Treasury is relying upon cash to be received during that month to assist it in meeting this maturity. It has seemed to me, therefore, that the most practicable way of preventing the accumulation by the close of this fiscal year of a surplus larger than the Congress deems desirable is to authorize a reduction in the taxes which become due in the first six months of the next year; that is, a reduction on the quarterly tax payments due March 15 and June 15, 1927. The amount of this relief should depend upon the surplus which Congress may desire to divert from debt reduction to tax reduction. It is a problem on which the House under the Constitution must originate action.

With the experience of another year's test of the revenue act of 1926, and with a more accurate knowledge which the year will give of what the future has in store for a continuance of our prosperity, we can determine what our permanent policy of taxation shall be. In times of peace we must meet governmental expenditures out of governmental revenues. We should not take by taxation more than our requirements. But also we should not take less than our requirements.

In the Budget for the fiscal year ending June 30, 1927, transmitted to the Congress December 7, 1925, the estimated receipts for the fiscal year 1926 were \$3,880,716,942 and the estimated expenditures \$3,618,675,186. Actual receipts for that year were \$3,962,755,690.14, while actual expenditures totaled but \$3,584,987,873.50—an increase of \$82,038,748.14 in receipts over the Budget estimate, and a decrease in expenditure of \$33,687,312.50 below that estimate, which is approximately 1 per cent of the total expenditure. This increase in receipts and reduction in expenditure increased the estimated surplus by \$115,726,060.64—from \$262,041,756, the Budget estimate, to \$377,767,816.64, the actual surplus.

This brings us to the current fiscal year, of which five full months are now completed. The Budget for 1927 forecast for that year receipts \$3,824,530,203, and expenditures \$3,494,222,308.44, and indicated a surplus of \$330,307,894.56. This favorable forecast made one year ago now may be made even more favorable. With five months of the current year completed, the estimate is now that our receipts will amount to \$4,026,780,688 and our expenditures, \$3,643,701,593, thus forecasting a surplus of \$383,079,095.

While the revised estimate for 1927 shows an increase of \$52,771,200 in the surplus, it also shows a net increase of \$149,500,000 in the estimated expenditure for that year.

This net increase embraces a number of items in which changes, both increases and decreases, have occurred in the year which has ensued since the original estimate was made. On the increase side of the new estimate the principal items are: Pensions, \$41,000,000; construction of public buildings and vessels under the Treasury Department, \$25,000,000; vocational rehabilitation, insurance and compensation under the Veterans' Bureau, \$41,000,000; public

debt reduction, \$50,000,000. The last-mentioned item was due to a corresponding increase in the estimated receipts of funds that are required by law to be applied to debt reduction as a result of new foreign funding agreements made during the year. The other items of increase are due principally to new legislation enacted during the year. On the decrease side the major items are adjusted service certificate fund, \$24,000,000; increased receipts of the War Finance Corporation, applied to a reduction of expenditure, \$15,000,000; and interest on public debt, \$10,000,000. Part of the increase in estimated expenditure was provided by appropriations made during the last session of Congress. There remains to be provided at the present session of the Congress for the 1927 requirements of the Veterans' Bureau \$28,000,000, and for pensions \$41,000,000.

We now come to the estimates of appropriations for the fiscal year 1928. These are summarized in the following statement, in which they are compared with the appropriations for the fiscal year 1927:

