

TREASURY DEPARTMENT
Washington

Statement by Secretary Snyder before the Subcommittee
on Monetary, Credit, and Fiscal Policies of the
Joint Committee on the Economic Report
December 2, 1949

Mr. Chairman and Members of the Subcommittee of the Joint Committee on the Economic Report: I am pleased to have the opportunity of appearing before you today to discuss questions on the monetary, credit, and fiscal policies of the United States Government. I should like at this time to take a few minutes to talk about some of the current factors in the outlook for Treasury financing and debt-management policies in the light of the budget estimates that have been released since I sent my answers to your questionnaire to the Committee. In discussing some of the figures, I shall refer occasionally to a booklet of charts which we have prepared.

The budget position is a matter of first importance. The new budget estimates show a deficit of \$5.5 billion for the present fiscal year. Expenditures are estimated at \$43.5 billion and receipts at \$38 billion, as is shown in Chart 1 in the booklet. It seems to me, however, that in times as prosperous as these we should have a balanced budget. National income today is close to the highest level in our history; and, by every standard of sound Government finance, the time to have a balanced budget is now.

This is the position I have taken consistently since I became Secretary of the Treasury in June 1946. In the statement which I made at that time, I said:

" . . . It is the responsibility of the Government to reduce its expenditures in every possible way, to maintain adequate tax rates during this transition period, and to achieve a balanced budget --- or better --- for 1947."

It was, therefore, a source of great satisfaction to me to be able --- as Secretary of the Treasury --- to announce at the end of the fiscal year 1947 that the Federal Government had operated with a budget surplus. In the following fiscal year, which ended on June 30, 1948, we again had a budget surplus --- it amounted to \$8.4 billion and was, in fact, the largest budget surplus in the history of the United States Government.

In the past three years, I have restated the urgent need for an excess of receipts over expenditures on many occasions --- notably when the Congress was considering tax-reduction measures in 1947 and 1948.

Furthermore, President Truman has repeatedly urged the necessity of reducing the public debt under the circumstances which have existed since the end of the war. In his message to the Congress on April 2, 1948, in which he returned, without approval, the tax-reduction bill, H. R. 4790, he stated:

" . . . I repeat what I have so often said before -- if we do not reduce the public debt by substantial amounts during a prosperous period such as the present, there is little prospect that it will ever be materially reduced."

You will recall that it was this tax-reduction measure which the Congress passed over the President's veto, and which resulted in a loss of revenues to the Federal Government amounting to approximately \$5 billion annually. It is largely as a result of the enactment of this legislation that we had a budget deficit of \$1.8 billion in the fiscal year which ended last June 30, and that we have a prospective budget deficit of \$5.5 billion in the current fiscal year.

About \$3 billion of the deficit for the fiscal year 1950 has already occurred. It has been financed principally by increases in the weekly Treasury bill offerings and by increased sales of Treasury savings notes. The total amount of Treasury bills outstanding rose approximately \$800 million between August 4 and September 8, as a result of six successive offerings in excess of the amounts maturing. The amount of Treasury savings notes outstanding has increased by over \$2-1/2 billion since the end of June.

The Treasury cash balance is currently running between \$4 billion and \$5 billion. Without any further new financing, the balance should remain near this level for the next four months, as shown in Chart 2. If everything works out exactly as calculated in present estimates, the balance would run down to approximately \$3 billion by next April 30.

There are always, however, a number of variables which could have an important influence on the picture. There is the possibility that revenues might vary from the amount shown in the budget estimates. We knew, for example, at the time the revenue estimates were made, that it was very difficult to gauge the full effect of strikes on incomes and corporate profits. It still is not possible to do so. There is bound to be considerable range in expenditure estimates for such programs as farm price supports, RFC mortgage purchases, and various types of payments to veterans. These considerations are important in our estimate of cash balance levels.

The picture of how the various Government operations affect the cash balance is one that I have before me daily as I consider debt-management decisions and policies. We revise our appraisals constantly as new information comes in. It looks at this time as though we will have to do some additional new-money financing later in this fiscal year.

