

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 26, 1947

To Chairman Eccles

Subject: Mr. Rouse reports on

From Richard A. Musgrave Rk4

Treasury Discussion

Mr. Rouse called and said that he had some discussion with Mr. Wiggins after last week's Treasury meeting with the savings bank people. Mr. Wiggins was interested in his current reactions to the issuance of a long-term bond.

Mr. Rouse reports that Mr. Wiggins seemed to favor issuance of a restricted long-term bond along the lines which we have proposed. The matter had been discussed with the Secretary and apparently some objections arose the last minute--it being argued that a special issue would point in the direction of "compartmentalizing" and that this might be bad. Thus, the decision was postponed.

The discussion also covered the bill matter. Mr. Rouse's impression was that the Secretary was more favorably inclined towards the Committee's proposal than was Mr. Wiggins.

Mr. Rouse also reports that he has another appointment with Mr. Wiggins tomorrow morning to continue the discussion.

Table I

FUNDS AVAILABLE FOR DEBT RETIREMENT IN FISCAL YEAR 1947 - 48*
(In billions of dollars)

Assumptions	1947		1948		Fiscal year 47-48
	3rd quarter	4th quarter	1st quarter	2nd quarter	
No tax reduction <u>1/</u>					
(a) No expenditure cut <u>2/</u>	1.2	- .7	5.1	-1.1	4.5
(b) With expend. cut <u>3/</u>	1.7	--	5.7	- .4	7.0
With tax reduction <u>4/</u>					
(c) No expenditure cut	.6	-1.6	3.8	-1.8	1.0
(d) With expenditure cut	1.1	- .9	4.4	-1.1	3.5

* The Treasury balance for June 30, 1947 is assumed at 2.5 billion dollars. Thereafter, the balance at the end of each quarter is held at 1.8 billion, including free gold of 1 billion.

1/ In estimating tax receipts the following annual rates of income payments are assumed; 176 billion dollars for first half of calendar year 1947; 165 for second half of calendar year 1947; 152 billion dollars for first half of calendar year 1948.

2/ Assumes that 750 million dollars of foreign aid expenditures not provided for in budget are offset by reductions somewhere else.

3/ Assumes net reduction of recommended budget total by 2.5 billion dollars.

4/ Assumes Conference Committee bill, providing for income tax reductions effective July 1, 1947, resulting in yield loss of 3.5 billion dollars on fiscal year basis.