

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 5, 1948

To Chairman Eccles

Subject: Conflicting estimates of  
Treasury cash balance  
through June 30, 1948.

From Thomas L. Smith

Substantial differences of opinion exist as to the course of Treasury receipts and expenditures over the next few months and as to the level of the Treasury's cash balance at the close of this fiscal year. Estimates are necessarily subject to a wide margin of error due principally to uncertainties regarding expenditures, particularly in international affairs, but also to some extent in receipts reflecting effects of the impending new revenue act to reduce taxes and effectiveness of the announced savings bond drive starting April 15. Our estimates are in substantial agreement with the Budget Bureau and with the Treasury Department whereas the New York Reserve Bank shows a substantially higher cash balance for the end of the fiscal year. Little difference is indicated in estimates for March and April; the higher cash balance shows up mostly in May and June where the most unpredictable expenditures for foreign aid might appear.

In our opinion, the cash position of the Treasury is quite as likely to fall short of our present estimates as to exceed them, and we think the higher estimates are definitely over-optimistic on the basis of present information. If they are over-optimistic, it would be unwise to give the higher estimates equal weight in determining policy unless new evidence should appear to support them. However, it would be ridiculous to say that the higher estimates cannot prove correct, in view of the wide margin for error in estimating.

Mr. Sproul probably referred to an estimate by the New York Bank under date of February 9, 1948, that Treasury deposits at the Federal Reserve and in war loan account would total 7.0 billion at the end of June 1948 compared with our estimate of 1 billion made February 26, a difference of 6.0 billion. Our estimate for the fiscal year is substantially unchanged from one dated January 27. About 3.7 billion of the difference is attributable to differing assumptions with respect to the retirement of marketable debt and Treasury purchases of bonds in the market; the remaining 2.3 billion is a difference in estimates of income tax receipts, in budgetary expenditures, and net sales of savings bonds.

The differences in the two sets of estimates are approximately as follows:

(In billions of dollars)

	<u>Total</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>
<u>Differences in estimates of receipts and expenditures:</u>						
Add to cash balance						
Cash receipts	+ .6	+ .5	- .2	+ .2	+ .2	- .1
Cash sale of savings bonds	+ .6	--	+ .2	+ .1	+ .1	+ .2
Cash sale of savings notes	+ .1	--	--	+ .1	--	--
Deduct from cash balance						
Cash expenditures	-1.0	+ .2	- .1	--	- .5	- .6
Difference in change in cash balance	+2.3	+ .3	+ .1	+ .4	+ .8	+ .7
<u>Difference in assumptions:</u>						
Deduct from cash balance						
Treasury purchases of marketable bonds	-1.0	- .1	- .3	--	- .2	- .4
Cash retirement of marketable debt	-2.7	- .1	-1.1	-1.0	- .4	- .1
<u>Total difference in change in cash balance</u>	+6.0	+ .5	+1.5	+1.4	+1.4	+1.2

Cash expenditures:

To reach the higher cash balance figure, it is necessary to assume that Treasury expenditures will be about 1 billion less than the estimate in the President's Budget, with which we are in agreement. All of the difference occurs in May and June. Expenditures for international affairs and for national defense late in the fiscal year will be determined by the decisions of Congress and others. The Budget Bureau, which is in the best position to estimate these figures, is of the opinion that as of this moment the official January estimates are still the best that can be made.

The past record of the Budget Bureau is fairly good. At this time last year, expenditures were also running less than expected, but by the end of the fiscal year 1947 expenditures were almost exactly the same as the Budget Bureau's estimate. The record, including the war period and its aftermath when expenditures were very difficult to forecast, is as follows:

<u>Fiscal year</u>	<u>January estimates</u>	<u>Actual</u>
	(In billions of dollars)	
1947	42.9	43.1
1946	67.7	64.2
1945	101.6	99.6
1944	102.0	97.8
1943	85.5	80.0
1942	33.7	35.9
1941	13.3	12.9

Net sales of savings bonds:

Estimates also vary as to the effectiveness of the savings bond drive schedules to begin April 15. The higher estimate of net sales for March- June, which is 600 million greater than our own, apparently assumes that the drive will be very effective whereas we discount its effectiveness completely. There has been a downward trend which so far this fiscal year has resulted in net sales 300 million less than in the same portion of the previous fiscal year. We think this downward trend will continue because of dwindling savings by individuals, and have estimated net sales in March-June 1948 will be about 200 million less than in the like period a year earlier. Treasury estimates are almost identical with ours.

Cash receipts other than from debt transactions:

The 600 million difference in estimated receipts in the fiscal year were largely in income tax collections, with the greatest difference in February. Income tax receipts were roughly 200 million less than the higher estimate and 100 million more than our estimate for February.

The New York Bank, the Treasury, and ourselves now use basically the same procedure in estimating income tax liabilities and collections, although the Treasury estimates are carried out in far greater detail. Because of the numerous subordinate estimates required and because of the uncertain extent of tax evasion, there is margin, however, for considerable differences of opinion in the estimate of tax collection. For this reason, we feel that capitalization of known collections gives a more and more reliable check on the estimate as the collection year nears its end.

Low collections in January and February compared with previous higher estimates, together with evidence just obtained which suggests that individuals are not postponing final payment of 1947 tax liability, makes us believe that our estimate of income tax receipts in March may be a few hundred million too high, although total receipts should be about right for the fiscal year since we shaded our estimate of receipts from other sources.

Our independent estimate of total tax receipts agrees substantially with the Treasury's. While the Treasury's estimating record has not been good due to extreme conservatism in the past, we feel they have done a good job this year, possibly because their hand was more or less forced by your own testimony concerning a possible 7 billion surplus in the first quarter. However, the Treasury is backtracking some and is inclined now to think that their last estimate of tax receipts is more on the high than the low side.