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SAVING CAN BE SOLD

Address of C. Canby Balderston,

Vice Chairman, Board of Governors of the Federal Reserve System,

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My long association with and affection for my former colleagues, Professors Solomon S. Huebner and the late David McCahan, make appearing here a special honor for me. The best I could hope to do would be to make a new approach to one of the many fundamental concepts that Dr. Huebner has originated. As you well know, he was father to the human-life-value concept; the idea that life insurance represents the application of the principle of depreciation to life values; and the thought that a family is a business. These ideas have become an integral part of the merchandising of insurance.

My discussion with you today will deal with a closely related matter: the merchandising of saving. Saving and merchandising may appear to be queer bedfellows--like the lamb and the lion--since merchandising is usually thought of as the selling of goods and, hence, an enemy of saving. But merchandising techniques can be employed to promote any use of money by individuals, including that very intelligent use we call saving. In treating saving, I shall discuss the social gains from it; then the amount of saving here and abroad; then the respective roles of interest rates and of government in encouraging saving; and finally some methods by which saving can be merchandised.

One does not need to "sell" the importance of saving to this audience. All saving is insurance against an uncertain future. Life insurance is not only a leading vehicle for financial saving; it is also a link between a man's income and the protection of his dependents. Life insurance is a special savings vehicle devised to minimize the financial risks of life uncertainty.

This aspect of life insurance tends to focus on the role of saving in the financial management of individuals. But saving also serves a vital social and economic purpose. This latter aspect of saving furnishes me with my central theme.

The many unsatisfied needs in our economy for capital improvement are impressive. But attempts to meet these needs at a pace faster than is permitted by our present rate of saving are dangerous. An effort to make capital outlays faster than we save accounts for many of our present inflationary difficulties. Price level pressures can, of course, be restrained by holding back some capital outlays to keep the total in line with financial saving.

But another solution is possible; namely, to increase the rate of saving. Some real advantages may be claimed for this alternative. There is the call for more schools, more and better roads, and improved housing. Also, with our advancing technology, we have many unexploited opportunities to improve our capital equipment. Because some of these demands should be met promptly, the possibility of increasing our rate of saving should be explored.

The Need for Capital

Two important factors help to explain the current need for capital. First, as already noted, we have profound changes in technology. The scientists and engineers have put at our disposal drastically new products and new ways of making old ones. To use fully what we know, a considerable stream of capital is required. Secondly, as you know, our population growth has been rapid. The need for greater capital ranges from the expanded needs for elementary school buildings to those for housing the aged.

The capital requirements of our own country, though urgent, pale in comparison with those observable elsewhere. The whole world needs more capital desperately. Many nations are undergoing social ferment that stems from emerging demands for higher standards of living. But for most of them, such higher standards will be possible only to the extent that productivity is increased.

In underdeveloped countries, the problem is basically one of low income. It is hard to save much out of incomes that are close to subsistence level. A substantial rate of saving through private channels can exist in such countries only if they have great disparity in the distribution of income, or if they employ compulsion.

Low income is not, however, the sole cause of inadequacy. The rates of saving in some countries, where once they were quite high, are now inadequate for what are considered urgent capital needs. The commonest cause of inadequate saving appears to be fear of inflationary developments, frequently complicated by fiscal difficulties. The French case is an excellent example. Economic activity has been at a high level and the saving of the individual Frenchman, surprising as it might seem, has been well sustained. But the fiscal and monetary difficulties of the French Government have made most Frenchmen unwilling to put their savings into normal financial channels. As a result, many needed capital improvements are seriously retarded.

The foregoing evidence suggests strongly that the need for a high rate of saving in the United States and in the rest of the world will continue for the foreseeable future. It is only fair to add, however, that this circumstance has not always been true and might not remain true in the future. For example, during the depressed 1930's, labor was not the only unemployed factor; capital resources were underemployed, too, and we failed to take full advantage of such new capital as was saved. It could be said that our nation--and indeed much of the world--suffered a period of economic and social frustration. I mention this period only by way of illustration, however, because the faults in the economic structure that then blocked the use of capital may have been largely corrected. If this confidence is not misplaced, your role in selling saving has high social importance.

The Present Situation

In order to appraise the selling of saving, we need to assess the magnitudes involved. How much are we saving now?

We do not have, as yet, as good current information about total national saving as we should, and so the Federal Reserve has undertaken a project to fill this gap. Unfortunately, it will be some time before the results of this project will be ready for public use.

The best current measure of individual saving now available is the estimate prepared by the Securities and Exchange Commission. The Federal Reserve is now working with the SEC in an effort to improve and extend the concept of saving and the statistical specification of this concept.

