Mr. Thurston

CONFIDENTIAL

R&S 100-2050

Board Members

July 5, 1946

Richard A. Musgrave

Changed Budget Outlook and Debt Retirement Program

As indicated in recent statements, there has been some deterioration in the budget outlook for the fiscal year 1947. This will have some bearing on the debt retirement program; it need not affect plans for August and September but may result in smaller retirements in October and subsequent months.

Change in Budget Picture

The revised budget estimates are shown on the attached table. The major changes have been as follows:

(1) Expenditures for the fiscal year are now estimated at 40.5 billion dollars, which is nearly 5 billion over earlier estimates. 1/ The change is due mainly to an upward revision of national defense expenditures by 3 billion dollars and of veterans' expenditures by 1 billion. Expenditures will be increased further if a pending bill providing for leave payments to enlisted personnel is enacted. The bill has passed the Senate unanimously and passage in the House is quite likely. Its cost is estimated at approximately 3 billion dollars, which would raise total budget expenditures to 43.5 billion.

(2) Receipts for the fiscal year will also be higher than anticipated, due to higher levels of estimated national income, reflecting to a considerable extent a higher level of prices. Receipts for the fiscal year are now estimated at 39.6 billion dollars or 2 billion above the previous figure. The upward revision in receipts thus falls substantially short of the upward revision in expenditures.

(3) The deficit for the fiscal year, accordingly, is estimated at approximately 1 billion, as against a previously expected surplus of nearly 2 billion. If the leave payment legislation should be enacted, the estimated deficit would be increased to 4 billion.

The changes in the budget picture are not likely to be very noticeable for the first three months of the fiscal year, but will begin to be felt keenly from October on.

Debt Retirement without Leave Payment Bill

The changes in marketable debt shown on the attached table assume that the retirement program in August and September will be carried out as had

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1/ The revised expenditure estimates are based on figures given in an address by Budget Director, H. D. Smith, Chicago, June 6, 1946.

been planned heretofore. The estimates for the fiscal year also assume a minimum Treasury cash balance of 3 billion dollars. The amount of marketable debt to be retired for August covers the entire 2.5 billion of certificates coming due. The amount to be retired for September is estimated at 2.5 billion dollars out of 4.3 billion of maturing certificates in that month. For October, assuming a minimum Treasury cash balance of 3 billion dollars, the revised budget picture permits a retirement of only 2.1 billion dollars as against 3.4 billion previously planned. There would be no debt retirement in November and 900 million dollars would be paid off in December. In the first quarter of calendar 1947 an additional 3 billion dollars would be retired followed by practically no retirements in the second quarter.

If these revised budget figures prove correct, there is no apparent reason why the retirement program for August and September should be changed. There simply has to be a downward adjustment in the residual amount that can be retired in October and in subsequent months.

Debt Retirement with Leave Payment Bill

The picture would be somewhat different if the terminal leave pay bill should be enacted. To show the effect, it will be assumed that the 3 billion dollar increase in expenditures would be distributed about equally between November, December, January and February. Keeping the retirement program through October unchanged, this would mean that the Treasury would have to borrow about 800 million dollars in November and would not be able to retire any securities in December; also, the retirement program for the first quarter of 1947 would be cut to about 1.8 billion. It might be argued in this case that it would be simpler to avoid the November borrowing by holding retirements for October to 1.3 billion, which would make it possible to meet the deficit in November out of the Treasury balance. The balance, in this case, would reach the 3 billion level by November instead of October. However, even if this should be done, no adjustments would be called for in the August and September programs.

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The debt retirement program is undertaken at this time mainly because of its anti-inflationary effects. As inflationary pressures will be strongest in the early months ahead, it should be accelerated rather than slowed down. The fact that the budget surplus will be less than had been expected merely means that the policy of drawing on the Treasury balance will be exhausted sooner. If the ammunition is more effective now, when inflationary pressures are greatest, there is no point in saving it to a later date.

The changes in the budget picture are not of a nature which suggest that the Treasury would run the "risk" of having to engage in extensive new borrowing if the retirement program here outlined was adopted. Should some short-term borrowing be needed in small amounts to cover leave payments for one or two months, there is no damage in this. If the Treasury is to keep a balance on hand, this should not be construed to mean that the balance should always be so large as to render short-term borrowing in the market unnecessary.

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ESTIMATED TREASURY REQUIREMENTS AND FINANCING
(In billions of dollars)

	1946						1947		Fiscal Year 1947
	July	Aug.	Sept.	Oct.	Nov.	Dec.	1st Qt.	2nd Qt.	
National defense	2.1	1.9	1.7	1.9	1.5	1.5	4.1	3.9	18.6
Veterans' Administration 1/	.4	.4	.4	.4	.4	.5	1.2	1.3	5.0
International finance	.2	.3	.2	.3	.2	1.1	.6	.5	3.4
Other	1.3	.6	1.1	.8	.6	1.5	3.1	4.5	13.5
Total budget expenditures	4.0	3.2	3.4	3.4	2.7	4.6	9.0	10.2	40.5
Income taxes: Personal	.8	1.1	1.7	.8	1.1	1.3	5.9	4.3	17.0
Corporate	.5	.3	1.9	.5	.3	1.8	2.9	2.1	10.3
Other net receipts	1.0	1.0	1.0	1.0	1.0	1.1	3.2	3.0	12.3
Total net receipts	2.3	2.4	4.6	2.3	2.4	4.2	12.0	9.4	39.6
Budget deficit or surplus	-1.7	- .8	+1.2	-1.1	- .3	- .4	+3.0	- .8	- .9
Trust accounts, etc.	+ .1	+ .3	- .3	--	+ .2	- .3	--	--	--
Requirements	-1.6	- .5	+ .9	-1.1	- .1	- .7	+3.0	- .8	- .9
Special issues	+ .6	++ .2	+ .2	+ .1	+ .2	+ .2	+ .5	+1.5	+ 3.5
Savings bonds	+ .1	--	+ .1	--	+ .1	+ .1	+ .4	+ .2	+ 1.0
Savings notes	- .1	--	- .7	- .1	--	- .4	- .6	- .5	- 2.4
Marketable debt	-2.0	-2.5	-2.5	-2.1	--	- .9	-3.1	- .2	-13.3
Other direct debt	--	--	--	--	--	+1.5	- .2	- .2	+ 1.1
Gross direct debt	-1.4	-2.3	-2.9	-2.1	+ .3	+ .5	-3.0	+ .8	-10.1
Change in general fund balance	-3.0	-2.8	-2.0	-3.2	+ .2	- .2	--	--	-11.0
Treasury cash balance	11.0	8.2	6.2	3.0	3.2	3.0	3.0	3.0	3.0

1/ No allowance is made for pending bill providing for leave payments to enlisted personnel.

GOVERNMENT FINANCE SECTION, BOARD OF GOVERNORS