

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 17, 1942

To Chairman Eccles

Subject: Speech before New York

From Martin Krost

Bankers Association 1/19/42

MK

Attached is a table showing the Treasury's financial requirements on the basis of the budget figures, and an extremely rough outline that may be useful in speaking before the New York State Bankers Association.

January 17, 1942

FINANCING FEDERAL REQUIREMENTS, FISCAL YEARS 1941-43  
(Billions of dollars)

	1943 (estimated)	1942 (estimated)	1941 (actual)
<b>Requirements:</b>			
National defense expenditures	55.7	26.2	7.4
All other	<u>6.2</u>	<u>6.6</u>	<u>6.5</u>
Total expenditures	61.9	32.8	13.9
<b>Sources of funds:</b>			
Taxes and other receipts:			
Under current laws	19.2	14.0	9.0
New taxes:			
Social security	2.0		
All other	<u>7.0</u>		
Total receipts	28.2	14.0	9.0
Budget deficit plus requirements of			
Government corporations:	33.7	18.8	4.9
Change in the working balance	-	-	+ 0.7
Amount borrowed from the public:	33.7	18.8	5.6
From non-banking lenders	<u>2/</u>	<u>1/</u>	3.3
From commercial and Federal Reserve banks	<u>2/</u>	<u>1/</u>	<u>2.3</u>
Total sources of funds	61.9	32.8	13.9

1/ In the first six months of fiscal 1942, (July-December, 1941), the Treasury borrowed about \$8.1 billion from the public of which about 1.6 came from the banks, 6.5 from non-banking sources.

2/ The Budget contains no figures forecasting the distribution of borrowing between banking and non-banking lenders. If the expenditure figures for fiscal 1943 are actually realized, it would seem possible for the Treasury to raise \$20 billion from non-banking lenders by the sale of securities properly designed for the needs of various sections of the market.

January 17, 1942

SUGGESTED OUTLINE FOR TALK TO NEW YORK STATE BANKERS ASSOCIATION

1. The expenditure totals projected for the forthcoming fiscal year are very large. War expenditures are estimated at \$56 billion and total Federal expenditures at \$62 billion. These figures are to be compared with the national income which is currently running at a rate close to \$100 billion a year and which may by the end of the year be running as high as \$125 billion. In the current month we will spend more for defense than we spent in the whole of the fiscal year 1940. In the month of June 1940 we spent about \$150 million for defense. We now spend that amount about every three days and if the production schedules underlying the budget estimates are to be met by the end of 1942 we must be spending that amount every single day.

2. The task of getting expenditures made in this volume calls for a major effort in the organization and efficient operation of productive resources. Protecting the economy against the disruptive inflationary effects of these expenditures is the job of fiscal and monetary policy. The primary objective of financial policy in war time is to make sure that financial considerations do not operate as an obstacle to the transformation of the country's economic system into a nation which is waging war with the greatest possible effectiveness. Measures against inflation and the stimulus which inflation provides to engage in speculative rather than productive activities are as important a part of the war effort as the technical job of providing the Treasury with the funds that it requires for ships and munitions.

3. Answering the question "Where is the money coming from?" is not difficult if it is kept in mind that government expenditures become income in the hands of the persons who receive them. Out of these incomes savings can be made and if appropriate steps are taken to encourage savings and to design government securities that will be attractive to the various financial institutions, business concerns and individuals that have control over the investment of these savings, borrowing from the banking system can be held to a minimum. The volume of funds available for investment in government securities will also tend to increase as a result of shortages of consumer durable goods and of materials for replacing business inventories and depreciating plant and equipment. The banking system must of course stand ready to provide funds in periods when the funds that non-banking lenders are willing to provide may temporarily fall short of the government's needs.

4. Sound public policy demands that the current tendencies toward rising prices should be combatted not only by direct price control measures but by an aggressive tax policy so framed as to reduce the excess of consumer purchasing power over the volume of goods available for sale and to check the increase in the public debt. The President's request for \$9 billion of additional revenue is a courageous step in this direction. It is imperative that speedy action should be taken to raise this revenue and that a substantial part of the increased revenue from individual income taxes which make up a substantial part of the program should be collected during the calendar year 1942. This implies the introduction of a system of collection at the source. Such a system is perfectly compatible with the allowance of exemptions high enough to protect families living in poverty. The exemptions, however, may need to be somewhat lower than those now allowed under the individual income tax.

5. Even with this very large increase in taxation there will be more than \$30 billion of borrowing to be done. A major share of this should come from other than banking sources. During the first six months of the fiscal year 1942 the Treasury raised around 80 per cent of the funds it borrowed from the public from sources other than commercial banks as contrasted with the figure of about 60 per cent for the fiscal year 1941. This improvement was the result of the offerings of the new tax anticipation certificates and of greater emphasis upon the sale of defense savings bonds. This trend shows the possibilities of obtaining funds from the public with securities designed for the needs of the various sectors of the money market and with an aggressive selling effort.

6. If a policy of this general type is pursued it should be possible to minimize the extent to which it is necessary to resort to borrowing from the banks. The volume of deposits is now about \$50 billion, more than 50 per cent in excess of the 1929 level and the volume of demand deposits is almost double that of 1929. It would be dangerous to increase these totals to the enormous figures which would be reached if any considerable part of the government's financial requirements were met from banking sources.