As nearly as we can tell from the limited evidence that exists, the nation is saving about the same amount now as for the past several years. Currently, the amount being saved in financial form by individuals has increased somewhat, and the amount put directly into housing and durable goods has decreased. (The group referred to as "individuals" includes not only salaried individuals but proprietors of businesses, including farmers.) Our knowledge of the saving of non-entrepreneurial individuals is so fragmentary as to permit only speculative guesses. We have no evidence, however, that they have changed greatly their saving habits.

Corporate business has increased its scale of capital spending, but it has gone into debt more rapidly in order to do so. Consequently, in the last two years, corporations have not changed their contribution to national savings appreciably. Governmental accounting is still too fragmentary to permit useful generalization about the role of government in national saving. We do know, however, that state and local governments are making larger capital expenditures, and should now be classed as financial dissavers.

The situation may be recapitulated as follows: In dollar terms, the amount of national saving has been relatively stable for the past two years. The net saving of the various sectors also appears to have been relatively unchanged. Financial saving by individuals, however, has increased, whereas corporate businesses and state and local governments have apparently engaged in net financial dissaving.

A sobering thought is the likelihood that if we allow for price changes, the volume of real saving seems to have dwindled slightly. This trend is also evident when saving is measured as a proportion of income. All of which makes it important that the idea of saving be positively and aggressively "sold".

Saving in Foreign Countries

The need has already been mentioned for an even higher saving rate in some foreign countries than in the United States. There is encouraging evidence that, even though the incentive to save be weakened by inflation, the habit of saving has remarkable vitality and persistence. This foreign experience also gives us some clues as to the circumstances that encourage saving and those that thwart the practice.

Let me illustrate this by further reference to a country I have mentioned already. While France has been enjoying a high level of prosperity and a fairly rapid increase in production and output, it was forced recently to reprice its currency because of the strain on its monetary reserves. The fiscal problems of the French Government were at the root of this loss of monetary reserves. While an unusual succession of military expenditures has complicated its fiscal affairs, taxes have proved difficult to collect. In any event, the French Government has been a net dissaver during the very same period that a relatively high rate of personal saving has persisted. Unfortunately, this has not been enough to save the situation. French difficulties were intensified when Frenchmen became reluctant to commit their saving to conventional financial channels. The proprietors of small firms apparently convert their savings into real or physical capital to the extent possible to avoid the effects of inflation. Others seek to convert their savings into precious metals or other real objects, including gems, paintings and other works of art. The problem has not been that private saving has been inadequate, but that much of it has been diverted into sterile forms.

The United Kingdom has enjoyed some revival of individual saving. In early postwar years saving by individuals in the United Kingdom was negative. Until very recently business saving was more important than individual saving. In some of the postwar years governmental saving was also a leading factor; the capital outlays for nationalized industries and for public housing were possible only because of budget surpluses.

A particularly striking example of the impact of saving is in postwar Western Germany. Here the proportion of income going into saving has been, and continues to be, higher than in any other principal country except the United States. This saving has had the dual result of keeping its currency sound and of increasing productivity. Western Germany has had this high rate of national saving primarily because of sizable budget surpluses. These surpluses have been important not only in increasing national saving, but in stabilizing the financial system through the accumulation of monetary reserves. Business saving, too, has been relatively high. Individual saving, however, appears to be no higher than that in Great Britain and France.

Role of Government in Saving Process

The foregoing comments have indicated a variety of ways in which governmental policy helps to determine the volume of saving. In the first place, a budgetary surplus furnishes a supply of funds to the capital markets and is a direct and efficient form of financial saving. In most periods and in most free countries budgetary surpluses cannot and should not be depended upon over the long run as a continuing source of saving, but sometimes, over shorter periods of time, such surpluses have been a factor of dominant importance.

A somewhat less direct way in which government influences the saving process is through its tax policies. Some taxes have a directly repressive influence on the volume of saving; other taxes do not. Therefore, the form of a country's tax structure may influence its rate of saving. Unfortunately, there may be conflicts between considerations of equity and the desire for taxes that influence saving. For example, a sales tax on consumption goods is presumed to have minimal effect on the saving process despite the criticism of such taxes by some on grounds of equity.

A less tangible but very pervasive influence is governmental policy with respect to economic stability. The climate of economic expectations is always influenced and sometimes dominated by public policy. Since my discussion relates primarily to the saving done by individuals, I shall assume that governmental policies with respect to savings are reasonably prudent.

How Can Private Saving Be Stimulated?

This experience with saving, both here and abroad, suggests that in well-developed countries the tendency to save is strong; that it apparently can survive the adverse effects of some inflation; that it is favored by a climate of price stability; and that even if the habit of saving has been weakened, it can be revived.

