

White House - 1/29/40

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January 27, 1940

Chairman Eccles

Henry Edmiston

Attached are the revised tables and discussion. Mr. Dreibelbis tells me that he has been tied up on another matter, but is planning to have an answer by the first of next week on the legality of using gold from the Stabilization Fund.

January 27, 1940

*These first 2
pages will left
with them?*

TREASURY FINANCING IN 1940

With a view to holding down the increase in the amount of and the interest charges on the public debt, it is suggested that consideration be given to the following program: (a) to raise no cash in 1940 through public offerings of direct obligations, and (b) to use part of the gold in the Stabilization Fund to retire the \$1,100,000,000 of Treasury notes and bonds due or callable next June.

Comment

No cash financing. The accompanying Table 1, based upon the official estimates of the Budget Message, shows that it is unnecessary for the Treasury to raise any new cash through public offerings of direct obligations from now until the end of 1940. Such a program contemplates, however, that the \$700,000,000 excess capital funds of Government corporations shall be repaid to the Treasury in new cash before the end of the year. If this were done, the Treasury cash balance could be maintained at a level of at least \$500,000,000 for the rest of the year.

While \$500,000,000 is a low balance by recent Treasury standards, it is a sufficient amount for the Treasury to carry in its working accounts. From 1924 through 1931 the Treasury was able to operate effectively on a working balance which averaged less than \$250,000,000. At present, with the tremendous and growing volume of excess bank reserves, the Treasury can borrow on short-term at negligible rates under any conceivable circumstances.

There is also reason to believe that the Treasury cash position will be more favorable than the budget estimates indicate. The Treasury's estimates of receipts for the rest of the fiscal year 1940 appear too conservative, particularly for income taxes and customs, while budget expenditures may be slightly high. Last year the budget estimates for the comparable period, January-June 1939, indicated a deficit which turned out to be over \$400,000,000 too high. Independent estimates show that an error of similar magnitude may exist in the present estimates for January-June 1940. If these independent estimates are proved correct by the March income tax collections, the Treasury's cash balance could be maintained at a level of at least \$1,000,000,000 during the last half of the year and, consequently, there would be even less justification for undertaking any new cash direct financing.

Use of gold to retire debt. It is no longer necessary to hold the present large amount of gold in the Stabilization Fund either from an economic or from a political standpoint. The Stabilization Fund has operated successfully, throughout its existence, with a working balance of only \$200,000,000, while the remaining \$1,800,000,000 of the Fund has been held in the form of sterilized gold in the Treasury. The only possible uses of this gold for exchange stabilization purposes would be to make foreign

loans, to buy and hold foreign currencies, and to counteract gold outflows from this country. The first of these uses is not permitted under present legislation, the second would subject the Fund to possible serious losses through currency depreciation, and at least for the duration of the European war there is no chance that we will suffer a drain of gold. Any likely outflow of gold in the more remote future can be taken care of directly by the banking system. Excess reserves of the banks stand at a record level of over \$5,500,000,000 and will be further augmented by the prospective additions to the country's gold stock as well as by any domestic use of gold now held in the Stabilization Fund.

Although a strong fight was made in the last session of Congress to extend the life of the Fund, it can now be argued that the outbreak of war has completely changed the picture and, consequently, the Fund has become largely inoperative. There is no longer any reason to borrow and to pay interest on money which, in effect, would be used simply to maintain a large sterile gold balance in the Treasury. Moreover, this Administration has always taken the position that the Stabilization Fund represents an offset to the public debt. To ask Congress, later in this session, to authorize the use of part of the gold to retire debt would, therefore, merely be putting this contention into practice.

If the \$1,100,000,000 of Treasury notes and bonds due or callable next June were paid off by use of this gold, the annual interest saving to the Treasury would be about \$23,000,000.

Effect of the above program upon the public debt. Even though new direct market financing is avoided, the public debt will continue to rise because of special issues to trust accounts and of sales of United States Savings bonds. The accompanying Table 2 shows that these securities will increase the public debt, subject to the statutory limitation, to about \$43,000,000,000 by June 30, 1940, and to \$44,000,000,000 by the end of the year. If the notes and bonds due or callable in June were paid off in cash by using gold, these figures would be reduced to about \$42,000,000,000 and \$43,000,000,000, respectively.

It appears, therefore, that the question of raising the statutory debt limitation can easily be postponed until the next session of Congress.

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Table 1

ESTIMATED TREASURY CASH REQUIREMENTS, JAN. 1940-JUNE 1941
(Based upon Treasury estimates: in millions of dollars)