Estimates of appropriations for 1928 compared with appropriations for 1927

	Estimates of appropriations, 1928	Appropriations, 1927
Legislative establishment	\$16, 174, 988. 76	\$17, 834, 919. 57
Executive Office	438, 460. 00	819, 460. 00
Independent establishments:		
Alaska Relief Funds.....	15, 000. 00	15, 000. 00
Alien Property Custodian.....	98, 000. 00	130, 650. 00
American Battle Monuments Commission.....	600, 000. 00	800, 000. 00
Arlington Memorial Bridge Commission.....	2, 500, 000. 00	2, 500, 000. 00
Board of Mediation.....	390, 000. 00	285, 220. 00
Board of Tax Appeals.....	570, 000. 00	614, 224. 64
Bureau of Efficiency.....	210, 350. 00	210, 350. 00
Civil Service Commission.....	1, 002, 742. 00	1, 001, 592. 00
Commission of Fine Arts.....	7, 300. 00	5, 295. 00
Employees' Compensation Commission.....	2, 694, 740. 00	2, 744, 540. 00
Federal Board for Vocational Education.....	8, 165, 230. 00	8, 210, 620. 00
Federal Power Commission.....	42, 500. 00	32, 400. 00
Federal Trade Commission.....	984, 350. 00	997, 000. 00
General Accounting Office.....	3, 783, 000. 00	3, 859, 960. 00
Housing Corporation.....	564, 236. 00	673, 398. 00
Interstate Commerce Commission.....	6, 104, 967. 00	6, 153, 157. 00
National Advisory Committee for Aeronautics.....	523, 000. 00	513, 000. 00
Public Buildings Commission.....		260, 000. 00
Public Buildings and Public Parks of the National Capital.....	2, 422, 950. 00	2, 306, 850. 00
Smithsonian Institution and National Museum.....	909, 871. 00	893, 301. 00
Tariff Commission.....	682, 000. 00	699, 000. 00
United States Geographic Board.....	3, 945. 00	345. 00
United States Shipping Board.....	12, 290, 000. 00	24, 198, 574. 00
United States Veterans' Bureau.....	475, 400, 000. 00	462, 965, 000. 00
Other independent offices, etc.....		161, 000. 00
Total, Executive Office and independent establishments	520, 402, 641. 00	521, 049, 936. 64
Department of Agriculture	144, 487, 820. 00	139, 635, 823. 00
Department of Commerce	35, 240, 430. 00	30, 632, 847. 00
Department of the Interior	285, 717, 596. 00	252, 962, 318. 00
Department of Justice	25, 895, 349. 50	25, 628, 707. 00
Department of Labor	8, 558, 540. 00	9, 561, 305. 00
Navy Department	313, 815, 500. 00	322, 061, 975. 00
State Department	11, 969, 119. 41	17, 357, 062. 64
Treasury Department	170, 468, 453. 00	176, 637, 465. 63
War Department, including Panama Canal	366, 722, 142. 00	354, 345, 801. 16
District of Columbia	38, 519, 869. 00	36, 532, 128. 00
Total ordinary	1, 937, 972, 448. 67	1, 904, 240, 288. 64
Reduction in principal of the public debt:		
Sinking fund.....	354, 157, 085. 00	336, 058, 208. 26
Redemption of securities from Federal reserve bank and Federal intermediate credit bank franchise tax receipts.....	800, 000. 00	1, 000, 000. 00
Redemption of bonds, etc., received as repayments of principal and as interest payments on obligations of foreign governments.....	208, 672, 475. 93	232, 923, 596. 58
Principal of the public debt	563, 629, 560. 93	569, 981, 804. 84
Interest on the public debt	755, 000, 000. 00	785, 000, 000. 00
Total payable from the Treasury	3, 256, 602, 009. 60	3, 259, 222, 093. 48
Post Office Department and Postal Service, payable from postal revenues	757, 969, 115. 00	738, 805, 303. 00
Total, including Post Office Department and Postal Service	4, 014, 571, 124. 60	3, 998, 027, 396. 48

¹ Appropriations for the Railroad Labor Board for 1927 were made available for expenses of the Board of Mediation.

This statement indicates that the estimates of appropriations for 1928 payable from the Treasury are \$2,600,000 less than the appropriations for 1927. The estimates for 1928 do not include the amount which will be required in that year, in addition to existing appropriations, for carrying out the public building act of May 25, 1926. An estimate for this purpose, which will amount to approximately \$20,000,000, will be submitted to the Congress later, as all of the essential data has not yet been assembled. On the other hand, the appropriations for 1927 do not take into consideration certain lawful obligations for that year for which it will be necessary to present supplemental estimates to the Congress.

TAX REFUNDS

The appropriations for 1927 and the estimates for 1928 make no provision for tax refunds. There will be needed for the balance of the current year \$119,000,000 and for 1928 the sum of \$152,000,000, approximately. There has been spent this year for this purpose \$34,775,000, so that the expenditures for the two years will fairly balance. The appropriations for this purpose have been completely exhausted. A supplemental estimate to provide for refunds up to and including December, 1927, will be presented to Congress.

