

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
Division of Research and Statistics

PROSPECTIVE TREASURY FINANCING AND SYSTEM OPEN MARKET OPERATIONS

Tax receipts in March below earlier estimates and revisions in estimates of Treasury receipts and expenditures for the remainder of this fiscal year and the next fiscal year necessitate considerable changes in the Treasury refunding plans and in the System's program for open market operations. Tax receipts have been about a billion dollars less than earlier estimates and the tax reduction legislation will lower receipts considerably over the next 15 months. At the same time the new military program will cause an increase in expenditures. The Treasury debt retirement program, therefore, will have to come to an end. The current increase in nonmarketable debt may be just about sufficient to take care of voluntary redemptions of maturing issues, but it is not unlikely that at times during the next 15 months the Treasury may find it necessary to borrow moderate amounts in the market in order to maintain its cash balance at a desired level.

April-July 1948

Treasury program. The second quarter begins with a Treasury deposit balance of about 3.9 billion dollars, or 800 million less than had been estimated on February 26. In order to meet a cash deficit during the second quarter, and another substantial one in July and to pay off voluntary retirements of maturing issues during the next four months, it will be necessary for the Treasury to discontinue immediately its program of retiring Federal Reserve-held securities. Already it has cut retirements of Treasury bills below the amounts proposed by the Open Market Committee.

Maturities, other than bills, include certificates of 1.3 billion on April 1, 1.8 billion on June 1, and 6.1 billion on July 1, and 3.1 billion dollars of bonds on June 15. It is estimated that voluntary redemptions of these issues will be about a billion dollars. Federal Reserve holdings of 106 million of April 1 certificates are being paid off, and 100 million of bills are being retired on April 1 and again on April 8.

This program will reduce the Treasury's total deposits from 3.9 billion at the end of March to about 2.6 billion at the end of June and to a little less than a billion at the end of July. (These figures do not include a billion dollars of free gold which the Treasury could use to retire Federal Reserve-held debt.) The end-of-June balance is larger than had been previously contemplated in order to allow sufficient funds to meet the large cash payments in July. If the balance is drawn down any more it might be necessary for the Treasury to borrow new money in July.

Effect on bank reserves. These transactions will eventually increase bank reserves, but this can be postponed until July by substantial calls on war loan accounts. At the end of March the Treasury has approximately 2 billion in war loan accounts and an additional 2 billion dollars on deposit with the Federal Reserve. The balance with the Federal Reserve will be reduced during the early part of April by retirement of some 300 million of Federal Reserve-held securities, which will have no effect on the reserve position of banks. To maintain that balance and thus avoid increasing bank reserves it will be necessary to make calls of 300 million dollars a week until the middle of May and somewhat more between then and the middle of June. If the effect of the gold inflow on reserves is to be an offset, the calls would need to be somewhat larger, but war loan deposits would be reduced to a minimum that much quicker. On the basis of the schedule proposed, they fall below a billion dollars by the end of May.

The only other means of absorbing bank reserves would be another increase of requirements at central reserve city banks, but this would probably result only in sales of securities by banks in those two cities and have no effect upon the situation in other banks where the credit expansion is taking place. Some reserves might be absorbed by inducing banks or others to purchase Government securities from the System, but this will be at the initiative of the buyers. An increase in short-term rates would be the only measure available to exercise an influence toward this end.

#### Fiscal Year 1948-49

Revised estimates of Treasury receipts and expenditures for the fiscal year 1948-49, assuming tax reduction and allowing for an increased military program, indicate a small budget deficit which will be slightly more than covered by net receipts in Treasury trust accounts available for investment. It appears that only about 2 or 3 billion dollars will be available for retirement of marketable securities; this amount will probably just about cover voluntary redemptions, leaving none for retirement of Federal Reserve-held securities. This situation contrasts with previous estimates of about 7 1/2 billion that might have been available for retirement of marketable debt.

Estimated receipts for the fiscal year are less than the January budget estimates by about 2 billion dollars. This difference allows for a decrease of around 5 billion in taxes due to the tax reduction legislation offset by an increase in receipts resulting from higher income estimates.