There are three main sources which we might tap for new borrowing. These are nonbank institutional investors, such as insurance companies, mutual savings banks, and savings and loan associations; other private nonbank investors, including individuals and pension funds; and the commercial banks of the country. We keep close watch at all times on the position of the various investor classes which comprise the market for Government securities.

In addition to the problem of new borrowing, the Treasury will find itself faced next year -- as it has been in each of the postwar years -- with a large refunding task. Approximately \$1 billion of Treasury bills mature each week; there will be a number of issues of certificates of indebtedness and notes maturing, totaling about \$33 billion; and there will be four Treasury bonds amounting to about \$11 billion which mature or are callable next year. This is shown in Chart 3. The budget deficit makes it clear that there will not be any reduction during the fiscal year 1950 on these maturities, except for tail-ends of maturing securities not turned in for refunding. There will not be any official budget estimates for the fiscal year 1951, of course, until the President's Budget Message is released in January. The total of maturing or callable marketable securities in the calendar year 1950 is approximately \$56 billion; and, on net balance, it appears that nearly the entire amount will be refunded into securities maturing in the future.

Two-thirds of the securities which mature in 1950 are held by the commercial banking system. A significant portion of the remainder is held by industrial, commercial, and mercantile corporations. The ownership of maturing issues, as well as the ownership of the remainder of the public debt, is, of course, one of the considerations which we must take into account in making our debt-management decisions.

The debt is broadly distributed, and we want to keep it that way. The present widespread ownership is, to a large extent, the result of the Treasury's policy of fitting its security offerings to the needs of various investor classes. This first became of special importance during the war period when one of the major objectives was to sell as great a portion as possible of the large wartime offerings to nonbank investors. It has had increasing importance in the postwar period, when we wished to maintain a large nonbank holding of Government securities, especially among individuals, under varying circumstances of business reconversion and then expansion.

A central consideration in fitting Government securities to the needs of different classes of investors has been setting the appropriate maturities for each class. Industrial, commercial, and mercantile corporations, for example, have been sold short-term securities primarily, since their purchases are generally made with reserves which they may want to have readily convertible. The same type of consideration was kept in mind in fitting Government security offerings to the needs of other classes of investors. The net results of this policy can be observed by an analysis of the portfolios of the leading investor classes. Information on this account appears in Chart 4 which shows changes in the estimated average number of years to maturity of the Government security portfolios of three important investor groups -- life insurance companies, mutual savings banks, and commercial banks.

Life insurance companies and mutual savings banks are, of course, generally longer-term investors. During the war, insurance companies acquired a large volume of Governments; and it was the Treasury's policy to sell them longer-term securities. The results are evident. The average length of Government securities held by life insurance companies increased from about 10 years in 1941 to about 16 years in 1945. Since then, there has been a gradual decline; and, at the present time, the figure is 14 years.

The picture with respect to mutual savings banks differs somewhat from that of the life insurance companies. The average length of the Government security holdings of these banks increased during the war finance period from 9 years to 14 years; and has declined subsequently to 12 years. Savings banks also were sold longer-term securities, but their investment needs resulted in the acquisition of more medium-term securities than were acquired by life insurance companies.

Because there have been no new offerings of long-term marketable securities since the end of 1945, the average length of the outstanding marketable Federal debt has been automatically shortened during this period. Investors who are primarily bondholders have this reflected in their investment portfolios to a greater degree, of course, than do investors who hold primarily short-term debt. The average length of the holdings of life insurance companies and of mutual savings banks would have declined more sharply since 1945, therefore, if these institutions had not bought long-term issues in the market and sold shorter-term issues. They offset thereby, to some extent, the automatic shortening of their portfolios.

Commercial banks have been offered principally short-term securities throughout the war finance period and as a part of our post-war program. This has been a major factor in keeping their portfolios short on the average. The average length to first call or maturity date of the Government security holdings of commercial banks has declined from 7 years in June 1941 to about 3 years at the present time.