NATIONAL DEFENSE

The estimates for the War and Navy Departments total \$680,537,642. In addition to this they provide for availability through contract authorizations and allotments from the naval supply account of \$5,900,000. Eliminating all nonmilitary items, including the retired lists, this Budget provides \$574,000,000 for our national defense. This is a very considerable amount to spend for protection in time of peace. No threatening cloud at the present time darkens the sky. Our intent and attitude is one of peace and friendly regard toward all nations and peoples. This, however, is not sufficient warrant to neglect our defense and default on necessary precautions. In recommending the amount herein carried for the Army and Navy and other national defense factors, I am fully satisfied that with the wise administration we have reason to expect from those charged with its expenditure it will give us an adequate defense program.

With regard to personnel the estimates provide for the Army an average of 11,961 commissioned officers, 1,153 cadets, 1,219 warrant officers, and 115,000 enlisted men, exclusive of the Philippine Scouts, for which provision is made to the number of 6,882. For the Navy provision is made for an average of 7,231 commissioned officers, 1,479 warrant officers, 1,545 midshipmen, and 82,500 enlisted men, and for the Marine Corps 1,020 commissioned officers, 155 warrant officers, and 16,800 enlisted men. These, with our highly trained and efficient National Guard, for which the estimates make provision for an average personnel of 180,000, give us the rather formidable strength of 426,945. But we do not stop here. The estimates contain funds for the War Department for the training of 12,924 reserve officers, for the attendance of 30,000 men at civilian military training camps and for the enrollment of 116,141 students in the units of the Reserve Officers' Training Corps. Under the Navy Department provision is made in the estimates for 14,142 fleet and assigned fleet reserve of the Navy and Marine Corps and the training of 11,145 Navy and Marine Corps reserves.

Taking all of these into account, we are really making provision for military and naval strength of more than 610,000 men. And this does not take into consideration the military and naval retired lists which embrace 14,167 officers and men, or the Coast Guard of 11,969 officers and men which, in time of emergency, becomes an integral part of our national defense. I am in favor of adequate military preparedness, and so far as personnel is concerned we should certainly have this from the funds carried in these estimates.

While on the subject of our national defense it is proper to state that no provision is made in the estimates for the Navy Department for commencing the construction of the remaining three of the eight light cruisers which the act of December 18, 1924, authorizes to be undertaken prior to July 1, 1927. This country is now engaged in negotiations to broaden our existing treaties with the great powers which deal with the elimination of competition in naval armaments. I feel that it would be unfortunate at this time and not in keeping with our attitude toward these negotiations to commence the construction of these three cruisers. Rather do I recommend to the Congress the enactment of legislation which will extend the time for beginning their construction.

With regard to the improvement of Pearl Harbor, Hawaii, an appropriation of \$1,000,000 is available this year for commencing dredging operations. Bids covering the completion of this Navy project will be opened during the current month. A supplemental estimate will be submitted should it be found that additional funds for 1928 are needed for the orderly prosecution and early completion of this important project.

AVIATION IN NATIONAL DEFENSE AND IN COMMERCE

The Congress has recently prescribed a well-digested and orderly program for the further development of the air services of the Army and Navy. The estimates herewith make adequate provision for carrying this program into effect. They provide for the immediate availability of certain amounts for the Air Corps of the Army so as not to

delay the inauguration of the five-year program. As the act defining the Army aircraft program was not approved until July 2, 1926, there was no opportunity to present to the Congress at its last session an estimate for funds fully to carry into effect the first increment during the fiscal year 1927. The estimates submitted herewith make ample provision for carrying into effect that part of the program for 1927 and 1928 which orderly and efficiently can be accomplished. They do not, however, make provision of funds for two full yearly increments, as I do not believe it is the desire of the Congress that we attempt to crowd into less than one and one-half years a full two-year increment. The act of July 2, 1926, increases the authorized commissioned strength of the Air Corps of the Army by 403 officers in yearly increments over the period of the five-year program. No provision for any of these additional officers is made in these estimates, as the Air Corps should first absorb the additional 328 officers necessary to bring its actual strength—919—up to the authorized strength—1,247 under the old law. These 328 additional officers are to be provided from the commissioned force for which provision is made in these estimates. The additional enlisted men authorized for the Air Corps are provided for in the enlisted strength of 115,000 men.

