April 15, 1940

COMMENTS ON GOLDSMITH'S LETTER OF MARCH 30, 1940

Goldsmith's figure on the probable amount of open-market Government and Government guaranteed obligations that will be sold for cash during the coming year of $1,500,000,000 appears to be incorrect by about $1,000,000,000. The amount of direct obligations which he indicates will be necessary to keep the Treasury balance at $1,000,000,000 or higher is about $800,000,000. According to our figures, we will need no direct financing at all for this purpose. Mr. Goldsmith's error at present seems to be mainly in his failure to include enough receipts from the various Social Security funds, including State unemployment trust funds. Also, for fiscal year 1941 as a whole, he estimates that expenditures other than W.P.A. will be $250,000,000 above the Budget estimates. While it is too early in the session to say what this figure will actually be, we are tentatively carrying a figure of about $50,000,000 below Budget estimates except W.P.A. expenditures. This takes into account the probable Congressional action on the various appropriation bills now pending and a lag in military expenditures behind the figure shown in the Budget Message last January.

The table below shows a comparison of Mr. Goldsmith's and our estimates. In order to put the estimates on the same basis, we have assumed that no new taxes will be levied and that increased expenditures of $250,000,000 will be authorized for W.P.A. It is interesting to note that for fiscal year 1941 Goldsmith's figure of the excess of revenue over Budget estimates is very close to our figure, while he shows a slightly larger amount received by the Treasury from sales of Savings bonds.

Comparison of Goldsmith and Independent Estimates, Fiscal Year 1941
(In millions of dollars)

		Goldsmith		Independent
Treasury cash balance, June 30, 1940, assuming no cash financing		1,000		1,170
Cash requirements, fiscal year 1941:				
Budget estimate of deficit, including $460,000,000 of new taxes and return of $700,000,000 of surplus funds of Government agencies		1,700		1,720
Adjustment in receipts:				
Deduct new taxes	-460		-460	
Add increased revenue	+300	+160	+335	+125
Add increased expenditures:				
W. P. A.	+250		+250	
Other	+250	+500	-50	+200
Total deficit		2,360		2,045
Deduct noncash items, net receipts in Social Security accounts, etc.		660		1,200
Total requirements		1,700		845
Sales of U. S. Savings bonds		900		840
Net requirements		800		5
Sales of direct obligations if working balance is kept at $1,000,000,000		800		--
Sales of obligations for return of surplus funds to Treasury		700		500 1/
Total direct and guaranteed direct financing		1,500		500

1/ So far as I know, there are no detailed plans on how the various corporations will raise the cash to repay capital to the Treasury. I doubt, however, that more than $500,000,000 of the $700,000,000 will be raised by sales of guaranteed obligations or liquidation of the corporations' holdings of Government securities.