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March 25, 1940

EFFECT OF INCREASED WORKS PROJECTS ADMINISTRATION  
EXPENDITURES UPON THE TREASURY BALANCE AND THE  
PUBLIC DEBT

Present fiscal outlook

The attached tables (Tables 3 and 4) present the fiscal outlook for the last half of the fiscal year 1940 and the fiscal year 1941, as compared with the prospects based upon the estimates in the Budget Message of last January (Tables 1 and 2). The remarkably better outlook now is due largely to the substantial excess of revenue over the Treasury estimates mainly from income taxes but also from customs and other miscellaneous tax sources. As a result, there is certainly no need for any cash financing through direct obligations between now and the end of fiscal year 1941. Although Congress appears likely to appropriate funds for parity payments that were not included in the budget, the actual expenditure of the bulk of these funds will not occur until the fiscal year 1942. Parity payments of \$170,000,000 during the fiscal year 1941 have already been scheduled from appropriations passed last session. So far the other Congressional action this session has been to reduce slightly other types of expenditures already budgeted.

Source of financing increased Works Projects Administration expenditures

Fiscal year 1940. The additional \$75,000,000 needed to finance the continuance of Works Projects Administration employment at the present level of about 2,300,000 workers until the end of June this year will be far more than covered by the excess in revenues over the estimates presented in the Budget Message last January. In fact, even with the additional \$75,000,000, the cash deficit for the period January-June this year will be about \$380,000,000 less than was estimated. If the Reconstruction Finance Corporation raises \$150,000,000 in cash through sale of guaranteed obligations in April or May, as is now contemplated, the Treasury cash balance at the end of June will be about \$1,150,000,000, or \$400,000,000 above the amount indicated from the estimates in the Budget Message. The public debt at the end of June would be \$43,190,000,000.

Fiscal year 1941. Even an increase of \$500,000,000 in Works Projects Administration expenditures during the fiscal year 1941 would not present a serious problem from the standpoint of the Treasury cash position or of the statutory debt limitation. The large excess of March income tax collections over the estimate means that the income tax estimates for the September and December quarters of the fiscal year 1941 will have to be revised upward substantially. In total, it appears that the Treasury estimates of receipts for the calendar year 1940 may be about \$450,000,000 too low.

Thus, if Works Projects Administration expenditures exceed the budget figures by \$340,000,000 between now and the end of the calendar year, the Treasury would still have a cash balance of over \$1,000,000,000 on December 31 and the public debt would be \$44,200,000,000. This would leave a margin of safety (the cash balance plus available borrowing capacity under the present statutory debt limitation) of \$1,800,000,000. This calculation assumes, of course, that the \$700,000,000 from Government corporations and credit agencies will be returned to the Treasury in new cash during the period June through December of this year.

#### Adequacy of the above margin of safety

It would appear that \$1,800,000,000 would leave the Treasury in a comfortable position to meet any unexpected emergencies that might develop. It can be argued, however, that a larger margin of safety is necessary because of the general uncertainties in the international situation and the fact that the Treasury has larger demand liabilities than ever before in the form of cash balances of Government corporations and in the large amount of outstanding United States Savings bonds which are redeemable at any time at the option of the holders. It should be remembered, however, that it is extremely unlikely that any large volume of these claims will be presented simultaneously. The Government corporations normally maintain substantial cash balances with the Treasury and the bulk of these balances belong to agencies that would need them only in the event of a large demand for loans. Such a demand is unlikely to develop in the near future. In view of the high interest rate paid on Savings bonds, there is little chance that a large volume will be presented for redemption in cash. Now that institutional holders are no longer permitted to purchase new Savings bonds, they may be expected to be even less willing to redeem their present holdings.

#### Possibility of increasing the margin of safety

If it is felt, however, that the margin of safety is not large enough it could be increased by the use of gold now held in the Stabilization Fund. The \$343,000,000 of Treasury bonds which have been called for redemption in June could be paid off in cash as could the \$740,000,000 of Treasury notes maturing next December. To pay off these maturities with gold would leave a margin of safety at the end of the year of \$2,880,000,000. The prospective cash balance alone of over \$1,000,000,000 is as large as was contemplated at the time of the Budget Message and, in case there is some extraordinary need for cash, the Treasury can borrow on short-term under any conceivable circumstances.

