

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM*File Currie memo*

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Office Correspondence

Date March 9, 1939.To Chairman EcclesSubject: Cash deficit in 1939-40.From Lauchlin Currie
LC

Attached is a brief statement indicating that the actual decline in the cash deficit from the last six months of 1939 through the first six months of 1940 may be from over \$250 million a month to a little more than \$100 million a month.

I am also attaching a chart of the anticipated movement of the net contribution series, which as you know is a more refined series than the cash deficit. It also indicates a fairly abrupt decline in the first half of 1940. I think it would be all right to show this chart, but not to leave it with anyone.

I am also enclosing a copy of a memorandum on the business outlook for 1939 and 1940, which I prepared rather hastily for Ben Cohen on Monday. There are a few points in it you might find useful.

THE CASH DEFICIT 1939-1940.

1. Official budget estimates for the fiscal year 1940 indicate a bookkeeping deficit of \$3.320 billion and a cash deficit of \$2.900 billion.

2. In various particulars these estimates may understate certain revenues and overstate certain expenditures.

Making the few adjustments mentioned below reduces the anticipated cash deficit in the next fiscal year to about \$2.200 billion. This figure is, of course, susceptible to adjustment either upward or downward, depending on the goodness of the estimates and further action taken by this Congress. At the moment, however, it appears likely that the only important offsetting factor to the downward readjustments listed below is the prospect of increased agricultural benefit payments. Since not even the general lines of agricultural policy for the next crop year have been determined, it is impossible to say what the increase might be.

3. The bulk of the anticipated cash deficit for the fiscal year 1940 will occur in the last half of the calendar year 1939. In the first half of the calendar year 1940 cash expenditures will run somewhat lower than in 1939 while the collections will run considerably higher. Hence, it is likely that the average monthly cash deficit will fall from \$250 million to a little over \$100 million.

4. The anticipated decline in the government net contribution to buying power of about \$2 billion from the calendar year 1939 to

the calendar year 1940 is nearly as great as that which occurred from 1936 to 1937. It will unquestionably impose a severe strain on the recovery movement. Unless it is more than offset by an expansion in private capital expenditures, there will be a grave danger of a downturn in business activity in 1940. An expansion of \$3.5 billion in private capital expenditures (including housing) in 1940 over the anticipated volume for 1939 would constitute over a 40 per cent increase.

Appendix

Some Adjustments of Treasury Estimates.

1. Income tax collections.

Treasury estimate \$1.9 billion. This implies estimated collections in the calendar year 1940 from 1939 incomes of \$500 million less than actual collections on 1936 incomes. The 1936 national income was \$63.5 billion. It is anticipated that the 1939 national income will be in the neighborhood of \$68 billion. If we assume the same amount of collections in 1940 as on 1936 income, allowing for \$100 million to cover losses attributable to changes in the undistributed profits and capital gains taxes, we get a figure \$400 million higher than the Treasury estimates for the full year 1940 and \$230 million higher for the fiscal year 1940.

2. W. P. A.

Treasury estimate about \$1.6 billion. This works out at an average of \$133 million a month. Since it appears doubtful whether the full amount estimated will be requested or granted, a figure

million
around \$1.4 billion, or \$117/a month, may be nearer the mark.

3. Social security taxes and unemployment benefits.

The Treasury estimates assume no higher rate of collections, apart from one quarter's collections of old age taxes at the higher rate in 1940, than prevailed in the lowest quarter of 1938. They also assume a higher rate of unemployment benefit payments in the fiscal year 1940 than in the current fiscal year. Making somewhat different assumptions, the anticipated cash deficit could be lowered on these two counts by over \$200 million.

4. U. S. H. A.

Since this agency is now outside the budget, its estimates are not subject to close scrutiny by the Bureau of the Budget. Its own estimate of expenditures, accepted by the Treasury for inclusion in the official figures, is \$315 million. In view of the progress of the program to date, this appears to be too high. A figure \$50 million lower may be a more accurate estimate.

5. Old age benefits.

No specific provision is made in the Treasury estimates for the possible commencement of benefit payments in 1940. A figure of \$100 million, which, on the basis of present expectations, appears ample, would be covered in large part by the overall figure of \$100 million for "supplemental items" included in the Treasury figures.



HALF YEARLY GOVERNMENT NET CONTRIBUTION COMPARED WITH CHANGES IN CONSUMER EXPENDITURES