Estimated expenditures are about 4 billion dollars larger than previous budget estimates. This includes an additional 3.5 billion for national defense and .5 billion for tax refunds. The increase for national defense covers the additional cost of universal military training, aircraft procurement, stockpiling, and the increase in the authorized strength of the Army. If international relations worsen, it is possible of course that additional expenditures for national defense will be greater than the amounts here contemplated. There may also be a small increase in expenditures

for international purposes and a large payment (perhaps 1.5 billion dollars) not included in budget estimates, may need to be made sometime during the next year or so to refund certain amounts due to policy holders under the national service life insurance.

The schedule of receipts and expenditures during the next fiscal year may bring about a reduction in the Treasury cash balance at certain times to a lower level than is deemed advisable. According to the estimates, the deposit balance (leaving out free gold) may fall to slightly below a billion dollars in July and August and in October and November may be down to an almost negligible figure. In these periods some consideration may need to be given to new Treasury borrowing.

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ESTIMATED TREASURY CASH BALANCE  
(In billions of dollars)

R&S 100-2637  
April 1, 1948

Item	1947 July-Dec.	1948										1949		Fiscal Years	
		Jan.*	Feb.*	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	1947-48	1948-49
Net receipts	19.2	4.3	4.3	6.2	2.7	2.8	4.7	2.1	2.4	5.0	8.8	11.5	9.8	44.2	42.6
Expenditures <u>1/</u>	18.0	2.4	2.7	3.6	3.2	3.2	5.0	3.8	2.7	3.8	10.5	11.2	12.0	38.1	44.0
Budgetary surplus	+ 1.2	+1.9	+1.6	+2.6	- .5	- .4	- .3	-1.7	- .3	+1.2	- 1.7	+ 3.3	-2.2	+ 6.1	- 1.4
Change in nonmkt. debt: total	+ 1.6	+ .5	+ .2	- .2	--	+ .2	+ .2	+ .5	+ .3	+ .2	+ .3	+ .9	+1.1	+ 2.5	+ 3.3
Special issues	+ 1.6	+ .2	+ .1	--	--	+ .2	+ .6	+ .6	+ .2	+ .3	+ .5	+ .5	+1.0	+ 2.7	+ 3.1
Other	--	+ .3	+ .1	- .2	--	--	- .4	- .1	+ .1	- .1	- .2	+ .4	+ .1	- .2	+ .2
*Redemption of mkt. debt: total	- 2.9	- .8	-2.2	-1.4	- .4	--	- .3	- .5	--	- .2	- .6	- .5	- .6	- 8.0	- 2.4
Adjustment <u>2/</u>	+ .3	- .2	+ .2	- .2	+ .2	--	--	--	--	--	--	--	--	+ .3	--
Net change in balance	+ .2	+1.4	- .2	+ .8	- .7	- .2	- .4	-1.7	--	+1.2	- 2.0	+ 3.7	-1.7	+ .9	- .5
Balance, end of period <u>3/</u>	2.9	4.3	4.1	4.9	4.2	4.0	3.6	1.9	1.9	3.1	1.1	4.8	3.1	3.6	3.1
*Redemption of mkt. debt:															
Federal Reserve holdings	- .9	- .6	-2.1	- .9	- .3	--	--	--	--	--	--	--	--	4.8	--
Other	- 2.0	- .2	- .1	- .5	- .1	--	- .3	- .5	--	- .2	- .6	- .5	- .6	- 3.2	- 2.4

Note: Assumptions underlying estimates for 1947, 1948 and 1949 respectively as follows, in billions of dollars: Personal income, 197, 212, 219; Personal income tax collections, after tax cut beginning with 1948, 21.0, 19.3, 20.0; Corporate Federal income tax liability, 10.0 and 9.8; Budget expenditures reduced from January official estimates by .5 in fiscal 1948 and increased by 4.2 in fiscal 1949.

\* Actual

1/ Including net expenditures in trust accounts and clearing account.

