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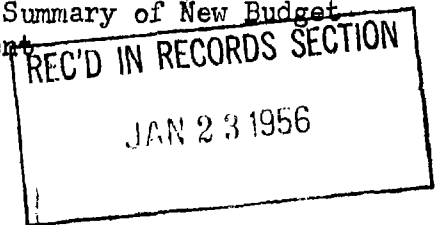
R&S 100-5904

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

January 20, ~~1955~~¹⁹⁵⁶

To: Federal Open Market Committee Subject: Brief Summary of New Budget Document

From: Government Finance Section, Division of Research and Statistics, Board of Governors



The new 1957 Budget Document forecasts surpluses for the administrative Budget of \$200 million and \$400 million in the current and the next fiscal year, respectively. These will be the first Budget surpluses since 1951. The corresponding cash surpluses are \$2.4 billion in each year. The surplus is anticipated in spite of increased expenditures since revenues are expected to increase by larger amounts to the highest levels on record. For the current fiscal year 1956, cash receipts are expected to increase \$5.6 billion and expenditures \$500 million over the previous fiscal year. For the coming fiscal year 1957, assuming no tax cuts, revenues are estimated to increase further by nearly \$2 billion to 75.4 billion; a similar increase is projected in cash outgo to \$72.9 billion.

Our estimates suggest that both receipts and expenditures may be underestimated in the Budget message. For fiscal year 1956, receipts might exceed the Budget figure by \$2.2 billion. Spending, higher than Budget estimate by \$1.6 billion, only partly offsets the larger receipts, increasing the surpluses in the administrative and cash budgets over those forecast in the Document.

Assuming no tax cuts in line with the President's recommendations, our estimates for fiscal year 1957 suggest almost \$4 billion more cash receipts than the Document, partly offset by \$0.9 billion of cash payments above the Budget figure. Thus our estimates for fiscal 1957 suggest an administrative budget surplus of \$3 billion (compared with \$400 million in the Document) and a cash surplus of about 5 billion (against 2.4 billion in the Budget).

Receipts

The record high level of receipts reflects the substantial growth in corporate and personal incomes realized in calendar 1955 and further growth assumed for 1956. Personal income was assumed in the Budget to increase from \$302.5 billion in 1955 to \$312.5 billion in 1957 and corporate profits to stand at \$43 billion in each year, compared with 34 billion in 1954. Table 1 shows that our income assumptions for calendar year 1956 are substantially higher than those on which the official Budget receipts are estimated. With personal income at \$312.2 billion for the fourth quarter of 1955, the Treasury figure for calendar 1956 seems conservative.

Of the \$5.6 billion revenue increase estimated in the Document for fiscal 1956, the largest part--\$3.3 billion or 57 per cent--is represented by individual income and social security taxes. Corporate taxes are estimated to increase by \$2.0 billion and excise taxes by \$700 million over 1955. Our estimates place individual income taxes \$1.1 billion above and corporate income taxes 1.3 billion higher than the official figures.

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The fiscal 1957 increase in revenues of \$1.9 billion estimated by the Treasury includes an increase of \$1.7 billion in individual income and employment taxes, with corporate tax collections unchanged from 1956. With the higher income assumptions, our figures anticipate 1957 receipts above the Budget estimates by almost \$2 billion in individual income taxes and the same amount of corporate taxes.

Payments

The \$500 million increase in the Document for cash payments to the public during fiscal year 1956 over the previous year results from increased spending for commerce and housing, social security, interest, and veterans only partly offset by reductions in major national security and agriculture. The Document, contrary to our own estimates, assumes the issuance of \$800 million of certificates of interest by the Commodity Credit Corporation before the end of the current fiscal year. If these certificates are not issued, net spending will be correspondingly increased above the Budget estimates. In addition, major national security expenditures since July have been at an annual rate about \$700 million above the Budget figure for the current fiscal year. These two programs largely account for our estimate of payments \$1.6 billion above Budget estimates for fiscal year 1956.

For fiscal year 1957, the \$1.8 billion increase over 1956 in the new Budget results from increases of approximately \$1 billion each for the major national security and the social security programs. Budget estimates of spending may be too low due to higher than budgeted defense costs and due to the optimistic assumptions of a \$350 million increase in postal rates, and of additional spending for highways fully matched by new revenues.

Borrowing, Debt, and Balance

According to Budget estimates, the anticipated cash surpluses will permit Federal net repayment of cash borrowing of \$2.6 billion during the current fiscal year and net repayment of \$2.5 billion during fiscal 1957, compared with net cash borrowing of \$1.8 billion during the 1955 fiscal year. Based on actual net cash borrowing of \$5.3 billion during the July-December 1955 half year, both the Budget Document and our estimates indicate net debt repayment of \$7.9 billion during the current half year after allowing for some increase in cash balances. This compares with \$4.9 billion of net repayment during the comparable January-June 1955 period. Redemption of the \$8.2 billion of outstanding tax anticipation securities will be the means for the net debt redemption during the current half year.

In view of the continuing semi-annual concentration of tax payments, the President's message requests that the temporary increase in the debt ceiling be continued for the 1957 fiscal year. Our preliminary estimates indicate a debt maximum of approximately \$278 billion during fiscal 1957. The Treasury cash balance, according to the Document, will be \$6.0 billion on June 30 of both 1956 and 1957, down slightly from \$6.2 billion on the comparable 1955 date but up sharply from the mid-January 1956 level of about \$2.7 billion (including gold and net assets totaling \$1.2 billion).

