

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 17, 1940To Chairman EcclesSubject: The Federal Net ContributionFrom Henry Edmistonto Buying Power

H.E.

The possible deflationary effects of the program proposed in the President's Budget Message should not cause serious concern for the next six months at least. The Government's net contribution to buying power, which is currently running at the rate of around \$300,000,000 a month, is expected to continue at about this level during the first half of 1940. A possible decline in business activity in the next few months will, therefore, not be intensified by an abrupt curtailment of Government net expenditures as was the case in 1937. The following table gives my best judgment of the probable course of the net contribution figures quarterly through 1940 as compared with the recent past. The estimates for the first two quarters of 1940 are considerably more reliable than those for the last two, because the latter depend upon Congress adhering rather closely to the expenditure recommendations for the fiscal year 1941 submitted in the Budget Message.

SUMMARY TABLE OF NET CONTRIBUTION FIGURES SINCE 1936,
WITH ESTIMATES THROUGH 1940
(Monthly averages in millions of dollars)

	<u>Adjusted outlays</u>	<u>Adjusted receipts</u>	<u>Net contribution</u>
<u>Actual</u>			
1936-January-June.....	701	350	351
July-December.....	727	355	372
1937-January-June.....	659	556	103
July-December.....	608	528	80
1938-January-June.....	676	550	126
July-December.....	797	527	270
1939-January-June.....	811	509	312
July-December.....	796	497	299
<u>Estimated</u>			
1940-January-March.....	859	553	306
April-June.....	837	565	272
July-September.....	772	550	222
October-December.....	825	547	278

Comments

1. First half of 1940. During the first half of 1940 the Federal net contribution is expected to continue close to the recent high level. Outlays are expected to be above 1939 and, in fact, at a higher level than in any previous six-month period in post-war years, but this gain over 1939 should be offset by increased receipts reflecting chiefly the larger income tax collections from 1939 incomes.

In this connection, it should be noted that these figures for the net contribution are lower than would be indicated from the estimates in the Budget Message. I believe that the Treasury estimates of receipts, particularly income taxes and customs, are decidedly too low and the budget estimates of expenditures are slightly high.

2. Last half of 1940. The anticipated decline in the net contribution from the second to the third quarter of 1940 is largely due to the seasonal drop in agricultural benefit payments and in the Works Projects Administration expenditures. The final quarter recovery reflects mainly the seasonal increase in agricultural benefits and the continued growth in national defense outlays.

3. First half of 1941. Although the Budget Message indicates that the Federal net contribution may be considerably reduced during the first half of 1941, any precise figures presented at this time would have little value because of the many uncertainties in regard to Congressional action on the President's recommendations on expenditures and taxes and the large margin of error in any revenue estimates that far in the future.