2/ Adjustment for difference between General fund balance and cash balance due principally to timing of receipts and expenditures.

3/ Including free gold of about 1 billion dollars.

GOVERNMENT FINANCE SECTION, BOARD OF GOVERNORS

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ESTIMATED TREASURY DEPOSITS AND RELATED ITEMS  
(In millions of dollars)

April 1, 1948  
R&S 100-2637

Period	Treasury deposits with Federal Reserve Banks							War loan deposits				Total Treasury deposits <sup>1/</sup> (end of period)
	Amount (end of period)	Change					Amount (end of period)	Change				
		Calls	Redemptions		Income taxes	Tr. pur. of mktb. bonds		Other	Income taxes	New securities	Calls	
Bills	Other mktb. issues											
Statement week ended:												
1948: March 3*	954	--	-100	-439	+ 380	- 65	- 478	1,518	--	+146	--	2,472
10*	751	--	-100	- 6	+ 488	- 11	- 558	1,618	--	+101	--	2,369
17*	677	--	-104	-427	+1,629	- 54	-1,118	1,695	--	+ 78	--	2,372
24*	1,458	--	-195	- 11	+1,488	- 9	- 492	1,799	+ 27	+ 78	--	3,257
31	1,972*	--	- 94	- 15	+ 855	--	- 232	1,972*	+ 43	+131	--	3,944*
April 7	1,593	--	-104	-225	+ 500	--	- 550	2,110	+ 50	+ 88	--	3,703
14	1,500	+ 300	-100	- 20	+ 350	--	- 623	2,055	+150	+ 95	- 300	3,555
21	1,450	+ 300	--	--	+ 225	--	- 575	1,950	+ 75	+120	- 300	3,400
28	1,395	+ 300	--	--	+ 145	--	- 500	1,824	+ 50	+125	- 300	3,219
May 5	1,385	+ 300	--	--	+ 290	--	- 600	1,699	+ 65	+110	- 300	3,084
12	1,505	+ 300	--	--	+ 420	--	- 600	1,699	+200	+100	- 300	3,204
19	1,425	+ 300	--	--	+ 320	--	- 700	1,684	+180	+105	- 300	3,109
26	1,430	+ 400	--	--	+ 205	--	- 600	1,464	+ 75	+105	- 400	2,894
June 2	1,400	+ 600	--	-175	+ 145	--	- 600	989	+ 45	+ 80	- 600	2,389
9	1,415	+ 300	--	- 25	+ 340	--	- 600	839	+ 60	+ 90	- 300	2,254
16	1,215	+ 600	--	- 90	+ 790	--	-1,500	529	+200	+ 90	- 600	1,744
23	1,715	--	--	- 10	+1,110	--	- 600	704	+ 60	+115	--	2,419
30	1,740	--	--	--	+ 575	--	- 550	860	+ 25	+130	--	2,600
July 7	1,475	+ 500	--	-460	+ 295	--	- 600	475	+ 40	+ 75	- 500	1,950
14	1,375	+ 300	--	- 40	+ 240	--	- 600	310	+ 60	+ 75	- 300	1,685
21	1,200	+ 200	--	--	+ 225	--	- 600	215	+ 30	+ 75	- 200	1,415
28	775	--	--	--	+ 175	--	- 600	305	+ 20	+ 70	--	1,080
Month:												
1948 - March	1,972*	--	-493	-898	+4,681	-104	-2,805	1,972*	+ 70	+465	--	3,944*
April	1,600	+1,200	-204	-245	+1,270	--	-2,393	1,600	+350	+478	-1,200	3,200
May	2,055	+1,600	--	--	+1,260	--	-2,405	945	+520	+425	-1,600	3,000
June	1,740	+ 900	--	-300	+2,885	--	-3,800	860	+365	+450	- 900	2,600
July	530	+1,000	--	-500	+1,040	--	-2,750	370	+160	+350	-1,000	900

\*Actual  
1/ Total Treasury deposits at Federal Reserve Banks and war loan deposit accounts; total does not include free gold, which amounts to a little more than one billion dollars, and other small items in the General Fund balance.

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