There is considerable variation among banks throughout the country in the maturities of the Governments which they hold. Estimates of the average number of years to maturity of Governments held by commercial banks, by Federal Reserve Districts, are shown in Chart 5. Longer term securities are generally held in the eastern areas — with the exception of New York City — than in the western areas. There are three districts in which the average length of Governments held is less than 2-1/2 years; and, as you can see from the chart, these areas are in the western part of the country. The shortest average length, 2 years, is found in the Kansas City Federal Reserve District; while the longest average length, 4-3/4 years, is in the New York District, excluding New York City. In this connection, it is interesting to note that as we go farther west, commercial banks also have more loans in proportion to their capital.

I have gone into these matters at some length to indicate how the present maturity distribution of the public debt developed. Our objective has been a smoothly functioning economy, and securities have been issued to the various investor classes to suit their needs and the requirements of the economy.

In handling the new money and refunding operations that are in prospect for next year, the interest cost of the debt to taxpayers must also be one of the considerations in our debt-management program. The interest cost of the debt comprises over 13 percent of the Federal budget for the fiscal year 1950. The total annual cost is likely to grow, even without any increase in the debt, because the rate of interest on savings bonds increases as they approach maturity, and because an increasingly large proportion of the debt represents the accumulation of trust funds invested at an average interest rate which is higher than the present average rate on the total debt.

Even a relatively small increase in the average interest rate on the debt would add a substantial amount to the total annual interest cost. It is estimated that the interest on the debt will amount to \$5.7 billion in the calendar year 1949. About \$1-1/4 billion would be added to this amount, if the average interest rate were 1/2 of 1 percent higher. The annual interest cost would be more than \$5 billion larger, if the average interest rate were equal to the average borrowing cost of World War 1 — which was approximately 4-1/4 percent. The annual saving in the taxpayers' money as a result of the present level of interest rates is an important factor in the budget picture of the Federal Government.

The distribution throughout the economy of the interest on the public debt is, of course, determined by the ownership of the debt. The next chart, which is Chart 6, shows interest on the Federal debt, by class of recipient, from 1946 through 1949.

It seems to me that the outstanding fact in this connection is the increase during this period in the interest on the Federal debt going to individuals. Their share during the current calendar year is one-third of the estimated \$5.7 billion total. It rose from \$1.4 billion in 1946 to an estimated \$1.9 billion in the current year.

The share received by Government investment accounts also rose during this period, while interest payments to other nonbank investors declined slightly. The share received by commercial banks also declined. This was largely due to the Treasury's policy of concentrating debt reduction in the holdings of commercial banks.

Another way of looking at the interest cost of the debt is to consider the burden which it represents when compared with the gross national product of the country, from which it must be paid. The public debt is nearly 10 times as large as it was at the World War I peak in August 1919, as is shown in Chart 7. But, because we were able to finance the Second World War at a borrowing cost about one-half as great as the average borrowing cost of World War I, the interest cost of the public debt today is only 5 times, rather than 10 times, as large as it was in 1919. This does not, however, mean an interest burden 5 times as great. For, in the meantime, our gross national product has risen from less than \$80 billion in 1919 to an estimated annual rate above \$250 billion at the present time. We have a tremendously increased product out of which to pay the interest on the debt, and the present interest cost is only 2.3 percent of gross national product. This compares with 1.4 percent in 1919.

One of the important refunding matters which will come before the Treasury in 1950 -- and in greater volume in 1951, 1952, and subsequent years -- will involve the Government security holdings of individuals. These holdings amounted to \$69-1/2 billion on October 31, 1949, up from \$65 billion on December 31, 1945, and from \$10-1/2 billion before the war, as shown in Chart 8.