Treasury cash requirements 1/

| | | |
|---|--------------|--------------|
| Treasury cash balance, December 31, 1939 | | 1,710 |
| Add for January-June 1940: | | |
| Sales of U. S. Savings bonds | 560 | |
| Social Security funds, net receipts | <u>1,500</u> | +1,010 |
| Total funds available | | <u>2,720</u> |
| Deduct for January-June 1940: | | |
| Cash deficit | 1,870 | |
| Retirement of Treasury bills | 150 | |
| Retirement of matured debt, etc. | <u>140</u> | <u>2,160</u> |
| Treasury cash balance, June 30, 1940 | | 560 |
| Add for July-December 1940: | | |
| Sales of U. S. Savings bonds | 380 | |
| Social Security funds, net receipts | 1,900 | |
| Return of surplus funds from Gov't corporations | <u>700</u> | +1,570 |
| Total funds available | | <u>2,130</u> |
| Deduct for July-December 1940: | | |
| Cash deficit | 1,480 | |
| Retirement of matured debt, etc. | <u>50</u> | <u>1,530</u> |
| Treasury cash balance, December 31, 1940 | | 600 |
| Add for January-June 1941: | | |
| Sales of U. S. Savings bonds | 620 | |
| Social Security funds, net receipts | 1,300 | |
| Proposed additional taxes | <u>1,600</u> | 1,510 |
| Total available funds | | <u>2,110</u> |
| Deduct for January-June 1941: | | |
| Cash deficit | 1,130 | |
| Retirement of matured debt, etc. | <u>40</u> | <u>1,170</u> |
| Treasury cash balance, June 30, 1941 | | 940 |

1/ Excludes net expenditures of Government corporations.

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Table 2

ESTIMATED DIRECT PUBLIC DEBT SUBJECT TO STATUTORY LIMITATION
(Based upon Treasury estimates: in millions of dollars)

| | | |
|--|------------|-------------|
| Outstanding debt, December 31, 1939 | | 41,980 |
| Add for January-June 1940: | | |
| U. S. Savings bonds (maturity value) | 750 | |
| Special issues to Social Security accounts, etc. | <u>530</u> | +1,280 |
| Deduct for January-June 1940: | | |
| Retirement of Treasury bills | 150 | |
| Retirement of matured debt, etc. | <u>140</u> | <u>-290</u> |
| Outstanding debt, June 30, 1940 | | 42,970 |
| Add for July-December 1940: | | |
| U. S. Savings bonds (maturity value) | 510 | |
| Special issues to Social Security accounts, etc. | <u>570</u> | +1,080 |
| Deduct for July-December 1940: | | |
| Retirement of matured debt, etc. | <u>50</u> | <u>-50</u> |
| Outstanding debt, December 31, 1940 | | 44,000 |
| Add for January-June 1941: | | |
| U. S. Savings bonds (maturity value) | 830 | |
| Special issues to Social Security accounts, etc. | <u>530</u> | +1,360 |
| Deduct for January-June 1941: | | |
| Retirement of matured debt, etc. | <u>40</u> | <u>-40</u> |
| Outstanding debt, June 30, 1941 | | 45,320 |

Note: Although the Budget Message shows that the debt limit will not quite be reached by the end of the fiscal year 1941, it appears that if Savings bond sales continue at the present rate the debt would automatically exceed the statutory limitation. This is because the maturity value of Savings bonds is used in calculating debt subject to statutory limitation, while the Budget Message shows gross public debt in which Savings bonds are included at their current redemption value. From January 1940 to June 1941, assuming cash sales of Savings bonds of \$1,560,000,000, the maturity value would be one-third higher, or \$2,080,000,000. After taking account of retirement of \$150,000,000 Treasury bills this month and other adjustments, this means that net retirements of other open-market debt of about \$320,000,000 would be necessary to stay within the statutory limitation as is shown in the table.

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Table 3

ESTIMATED TREASURY CASH REQUIREMENTS AND PUBLIC DEBT, JAN-DEC. 1940
(Based upon independent estimates: in millions of dollars)

Treasury cash requirements 1/

| | | |
|---|------------|--------------|
| Treasury cash balance, December 1939 | | 1,710 |
| Add for January-June 1940: | | |
| Sales of U. S. Savings bonds | 560 | |
| Social Security funds, net receipts | <u>530</u> | 1,090 |
| Total available funds | | <u>2,800</u> |
| Deduct for January-June 1940: | | |
| Cash deficit | 1,520 | |
| Retirement of Treasury bills | 150 | |
| Retirement of matured debt, etc. | <u>140</u> | 1,810 |
| Treasury cash balance, June 30, 1940 | | 990 |
| Add for July-December 1940: | | |
| Sales of U. S. Savings bonds | 380 | |
| Social Security funds, net receipts | 530 | |
| Return of surplus funds of Government corporations | <u>700</u> | 1,610 |
| Total available funds | | <u>2,600</u> |
| Deduct for July-December 1940: | | |
| Cash deficit | 1,340 | |
| Retirement of matured debt, etc. | <u>50</u> | 1,390 |
| Treasury cash balance, December 31, 1940 | | 1,210 |
| <u>Direct public debt subject to statutory limitation</u> | | |
| Outstanding debt, December 31, 1939 | | 41,983 |
| Add for January-June 1940: | | |
| U. S. Savings bonds (maturity value) | 747 | |
| Special issues to Social Security accounts, etc. | <u>612</u> | +1,359 |
| Deduct for January-June 1940: | | |
| Retirement of Treasury bills | 150 | |
| Retirement of matured debt, etc. | <u>140</u> | -290 |
| Outstanding debt, June 30, 1940 | | 43,052 |
| Add for July-December 1940: | | |
| U. S. Savings bonds (maturity value) | 507 | |
| Special issues to Social Security accounts, etc. | <u>611</u> | +1,118 |
| Deduct for July-December 1940: | | |
| Retirement of matured debt, etc. | | <u>-50</u> |
| Outstanding debt, December 31, 1940 | | 44,120 |

1/ Excludes net expenditures of Government corporations.