TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 29 1951

TO Secretary Snyder

FROM Mr. Haas

Subject: Mr. Livingston's Article in the Philadelphia Bulletin, January 25, 1951. 1/

Mr. Livingston claims that you have misused statistics on the savings bond program in the following ways in your New York Board of Trade address. In the first place he says the 3/4 of a billion dollar increase in E bonds outstanding for the calendar year 1950 is misleading because it results solely from the accrual of interest which is automatically added to the face of the bonds; in the second place he thinks it is unfair just to talk about E bonds and points out that if you take A-E bonds combined (he calls the concept "all E type bonds") the total during the year went down by $200 million; in the third place he asserts that the comparison of turnover on E bonds with turnover of other types of savings is not proper because withdrawals from savings banks are "customarily" higher. His fourth point is that he believes the real measure of the success of savings bonds in 1950 is the comparison of the decrease in A-E bonds with increases in other forms of savings.

Our answer to Mr. Livingston's remarks is simply that the statements you made in your New York address rest squarely on the facts and are not misleading. His four points are discussed in the paragraphs that follow.

1. The fact that the increase in E bonds outstanding during the calendar year 1950 resulted from an increase in accrued interest does not in any way affect the validity of the fact that individuals' investment in E bonds increased by 3/4 of a billion dollars during the year. The increase in reinvested interest is a legitimate form of savings. That is true not only for E bonds but for individuals' savings in forms such as savings bank deposits and savings and loan shares as well. Individuals' equity in private insurance depends in large part upon the accretion and reinvestment of interest each year. Certainly that equity is not impaired because a part of it is interest rather than net premiums. The E bondholder can get his investment back any time; he isn't forced to reinvest.

2. The use of E bonds alone in your analysis -- rather than including A-D bonds in the figures too -- is quite legitimate. Total A-E bonds outstanding did go down by $.2 billion during the year as a result of redemption of matured bonds, although Mr. Livingston doesn't mention that about three-fourths of this decline is attributable to institutional investors who are not permitted to re-invest in E bonds.

Mr. Livingston's reason for preferring the A-E bond concept is because he feels it is more inclusive than just E bonds. That is true; but the A-E bond concept he settles on is just another step along the road if you had wanted to discuss the place of individuals in the savings bond program in its broader aspects. It so happens that the total amount of savings bonds held by individuals went up by about $.4 billion during 1950, including Series E, Series A-D, and Series F and G. That is a more significant fact than the trend of A-E alone, if you had wanted to broaden your approach. But the fact still remains that the whole purpose of that section of your address was to announce that you would continue to rely on E bonds in the future and that you were offering various options for E bond refunding. In that environment it would have been a side issue to bring in a discussion of concepts other than E bonds.

3. Your statement as to the fact that E bonds are better placed than other comparable forms of savings is admitted by Mr. Livingston, but he says that this is true only because "withdrawals from savings banks are customarily higher, percentagewise, because so many people use such accounts for family operations -- building up cash for Christmas, or taxes, or vacations, or buying television sets."

E bonds are a demand obligation, however, and we all know that they are often used for these same purposes by many people. You have a right to be proud of the fact that, even though they are redeemable on demand, individuals do look to other forms of savings before they redeem E bonds. And they are not just a little more firmly held; the margin is significant. Average monthly redemptions of E bonds in 1950 were .95% of the amount outstanding, as compared with approximately 2.30% in mutual savings deposits and even higher for savings and loan shares. Furthermore, Mr. Livingston is in error when he says the E bond turnover rose from .76% in 1949 to .95% in 1950. The increase was only from .87% to .95%, which makes quite a difference in his implication that E bond turnover increased by about one-quarter during the last year (the facts show an increase by only one-tenth) as compared with an increase of about one-tenth on mutual savings bank turnover. Mr. Livingston also erred when he indicates that one of the reasons for the "customarily" higher rate of mutual savings turnover is building up cash for Christmas, in that "Christmas Club" deposits are specifically excluded from the mutual savings turnover figures which we use and which he also is using.

4. Mr. Livingston says that the really significant point is that A-E bonds outstanding actually declined by .6% during the year while mutual savings deposits rose by 4% and savings and loan shares were up about 10%. Again, if you want to talk about individuals' savings in savings bonds the A-E concept is not the one to use; total individuals' savings invested in savings bonds did rise during the year by nearly 1%. But that isn't the important point. The important point is that the Treasury is out to encourage thrift — whether that thrift be in the form of savings bonds, insurance, savings deposits, or other forms. We are not trying to compete with other forms of savings, and you have made that abundantly clear on many occasions. The fact that the percentage increase in savings by individuals in savings bonds since the end of the war (not just in 1950) was exceeded by the percentage increases in insurance, in savings accounts in both commercial and mutual savings banks, and in savings and loan shares does not indicate any failure on the part of the savings bond program. And thrift has been stimulated during this period. Our high level of postwar activity has rested on more solid ground because of the fact that individuals saved more of their income after taxes in the last few years than they did before the war.

1/ The same article appeared in the Washington Post, January 27, 1951. The article was the same in both papers although the Washington Post title read "Snyder Uses Peculiar Figures to Sing Praises of 'E' Bonds" while the Philadelphia Bulletin title read ""Snyder Uses Phoney Statistics to Sing Praises of 'E' Bonds".