Ownership of Government securities by millions of individuals is good for the country as well as for those individuals. It gives the people of the country an increased interest in the affairs of their Government and causes them to participate more actively in those affairs. We have continued to promote the sale of savings bonds in order to encourage thrift. Thrift has played a vital part in the building of our Nation and, today, it is as important to our well-being as it has ever been in the past. At the end of October, \$48-1/2 billion of savings bonds of all series were held by individuals. Savings bonds comprised 70 percent of their total holdings of Government securities. Holdings of E bonds alone -- the bond which is designed to meet the needs of small investors -- amounted to \$33-1/2 billion.

The savings bonds held by individuals at the present time are distributed broadly throughout the country. In Chart 9, the United States is divided into geographical areas to show that the \$48-1/2 billion of savings bonds outstanding in the hands of individuals are distributed approximately as follows: \$16-1/2 billion held in the northeastern area of the country; \$10 billion held in the States of Michigan, Illinois, Indiana, and Ohio; \$6 billion held in the southern part of the United States; \$6 billion held in the seven States which are the farthest west; and \$10 billion held in the large block of central States which is bounded roughly by the Mississippi on the east, the Rocky Mountains on the west, and stretches from Canada to Mexico. These savings bonds comprise a tremendous amount of assets in the hands of individuals. The \$48-1/2 billion total seems particularly significant, if we recall that at the bottom of the depression — in 1933 — national income in the country was only \$39-1/2 billion. Across the Nation, people now have a cushion of reserves to fall back upon that is greater than the total income in the Nation in that year.

You may remember that during the latter years of the war there was considerable speculation as to the probable redemption experience with Series E bonds as soon as the war had ended. The opinion was freely expressed that the large quantities of bonds which were being sold under the pressure of patriotism and intensive wartime selling methods would be redeemed speedily as soon as the war was ended. Instead, as I have noted, we have continued to sell savings bonds and to increase the total amount outstanding. Redemption experience with Series E bonds is, in fact, more favorable than the postwar rate of turnover in other forms of savings. Chart 10 shows the annual rate of savings account withdrawals and savings bond redemptions, from 1943 to date, expressed as a percentage of total amounts outstanding. The rate of redemption of Series E bonds has been substantially lower than the rate of withdrawals from savings accounts. Furthermore, since the end of the war, savings bond redemptions as a percentage of the amount outstanding have followed a downward trend, while the rate of turnover of other forms of savings has followed an upward trend.

We have not, however, encouraged the sale of savings bonds at the expense of other types of savings. From December 31, 1945, through October 31, 1949, the increases in practically all other forms of individuals' savings were substantially greater relatively than the increase in savings bond holdings.

I have been talking about some of the technical matters that will have to be considered in connection with Treasury borrowing and refunding. Uppermost in our minds in making all of our policy decisions is the fact that the foremost responsibility of the Secretary of the Treasury is to maintain confidence in the credit of the United States. One hundred and fifty years ago, the main financial problem of our newly born Nation was to establish that credit. Confidence in our Government's financial soundness was successfully established; and it has been the responsibility of Secretaries of the Treasury for a century and a half to maintain it.

But never before has this responsibility been so great as since the end of World War II. The public debt increased more than fivefold during the war. It represents more than half of all of the debt of the country, public and private. It comprises a substantial proportion of the assets of the leading investor classes; and the decisions which are made with respect to it are of immediate and vital significance to each and every one of us.

The primary concern of the Secretary of the Treasury in formulating debt-management policies is to promote sound economic conditions in the country. Because the debt is so great, because it is such a large proportion of the total debt of the country, and because it is interwoven in the financial structure of the country, the policies and decisions made in the Treasury Department are of tremendous importance and significance to the economic and financial welfare of the Nation.

Figures on the total debt of the country -- public and private -- are shown in Chart 11. At the end of 1939, the debt of the Federal Government amounted to \$47-1/2 billion and accounted for 23 percent of the total debt of the entire country. At the present time, the public debt amounts to \$257 billion and comprises 51 percent of all debt.