The Navy five-year air program approved June 24, 1926, authorized the construction of two rigid airships of approximately 6,000,000 cubic feet volume, the two to cost not in excess of \$8,000,000. The act provides that the building of one of these ships shall be undertaken as soon as practicable and prior to July 1, 1928. Having in mind that the Congress recently appropriated \$300,000 for the construction of an all-metal airship for experimental purposes, to determine by practical demonstration the type of construction and character of material to govern in the future in the making of lighter-than-air craft, it is thought the part of wisdom to wait upon this determination, even though it may be found necessary to ask for an extension of the time limit placed on the initiation of work on one of the ships.

Briefly summarized, provision is made in this Budget under the appropriation items for the air services and other items which enter into the cost thereof for a total of \$73,477,380 for aviation of the Army and the Navy. This amount embraces \$20,600,000 for the procurement of new planes and \$2,400,000 for the construction of barracks and quarters at aviation fields. It does not, however, include the value of supplies available from war surplus, which would increase this total by a number of millions of dollars.

While discussing the subject of our air services, it is proper here to refer to the other provisions made in this Budget for air navigation. To carry into effect the act to encourage and regulate the use of aircraft in commerce, approved May 20, 1926, the estimates carry for the Department of Commerce \$796,250 for the promotion of air commerce and regulatory work, which includes funds for the procurement of not to exceed 10 airplanes, and \$3,219,500 for the establishment and maintenance of aids to air navigation. The estimates carry \$523,000 for the National Advisory Committee for Aeronautics. Under the Department of Agriculture they provide \$50,000 for the maintenance and operation of airplane patrol in the national forests and \$120,000 for special weather observations for the benefit of air navigation. The estimates for the Postal Service carry for the operation of the air mail service between New York and San Francisco \$2,350,000, with provision that a part of this sum be made available for contract service if the route be leased to private operators and for the contract air mail service \$2,000,000. The estimates for the Coast Guard carry \$186,151 for the operation of its seaplane fleet.

The proper development of the aeronautical industry in this country is essential both to our national defense and commercial aviation. The Federal requirements for aircraft alone are strengthening this industry. The program which the Congress has prescribed for our air forces will assure the industry continuing Federal business and an increase from other sources should accrue to the industry from the legislation for the encouragement of commercial aviation and from the policy which we are following of making contracts with private operators for the air transportation of mail. The Government is operating but one air mail route and proposals have been issued by the Post Office Department with a view of placing this route under contract for operation by private interests. In the production of airplanes and accessories there is no competition between the Federal Government and private industry. It is a fortunate situation when the needs of the Government can be met by affording an orderly stimulation of the industry upon which we depend to supply our needs. The present sound condition of the aeronautical industry in this country shows the wisdom of the policy which we are following. If there is any question as to the failure of our Government to recognize the importance of aviation in national defense and in commerce the answer can be found in the vast sums which heretofore have been appropriated and the legislation enacted by the Congress. The estimates contained in this Budget carry alone for this purpose a total of more than \$82,500,000.

SHIPPING BOARD

There is included in this Budget \$12,000,000 for the operating deficit of the Shipping Board. It is believed this amount, reenforced by certain receivables and other available resources, with reduction of losses through sales of lines as opportunity offers, as contemplated by the Congress, will permit necessary operation of the Government's merchant marine during the fiscal year 1928. From 1921 to 1926, inclusive, the total net loss incurred in the operation of its various lines was \$238,157,582.18. These figures represent losses sustained through the operation of the

active fleet and the maintenance of inactive vessels. I mention this to show that in the six fiscal years from 1921 to 1926, inclusive, the Government has spent in the operation of its merchant marine an average of nearly \$40,000,000 a year. The losses have been gradually diminishing each year. Provision is also made for continuing the availability of the \$10,000,000 defense fund appropriated in the first session of this Congress.

With regard to the operation of vessels by the Shipping Board, the merchant marine act of 1920 contemplates that such operation shall be maintained unless it shall appear within a reasonable time that the lines or parts thereof can not be made self-sustaining. None of the lines now being operated are self-sustaining, and while the reduction in cost has been helpful from the standpoint of the Treasury there is no immediate prospect that any part of these lines can be operated without loss to the Government.

Under the joint resolution of July 3, 1926, the United States Shipping Board will present to the Congress not later than January 1, 1927, two plans for building up and maintaining an adequate merchant marine for commerce and national security—one through private capital and under private ownership and the other through construction, operation, and ownership by the Government. The time is approaching, if it has not already been reached, when the Congress should give consideration to the formulation of a more definite policy regarding our merchant marine. Such definite policy, I trust, is foreshadowed in the resolution to which I have referred.

