

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 receipts	Cash budget expenditures	Cash budget deficit	Unemployment trust fund (net receipts)	U.S. savings bonds	Other accounts	Total cash requirements	Cash requirements of Gov't agencies	Cash sales of guaranteed obligations <sup>1/</sup>	Treasury 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	

<sup>1/</sup> 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.....	<u>1,500</u>
Gross public debt, June 30, 1940.....	<u>42,540</u>
(Gross public debt, June 30, 1939.....)	40,440)