The estimated distribution of the ownership of the debt on October 31 of this year is shown in Chart 12. Nonbank investors held \$172 billion of Government securities -- two-thirds of the \$257 billion of Federal debt outstanding on that date. It is particularly significant that the holdings of individuals are so large. They totaled \$69-1/2 billion, as I mentioned earlier. Insurance companies held \$20-1/2 billion of Government securities. Mutual savings bank holdings totaled \$11-1/2 billion. Government investment accounts, principally Government trust funds which are required by law to be invested in Government securities, held \$39-1/2 billion of the public debt. The holdings of "other" non-bank investors -- which include State and local governments, corporations, pension funds, and charitable institutions -- were \$31 billion.

One-third of the debt -- \$85 billion -- was held by the commercial banking system. Commercial banks held \$67-1/2 billion; and the remainder, \$17-1/2 billion, was held by the twelve Federal Reserve banks.

These figures are large, in dollar terms; and they are also a substantial proportion of the assets of the various investor classes, as shown in Chart 13. In the case of commercial banks, for example, holdings of Governments are equal to 56 percent of earning assets -- a large percentage, but a sharp decline from February 28, 1946, when Government securities comprised over 70 percent of the earning assets of these institutions.

Nonbank investors — both financial and nonfinancial — also have a large share of their assets invested in Government securities. On October 31, mutual savings bank holdings of Governments represented 54 percent of their total assets; life insurance companies had 27 percent of total assets invested in Government securities; and other insurance companies — fire, marine, and casualty — had 47 percent. Nonfinancial corporations had 13 percent of their current assets in this form. And, when we turn to individuals, we find that Government securities accounted for 34 percent of their liquid assets — that is, their combined holdings of Government securities, savings and checking accounts, and currency — which approximated \$200 billion on October 31.

These figures are unmistakable evidence that the decisions which are made with respect to the public debt affect every segment of our economy. They indicate the compelling necessity for considering not only the effect of our decisions upon the financial structure of the Government itself, but their effect on the financial and economic structure of the whole country.

It is for this reason that Treasury and Federal Reserve authorities have cooperated to keep the market for Government securities stable during the postwar period. Under the circumstances which existed, stability in the Government bond market has been of tremendous importance to the country. It contributed to the underlying strength of the country's financial system and eased reconversion, not only for the Government, but also for industrial and business enterprises.

This is in marked contrast to the situation after World War I, when prices of Government securities were permitted to decline sharply — with disastrous results. Investors suffered serious financial losses. And the decline contributed importantly to the business collapse that occurred in the early post-World War I period. These things happened at a time when the public debt was a much less powerful element in the economy than it is at the present time. It seemed obvious to us that widely fluctuating Government bond prices would have even more serious repercussions after World War II.

It is now four years since Victory Loan 2-1/2's were issued. Chart 14 shows the price history of the Victory Loan 2-1/2's after World War II, as compared with the price history of the Fourth Liberty Loan 4-1/4's during the corresponding period after World War I. At the end of the fourth year, Victory Loan 2-1/2's are above par; at the end of a similar period, Fourth Liberty Loan 4-1/4's were in the vicinity of par. But the price movements within the two periods differed radically. Victory Loan 2-1/2's have always been above par. The Fourth Liberty Loan 4-1/4's dropped substantially below par, reaching a low of about 82-1/2. From this point, they had a long climb back before reaching par.

In the short-term area of the Government security market, we also had to consider the possible effect of our actions on the financial markets. When interest rates on short-term Government securities were raised, beginning in mid-1947, they were raised gradually in order not to disrupt these markets. When they were reduced, the change was small for the same reason.

In the four years since V-J Day, the United States has achieved a record level of prosperity. There can be no doubt that world-wide confidence in the financial soundness of the Government of the United States played a prominent role in achieving this prosperity.

I have gone into some of the current matters of public debt management with you in some detail in order to round out the entire picture for your Committee. Many of the answers to the questions submitted by your Committee to me and to other Government officials and agencies touched on some of the points that I have mentioned; but I felt that it would make for better understanding of the problems and considerations involved, if I summarized the current situation as it looks from my position as Secretary of the Treasury.