ERADICATION OF TUBERCULOSIS

For the eradication of tuberculosis in animals an estimate for \$5,853,000 is included in the Budget. This is an increase of \$1,200,000 over the amount provided for the current year. The continuing increase in the number of cities which have placed embargoes against milk from dairy herds which have not passed the Federal tuberculin test is placing a heavy burden on the owners of dairy herds, since slaughter of infected animals is the accepted method of eradication. The furnishing of pure milk is of vital importance to the health of the people. Because of its interstate character, it is entirely proper that the Federal Government share with the States the cost of protecting the purity of this great food supply. The amount included in the estimates should permit adequate prosecution of the work of eliminating tubercular cattle from dairy herds.

The results of the work already done warrant the belief that we can confidently expect the complete elimination of this menace to health. With this hope and probability in mind, there certainly is no excuse or warrant for State or Nation to withhold the funds necessary to effectively carry on this important campaign.

FOREST CONSERVATION

The estimates carry a total of \$22,037,984 for the protection, preservation, and conservation of our forests. The forest acreage in the United States is approximately 372,426,000 acres, of which 158,000,000 acres are in the national forests. With such generous forest resources we have been prone to consider the supply of forest materials inexhaustible. The constantly increasing demands to meet our growing needs, however, and the destruction of forests by fire are arousing apprehension that in the comparatively near future industry may be seriously handicapped for lack of forest products. Important remedies to meet this situation are fire prevention and reforestation. Throughout the forest regions cooperative work in connection with protection of timber and reforestation of lands has been highly developed. In many of the States it is compulsory on private owners. The Clarke-McNary law contemplates that the Federal Government as beneficiary in this cooperative work contribute approximately one-fourth the cost. Since forest products enter so largely into the necessities of all of our people, it is proper that the Federal Government stand ready to bear its share of the needed conservation of our timber resources. The increased estimates for forest activities now submitted have that end in view. The recent heavy losses by fire must be met by a deficiency appropriation, which will approximate \$2,000,000. With further protective measures, it is hoped such large deficiency appropriations may be avoided in the future.

The estimates also include \$1,000,000 for the acquisition of land at the headwaters of navigable streams. While this item is primarily for the conservation and control of water, the project bears an important relation to forest conservation. There is now pending in Congress a bill to authorize an appropriation of \$2,000,000 a year for the fiscal years 1928 and 1929 for this purpose. In the event of the passage of this bill consideration will be given to the submission of a supplemental estimate of \$1,000,000 for this purpose.

RURAL POST ROADS

For cooperative construction of rural post roads to June 30, 1928, the amount of \$765,000,000 has been authorized by the Congress. The estimates carry \$75,000,000 for 1928, which is the total authorization for that year. This amount would bring total appropriations to \$666,200,000—\$98,800,000 less than the amount authorized. In view of the authority granted the Secretary of Agriculture to enter into contractual obligations for the total authorization, it is necessary only to appropriate in each fiscal year the funds required to pay for current work. The

construction program is not delayed by this method. In view of the increasing ability of the States to finance their own road construction, due to the general adoption of the gasoline tax, I renew my recommendation of a year ago that future legislation restrict the Federal Government's participation in State road construction to primary or interstate highways, leaving it to the States to finance their secondary or intercounty roads. This would operate to diminish the amount of the authorizations after the fiscal year 1929, when the present authority expires.

MATERNITY AND INFANCY

No estimate is submitted for carrying on the work under the maternity and infancy act, approved November 23, 1921, inasmuch as the authorization of appropriations for this purpose was fulfilled with the appropriation for 1927. A bill is now pending before the Congress extending the provisions of that act to the fiscal years 1928 and 1929. If and when that measure becomes law I propose sending to the Congress a supplemental estimate for an appropriation to make its provisions effective. I am in favor of the proposed legislation extending the period of operation of this law with the understanding and hope that the administration of the funds to be provided would be with a view to the gradual withdrawal of the Federal Government from this field, leaving to the States, who have been paid by Federal funds and schooled under Federal supervision, the privilege and duty of maintaining this important work without aid or interference from the Federal Government.

