

TO _____

FROM _____

REMARKS:

August 30, 1939.

The attached is memorandum covering information given to President Roosevelt by Chairman Eccles during conference at 11:15 a.m. today.

Cash Ex Sept to June	7,050
Cash rec Sept to June	4,300
	<hr/>
Def Cash	2,750

Tres Bal	1,600
Trust fund (Social Sec at Memphis)	970
R. I. C.	300
Baby bonds	800
	<hr/>
Cash Income	3,970

Cash bal est July 1st 1940 \$1,000.00

November 8, 1939.

My dear Mr. President:

As I am leaving this afternoon to speak at the 25th anniversary of the St. Louis Federal Reserve Bank on tomorrow and plan to go out home for the belated respite that I tried to get in September, I will not have an opportunity to make an appointment to see you on your return from Hyde Park.

I shall be in constant daily communication with my office, as I was during the week I was away in September, contrary to reports which I understand were given to you, and I can get back overnight by plane if necessary, as it was understood I would and, in fact, did in September. Before leaving then, I checked with Secretary Morgenthau, who saw no reason then and tells me he does not see any reason now why I should put off the trip home.

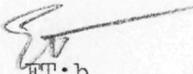
I hope I shall have an opportunity to see you when I get back the first part of December as there are several matters that I think are important for me to discuss with you. In the meantime, there is one question of greater urgency in connection with Treasury financing on which I feel I should pass along my views, and, accordingly, I am covering them in the attached memorandum as to the raising of new money in December since this matter is likely to be pretty well crystalized before I will have an opportunity to see you.

Respectfully yours,

M. S. Eccles,
Chairman.

The Honorable
The President of the United States,
The White House.

enclosure



ET:b

November 9, 1939.

PERSONAL AND CONFIDENTIAL MEMORANDUM FOR THE PRESIDENT:

Treasury Financing

It is the present intention of the Treasury to raise \$500 million of new cash, probably through the issue of bonds, before the end of the year. I seriously question the advisability of such a move at this time.

The attached Table I presents estimates of Treasury cash requirements from November 1 to the end of the current fiscal year. It assumes (a) that cash receipts will be some \$300 million higher than current Treasury estimates and (b) that cash requirements of Government corporations and credit agencies will be met through guaranteed financing.

These estimates indicate that with no new public financing, the Treasury cash balance will amount to around \$1 billion at the end of March and \$500 million at the end of June.

Even with no open market borrowing, the public debt will rise by about \$1.5 billion through sales of savings bonds and issuance of special securities to trust and reserve accounts as summarized in the attached Table II.

The point need not be labored that it is inadvisable on various grounds to build up or carry any larger cash balance than is absolutely necessary. The whole question boils down to how much is necessary. In favor of very large balances two arguments are used:

1. Large balances are necessary in case of emergency. This point may be quickly disposed of. With the resources of the Federal Reserve banks, the enormous volume of excess reserves, and the low volume of bills outstanding, inability of the Treasury to raise new money through the issuance of bills at any time is inconceivable. Behind the virtually unlimited resources of the reserve banks and the market there is, of course, always the possibility of utilizing \$1.8 billion in the Stabilization Fund and \$1.5 billion of silver coinage. It may be pointed out that the conservative British Government carried a cash balance as of October 18 of only £ 12 million, despite the fact it was at war, despite the fact that the volume of Treasury bills outstanding is larger than here, and despite the fact that the commercial banks have no excess reserves. If the volume of Treasury bills here bore the same relation to our banking resources as it does in England, we would have some \$10 billion outstanding, instead of the present \$1.4 billion. Finally, it is pertinent to note that the cash balance of the Government as of the end of February 1933, a time of great emergency, was \$221 million.

2. Large balances are desirable to permit flexibility in the timing of long-term issues. To this may be replied that the ever-present possibility of issuing bills always provides leeway, that there are no particular grounds for anticipating higher rates next spring or summer than now prevail, and that it is by no means certain that by next spring conditions may not indicate a short term issue or a drawing down of the cash balance, or a use of the free gold and/or silver.

If no new money is raised in the open market, the attached estimates indicate that despite a deficit this year of around \$3.5 billion we will have increased the public debt by only \$2 billion and will have ended the year with a cash balance of half a billion dollars.

If the policy of maintaining very large cash balances is continued the public debt by the end of this fiscal year would be from \$1 billion to \$1.5 billion more than otherwise would be the case and would show the public debt at the end of the year at between \$43 billion and \$44 billion. It would seem to me to be inadvisable to increase the debt at this time merely for the sake of maintaining unnecessarily large cash balances.

TABLE I

TREASURY CASH REQUIREMENTS, NOVEMBER 1, 1939 - JUNE 30, 1940
(In millions of dollars)

	Cash budget re- ceipts	Cash budget ex- pendi- tures	Cash budget defi- cit	Unem- ploy- ment trust fund (net re- ceipts)	U.S. sav- ings bonds	Other ac- counts	Total cash re- quire- ments	Cash re- quire- ments of Gov't agen- cies	Cash sales of guaran- teed obliga- tions <u>1/</u>	Treas- ury cash balance (end of period)
Nov. 1, 1939	---	---	---	---	---	---	---	---	---	1,190
Nov. 2-30, 1939....	375	620	=245	+130	+45	-20	-90	-45	+325	1,380
Dec. 1939..	600	780	=180	-5	+60	-30	-155	-25	---	1,200
Jan. 1940..	340	660	=320	+20	+150	+5	-145	-20	---	1,035
Feb. 1940..	420	650	=230	+130	+70	=25	-55	-40	---	940
Mar. 1940..	910	820	+90	-10	+60	-50	+90	-25	---	1,005
Apr. 1940..	290	720	=430	+20	+60	-30	-380	-25	---	600
May 1940..	410	610	=200	+140	+60	-30	-30	-55	+150	665
June 1940.	755	750	+5	---	+60	-40	+25	-60	-130	500
Total, Nov. 2, 1939 to June 30, 1940..	4,100	5,610	=1,510	+425	+565	-220	-740	-295	+345	

1/ Includes sales of \$275,000,000 for RFC, \$50,000,000 for TVA, \$150,000,000 for USHA, and redemption of the \$130,000,000 of HOLC bonds maturing next May.

TABLE II

INCREASE IN PUBLIC DEBT
(October 31, 1939 - June 30, 1940)

(In millions of dollars)

Gross public debt, Oct. 31, 1939.....		41,040
Treasury bills (issued Nov. 1).....	50	
U. S. Savings bonds.....	565	
Old-age reserve account.....	470	
Unemployment trust funds.....	465	
All other debt.....	-50	
Total.....	1,500	<u>1,500</u>
Gross public debt, June 30, 1940.....		<u>42,540</u>
(Gross public debt, June 30, 1939.....)		40,440)