Attachments

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Table 1

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FEDERAL CASH RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

(Estimated In billions of dollars)

	Fiscal year ending June 30				
	1955 Actual	1956		1957	
		Budget Doc.	Gov't Fin. Section	Budget Doc.	Gov't Fin. Section t
<u>Cash receipts from the public</u>	67.8	73.5	75.7	75.4	79.2
Individual income taxes	31.7	33.6	34.7	35.1	37.0
Withheld	21.3	22.5	{ na	23.4	{ na
Other	10.4	11.1	{	11.7	{
Estate and gift taxes	.9	1.0	1.0	1.1	1.1
Corporation income taxes	18.3	20.3	21.6	20.3	22.2
Excise taxes	9.2	9.9	9.9	9.9	9.9
Social security taxes	7.9	9.3	9.1	9.5	9.5
Other receipts	3.2	3.2	3.2	3.4	3.4
Deduct: Refunds of taxes	3.4	3.8	3.8	3.9	3.9
<u>Cash payments to the public</u>	70.5	71.0	72.6	72.9	73.8
Defense Department, military	35.5	34.6	35.4	35.5	36.3
Mutual military program	2.3	2.5	2.5	2.5	2.5
Stockpiling and DPA	.9	.7	.7	.4	.4
Atomic energy	1.9	1.7	1.7	1.9	1.9
National Security (Budget)	40.6	39.5	40.3	40.4	41.1
International affairs	2.2	1.9	1.9	2.0	2.0
Other 1/	.3	.4	.4	.4	.4
National Security (Commerce)	43.1	41.7	42.5	42.7	43.5
<u>Other payments - total</u>	27.4	29.3	30.1	30.2	30.3
Interest on debt	4.7	5.2	5.2	5.4	5.4
Veterans programs	5.0	5.3	5.3	5.4	5.4
Social security programs	9.1	9.8	9.5	10.8	10.5
Agriculture: CCC	3.4	2.0	2.9	1.4	1.4
Other	1.2	1.6	1.6	2.2	2.2
Housing and home finance	.2	*	*	-.1	-.1
Public works	1.5	1.5	1.5	1.6	1.6
Post office	.4	.5	.5	.1	.5
Deposit funds	.1	.2	.2	-.2	-.2
Other	1.8	3.2	3.4	3.6	3.6
Excess of payments to (-) or receipts from (+) the public	-2.7	+2.4	+3.1	+2.4	+5.4
Net Budget receipts	60.4	64.5	66.9	66.3	70.1
Budget expenditures	64.6	64.3	65.8	65.9	67.0
Budget surplus (+) or deficit (-)	-4.2	+ .2	+1.1	+ .4	+3.1

1/ Includes maritime activities, civil defense, and other minor defense related activities.

Assumptions - calendar years (In billions of dollars)

	1955		1956	
	Bud. Doc.	FRB	Bud. Doc.	FRB
Personal income	302.5	302.6	312.5	318.2
Corporate profits	43.0	43.4	43.0	44.6

t - Tentative.

* Less than \$50 million.

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Table 2

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ESTIMATED TREASURY CASH TRANSACTIONS AND BALANCES
(Semiannual totals, January 1955 through June 1957. In billions of dollars)

	1955		1956		1957	Fiscal year ended June 30		
	Jan.- June	July Dec.	Jan.- June	July Dec.	Jan.- June	1955	1956	1957
	(...actual...)		(Bud. Doc.)	(FRB Doc.)	(Bud. Doc.)	(actual)	(Budget Document)	
<u>Cash transactions (other than debt)</u>								
Receipts	42.1	29.4	44.1	32.1	43.3	67.8	73.5	75.4
Payments	35.8	36.4	34.6	36.9	36.0	70.5	71.0	72.9
Net cash surplus (+) or deficit (-)	+ 6.3	-7.0	+9.4	-4.8	+7.2	-2.7	+2.4	+2.4
<u>Cash debt transactions</u>								
Savings bonds	+ .1	- .3	na	+ .1	(	--	na	(
Savings notes	- 2.7	-1.8	--	--	(	-3.2	-1.9	(
Attrition	- 1.6	-1.0	na	- .8	(	-2.0	na	(
Miscel. debt transactions ^{1/}	+ .4	- .2	na	--	(na	+ .3	na	(na
Tax anticipation securities: Redemptions	- 6.9	--	-8.2	(	(	-6.9	-8.2	(
Sales	+ 3.2	+6.7	--	(+4.2	(	+6.9	+6.7	(
Additional requirements	+ 2.5	+2.0	--	(	(	+6.7	+2.0	(
Net cash borrowing (+) or repayment (-)	- 4.9	+5.3	-7.9	+3.7	-6.2	+1.8	-2.6	-2.5
<u>Adjustment ^{2/}</u>	- .7	+ .3	- .3	+ .3	- .3	- .4	--	--
<u>Change in Treasury cash balance</u>								
Federal Reserve Banks	- .2	--	(na	na	na	- .5	(na	na
Tax and loan accounts	+ .9	-1.3	(			- .5	(
Total	+ .7	-1.3	+1.1	- .5	+ .5	-1.0	- .2	--
<u>Treasury cash balance outstanding, end of period</u>								
Federal Reserve Banks	.4	.4	(			.4	(
Tax and loan accounts	4.4	3.0	(na	na	na	4.4	(na	na
Free gold	.5	.5	(			.5	(
Total	5.2	3.9	5.0	4.5	5.0	5.2	5.0	5.0

^{1/} Includes principally cash issuance or redemption of obligations of Government corporations and agencies, changes in special issues of the Postal Savings System, and market transactions of Government corporations, agencies & trust acts.

^{2/} Represents addition to (+) or deduction from (-) General Fund Balance necessary to arrive at Treasury cash balance. The adjustment allows for various transitory accounts--e.g., checks in process of collection--influencing the two balances. Also includes change in cash held outside the Treasury.

p Preliminary. na Not available.

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