To some extent saving seems to be responsive to interest rates, but recent experience suggests that the aggregate of saving probably is more responsive to merchandising persuasion. Specifically, some savings institutions, even without an adjustment of the return paid savers, have been able to improve their shares of the market.

A scrutiny of recent institutional experience reveals several cases in which the habit of saving seems to have been responsive to persuasion. Savings institutions, making a constructive social contribution, have prospered. Life insurance has grown as a result of the positive efforts of persons like you. The doubling of life insurance assets during the postwar decade is eloquent testimony to your effectiveness. Furthermore, this increase was caused primarily by the accumulation of funds on life insurance contracts written during this decade. The amount of life insurance in force increased faster than life insurance assets; a clear reflection of the success of your sales efforts. Some of the increase in life insurance volume has resulted from the broadening of the scope of insurance activity, such as the selling of insured pension plans and of group life insurance.

Other savings institutions, too, have benefited from vigorous sales efforts. Savings and loan associations furnish a striking example of rapid growth and of active competition for funds. Doubtless, these institutions have been helped by the heavy demand for mortgage funds--in which they specialize--but the importance of their aggressive sales policies is not to be denied.

Still another illustration is furnished by the mutual investment funds. These funds have adapted their operations to current needs and have found widespread acceptance.

More recently the success of commercial banks in attracting new savings deserves notice. The volume of saving in time deposit accounts in commercial banks increased $4.0 billion in the first half of 1957; far more than the $2.2 billion increase in the first half of 1956. Although this followed widespread increase in the rate of interest paid on savings deposits by commercial banks, strong promotional activity was also a factor.

One saving channel that reflects a widespread need is pension funds, both insured and trusteed. Life insurance companies have been active in merchandising insured pension plans. Corporate fiduciaries have been equally active in merchandising the trusteed form of such plans. I doubt if interest rates have influenced the spread of pensions one way or the other.

This furnishes a clue to the role you may usefully play: that of being responsive to the financial problems of persons and families. More than is true of most promoters of savings, you work closely with the problems of family and personal finance. The forms of saving that can be successfully merchandised are those that meet these real human wants. To sell saving, you must first canvass the nature of human needs and particularly the changes in them that accompany the passage of time.

Many social changes now taking place affect the need for saving. For example, a larger number of families are being formed, and marriages are being contracted at earlier ages than was formerly true in this country. A larger number of children are being born to younger parents. In other words, problems of family financial protection now arise at an earlier stage in the life cycle.

At the other extreme, people are living longer. Older people survive accidents and illness more frequently, and live further beyond the age of retirement. Thus longer retirement must be provided for during foreshortened years of gainful employment. Females make up a more than proportionate share of this older group.

Although governmental programs of social security have been designed to fill a part of these needs, a substantial part remains the responsibility of private and individual initiative.

Still another significant change in our social structure is the increase in the number of women in the labor force. Everyone is aware of the larger number of young girls who work, at least briefly, before marriage; few, however, have noticed the appreciable number of older women who re-enter the labor market after family responsibilities no longer keep them at home.

Another interesting and complex factor is that ours is a healthier nation, and so a larger proportion of the population can enter the labor market and be productive. At the same time the improved treatment of degenerative diseases and those associated with senility has created new financial problems. People who formerly died or suffered dreadful disability without much medical attention are now given far more care. This is a great humane advance, but a costly one. Put in its bluntest form, everyone has to face the contingency of larger and more prolonged medical expenditures than in the past, simply because the medical arts have put at our command more assistance.

It is my impression that success in attracting saving funds is only partly a matter of price. To a considerable extent the savings vehicles that have scored outstanding successes have done so because they have filled a real and recognized place in the financial plans of individuals. If savings vehicles are to continue to grow, creative imagination must fit their programs to new requirements. And the latter cannot be those dreamed up by advertising agencies; they must have their origins in the roots of life itself. For example, my colleague Roland Robinson of the Board's staff has suggested that, since insurance company investment officers could use more funds than are now at their disposal, policyholders might well be offered some inducements for prepaying premiums. A similar idea has been put into operation by several savings and loan associations and at least one mutual savings bank: promotion of mortgage prepayment. Some savings and loan associations are not only encouraging prepayments but are offering to debtors modest discounts for doing so. In a period such as the present, this plan would appear to have considerable advantages both for borrower and lender.

In closing, may I suggest that a program to stimulate saving is an unusually happy combination of individual and social gain. The advantages of saving to the individual are clear beyond dispute. But the broad social and economic advantages of saving are just as great. The "selling" of new saving concepts and programs, therefore, combines the welfare of the individual with the social and economic needs of the nation. The importance of this dual result merits the use of creative imagination, economic inventiveness, and energy in pursuing the goals to which you have dedicated your working lives.