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Table 1

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

<u>Treasury cash requirements</u> 1/		
Treasury cash balance, December 31, 1939		1,710
Add for January-June 1940:		
Sales of U. S. Savings bonds	670	
Social Security funds, net receipts	<u>450</u>	1,120
Total funds available		<u>2,830</u>
Deduct for January-June 1940:		
Cash deficit	1,850	
Retirement of Treasury bills	150	
Retirement of matured debt, etc.	<u>90</u>	<u>2,090</u>
 Treasury cash balance, June 30, 1940		 740
Add for July-December 1940:		
Sales of U. S. Savings bonds	350	
Social Security funds, net receipts	490	
Return of surplus funds from Gov't corporations	<u>700</u>	1,540
Total funds available		<u>2,280</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		 750
Add for January-June 1941:		
Sales of U. S. Savings bonds	480	
Social Security funds, net receipts	430	
Proposed additional taxes	<u>460</u>	1,370
Total available funds		<u>2,120</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		 950

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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)	890	
Special issues to Social Sec. accounts, etc.	<u>530</u>	+1,420
Deduct for January-June 1940:		
Retirement of Treasury bills	150	
Retirement of matured debt, etc.	<u>90</u>	<u>-240</u>
Outstanding debt, June 30, 1940		43,160
Add for July-December 1940:		
U. S. Savings bonds (maturity value)	470	
Special issues to Social Sec. accounts, etc.	<u>570</u>	+1,040
Deduct for July-December 1940:		
Retirement of matured debt, etc.	<u>50</u>	<u>-50</u>
Outstanding debt, December		44,150
Add for January-June 1941:		
U. S. Savings bonds (maturity value)	640	
Special issues to Social Sec. accounts, etc.	<u>530</u>	+1,170
Deduct for January-June 1941:		
Retirement of matured debt, etc.	<u>40</u>	<u>-40</u>
Outstanding debt, June 30, 1941		45,280

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Table 3

ESTIMATED TREASURY CASH REQUIREMENTS, JAN. 1940-JUNE 1941  
(Independent estimates; in millions of dollars)

Treasury cash balance, December 1939		1,710
Add for January-June 1940:		
Sales of U. S. Savings bonds	670	
Social Security funds, net receipts	<u>475</u>	<u>1,145</u>
Total available funds		<u>2,855</u>
Deduct for January-June 1940:		
Cash deficit	1,463	
Retirement of Treasury bills	150	
Retirement of matured debt, etc.	<u>90</u>	<u>1,703</u>
Treasury cash balance, June 30, 1940		1,152
Add for July-December 1940:		
Sales of U. S. Savings bonds	350	
Social Security funds, net receipts	511	
Return of surplus funds from Gov't corporations	<u>700</u>	<u>1,561</u>
Total available funds		<u>2,713</u>
Deduct for July-December 1940:		
Cash deficit	1,298	
Retirement of matured debt, etc	<u>50</u>	<u>1,348</u>
Treasury cash balance, December 31, 1940		1,365
Add for January-June 1941:		
Sales of U. S. Savings bonds	480	
Social Security funds, net receipts	486	
Proposed additional taxes	<u>460</u>	<u>1,426</u>
Total available funds		<u>2,791</u>
Deduct for January-June 1941:		
Cash deficit	975	
Retirement of matured debt, etc.	<u>40</u>	<u>1,015</u>
Treasury cash balance, June 30, 1941		1,776

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1/ Excludes net expenditures of Government corporations.

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Table 4

ESTIMATED DIRECT DEBT SUBJECT TO STATUTORY LIMITATION  
 (Independent estimates: in millions of dollars)

Outstanding debt, December 31, 1939		41,980
Add for January-June 1940:		
U. S. Savings bonds (maturity value)	890	
Special issues to Social Sec. accounts, etc.	<u>560</u>	+1,450
Deduct for January-June 1940:		
Retirement of Treasury bills	150	
Retirement of matured debt, etc.	<u>90</u>	<u>-240</u>
Outstanding debt, June 30, 1940		43,190
Add for July-December 1940:		
U. S. Savings bonds (maturity value)	470	
Special issues to Social Sec. accounts, etc.	<u>590</u>	+1,060
Deduct for July-December 1940:		
Retirement of matured debt, etc.	<u>50</u>	<u>-50</u>
Outstanding debt, December 31, 1940		44,200
Add for January-June 1941:		
U. S. Savings bonds (maturity value)	640	
Special issues to Social Sec. accounts, etc.	<u>590</u>	+1,230
Deduct for January-June 1941:		
Retirement of matured debt, etc.	<u>-40</u>	<u>-40</u>
Outstanding debt, June 30, 1941		45,390