I have referred in previous Budget messages to the advisability of restricting and curtailing Federal subsidies to the States. The maternity act offers concrete opportunity to begin this program. The States should now be in a position to walk alone along this highway of helpful endeavor, and I believe it in the interest of the States and the Federal Government to give them the opportunity.

ENFORCEMENT OF PROHIBITION

For the enforcement of prohibition nearly \$30,000,000 is provided in the Budget by direct and indirect appropriations. The Coast Guard has been enlarged and strengthened to enable it to prosecute effectively its part of the campaign of enforcement, while the other enforcement agencies have been amply financed. Whatever is necessary to put into effect the expressed will of the people as written into the eighteenth amendment of the Constitution of the United States and the will of the Congress as expressed in the Volstead Act will be done. Whatever funds may be necessary to vindicate the law and secure compliance with all its provisions should be provided. The constitutional duties of the President and the Congress make any other course indefensible.

RIVER AND HARBOR WORKS

This Budget carries \$66,347,600 for the improvement and maintenance of existing river and harbor works, flood control, operation and care of canals, and other works of navigation. This does not include the maintenance and operation of the Panama Canal, for which \$7,600,000 is recommended. For rivers and harbors proper the sum of \$50,000,000 is asked. To complete approved projects, \$195,000,000 will be required. Of the \$50,000,000 contained in the Budget slightly more than \$30,000,000 will be available for improvement and new construction. At this rate we will complete authorized projects in something less than seven years. We are providing \$50,000,000 annually for river and harbor work and \$10,000,000 annually for Mississippi flood control. Commitment of the Federal Government at this time to a more ambitious and generous annual spending program should not be made without the most careful study of the financial condition of the country and the plight of the taxpayer.

RELIEF OF VETERANS

For the relief, care, and comfort of the veterans of our various wars and their dependents I am recommending in this Budget a total of nearly \$705,000,000. This total includes pensions, adjusted compensation, and all other factors, direct and indirect, that enter into this great patriotic service the Government owes its defenders. There can be no thought of curtailing this work of appreciation, this willing attempt to pay the Nation's debt. It may be wise, however, to call a halt at this time with regard to additional legislation for the veterans. It may be in the interest of the beneficiaries to permit existing provisions for their care and the care of their families to rest undisturbed for a period, at least until we can definitely determine what deserving need is unprovided for. What the veterans need it is a privilege to give, and the giving should crowd the heels of the need when determined.

CIVIL SERVICE RETIREMENT

Neither the estimates of expenditure nor the estimates of appropriations contained herein include any amount for meeting the accrued liability of the Government to the civil service retirement and disability fund. The pay-as-you-go policy should apply to this fund and an appropriation be made to meet the accrued liability of the

Government. The act of Congress approved July 3, 1926, provides for the annual submission of a Budget estimate of appropriation for this purpose. Such an estimate, however, requires an actuarial valuation of the fund under the new law. This valuation is under way, but is not yet completed. When completed, I shall submit to the Congress an estimate of the amount required for the fiscal year for this purpose.

FEDERAL BUILDING

The Congress has made wise and substantial provision for the construction of much-needed Federal buildings, both at the seat of government and in the States. Contemporaneously with this the Congress made similar provision for our foreign building requirements and also for permanent housing at our military posts and stations. These measures give us a much-needed construction program. The funds which we spend to complete this program will be a good investment and bring us adequate return.

SPECIAL FUNDS AND ACCOUNTS

In addition to the usual statements giving information of the financial transactions of the establishments of the Government for which annual appropriations are made, the 1928 Budget carries a comprehensive summary of the financial status of a considerable number of special funds, accounts, and authorizations operated either by Government agencies direct or under some form of Government supervision and responsibility. This summary makes available information concerning the financial condition of various Government institutions not heretofore published in readily available form.

THE NATIONAL DEBT

The reduction in the total gross debt for the fiscal year 1926 was \$872,977,572.71. This was effected by (1) \$487,376,050.69 on account of the sinking fund and other debt retirements chargeable against ordinary receipts; (2) application of the entire surplus of \$377,767,816.64; and (3) reduction in the general fund balance of \$7,833,705.38 below the balance at the close of the previous fiscal year.

In the past five fiscal years the debt reduction aggregated \$4,334,000,000, and in June, 1926, reached a level below twenty billions for the first time since November, 1918. The short-dated debt required to be paid or refunded in three and one-half years, which includes the third Liberty loan, amounted on June 30, 1926, to 4.7 billions, as compared with 6.1 billions at the close of the previous fiscal year. The decrease of 1.4 billions in this part of the debt has strengthened the position of the Treasury for the refunding operations necessary in connection with the third Liberty loan, which matures on September 15, 1928, and is not callable before that date.

The interest payment on the debt, the largest single item of our expenditures, amounted to \$832,000,000 in 1926, as against \$999,000,000 in 1921, a decrease of \$167,000,000, or nearly 17 per cent. For 1927 the estimated expenditures are \$785,000,000 and for 1928, \$755,000,000.

The World War Foreign Debt Commission has substantially completed the duties imposed upon it by Congress. Eliminating certain debtors with which negotiations are not now practical, funding agreements have been signed with all of those nations owing the United States on account of loans made during and after the war. All of the settlements have been ratified by Congress except those with France and Jugo-Slavia, and in these cases the House of Representatives has acted but the bills are still pending in the Senate. But the French settlement has not yet been taken up by their Parliament. In general, uncertainty with respect to war debts has ended.

ALIEN PROPERTY LEGISLATION

By the Paris agreement the United States has participated officially in the restoration of Germany. Through the Federal reserve system and through our bankers and private American citizens, we have been of assistance in the progress of financial restoration of many countries in Europe. The American spirit, characteristic of construction, will, I feel sure, be an active help in further plans to put other countries in sound condition. Europe is progressing and is reaching again peace condition.

There remains still for the United States to settle a series of related questions now unanswered but which already have the attention of Congress. These questions are three, and have to do principally with Germany, although similar matters, but lesser in amount, also involve Austria and Hungary. As a war measure the President, through the Alien Property Custodian, seized the private property of enemy nationals, and to a large extent this property is still held by the custodian awaiting disposition by Congress. Under her treaty of peace with us, Germany undertook to reimburse American nationals and the United States Government for losses and damages occasioned by Germany. By the treaty the property of German nationals seized and held in this country is pledged as security for the payment of the claims of American nationals against Germany, and by arrangement between the two countries a mixed German-American commission has been constituted to pass upon the merits of the claims and is now completing its awards.

Germany's obligations to pay reparations were in excess of her immediate capacity, and her creditors devised for her reorganization a plan and method of payment a part of which accrues to the United States. This plan, in the opinion of its framers, constitutes the maximum that Germany can immediately pay to her former enemies and of necessity represents holding in abeyance some of Germany's obligations. Under this plan the amount applicable to the immediate payment of the American claims is as a practical matter inadequate. Some other way will have to be found to insure prompt payment to our nationals for their losses.

Also as a war measure the United States seized and used ships, radio stations, and patents belonging to German nationals and found in the United States. The moral obligation to return the private property or its proceeds in the hands of the Alien Property Custodian to its German owners is equally applicable to the payment of compensation for the ships, radio stations, and patents or proceeds received from their disposal. We should treat the two situations alike.

Congress should enact into law during the present session a fair and comprehensive plan for the settlement of these three questions. Without here suggesting the details of any particular plan, I believe that a correct solution of the problem is controlled by two principles. The Supreme Court of the United States has held in effect that it is within the legal rights of Congress to make such use of the property of German nationals which the United States has seized as Congress may desire. It might, therefore, apply the proceeds of this property belonging to German nationals to the payment of the obligations of the German Government to the United States and to our nationals, thus satisfying American claims. In my opinion such a course is not consistent with the American ideal of the sanctity of private property of nationals, even though their Government may be at war with us. Sound American policy is opposed to the application of the property of German nationals to the payment of the debt of their Government. This is the first principle. If the policy I have just mentioned is right, as I believe it to be, then the cost of its adoption must be borne by the whole people, and the policy can not be affirmed at the sacrifice of the rights of only a part of the people—the American claimants against Germany. The alien property is pledged as security for the payment of the American claims. If the United States deprives the American claimants of their security it can only do so fairly if it substitutes for this security practical assurance of ultimate payment of the American claims. The United States should do justice to German nationals, but it must not do justice to Germans by doing injustice to our own American nationals. This is the second principle. Within these principles I feel sure that means will be found to accomplish a solution of the questions fair to all and consistent with American policies.

CALVIN COOLIDGE

The WHITE HOUSE, *December 6, 1926.*