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**CHARTS ACCOMPANYING THE STATEMENT
BY SECRETARY OF THE TREASURY SNYDER**

Before the

Subcommittee on Monetary, Credit, and Fiscal Policy

Of the

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December 2, 1949

OFFICE OF THE SECRETARY OF THE TREASURY



Chart 1

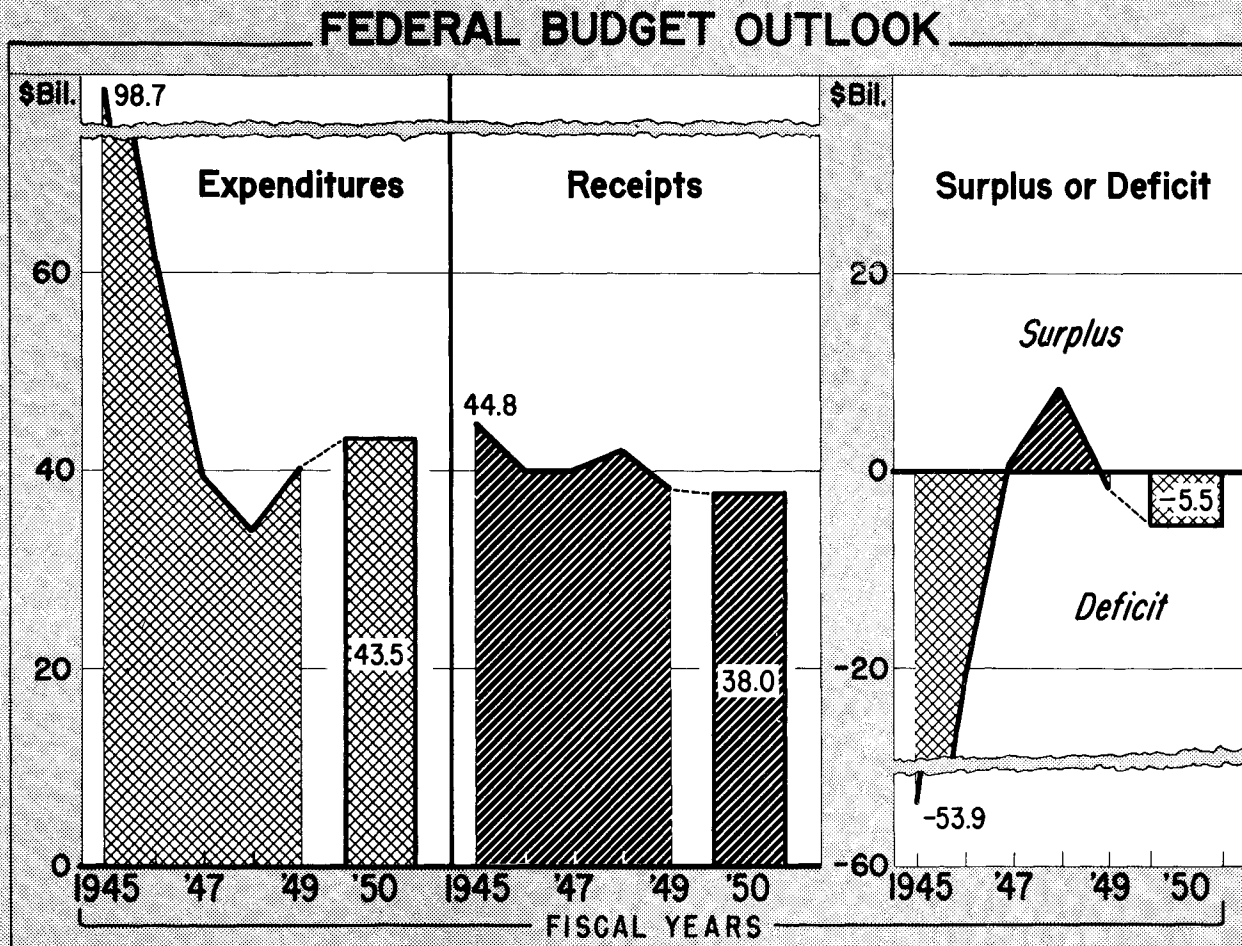


Chart 2

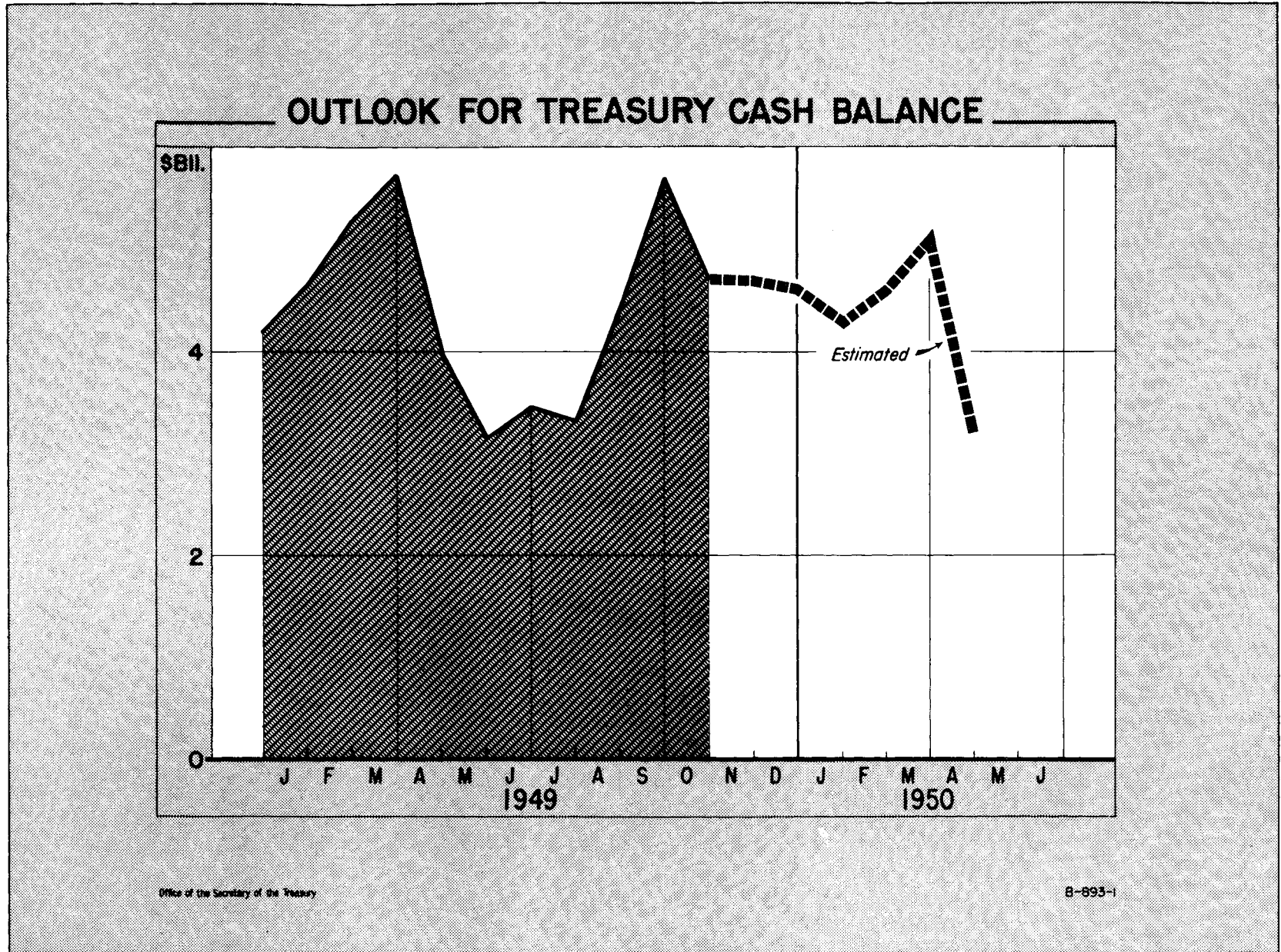
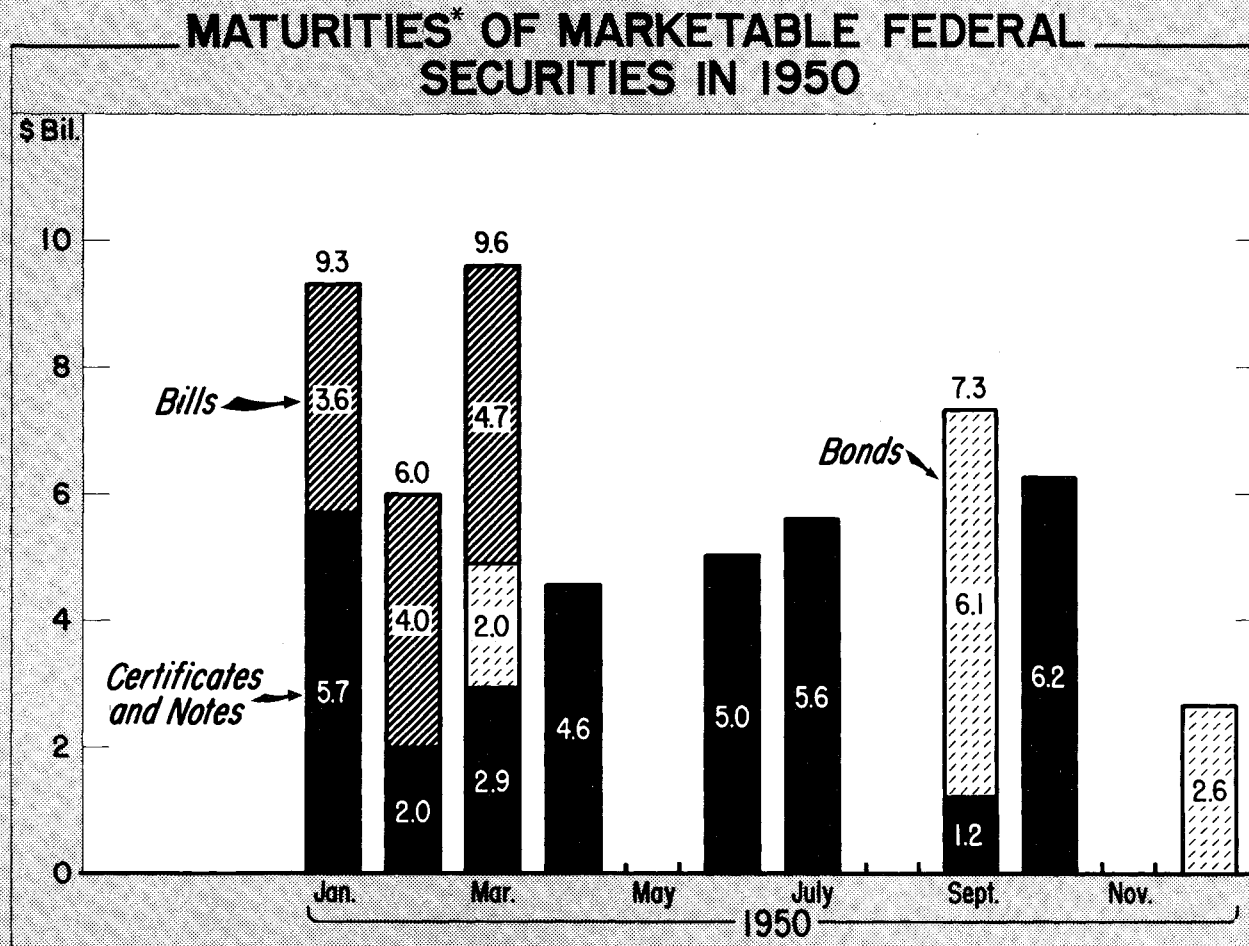


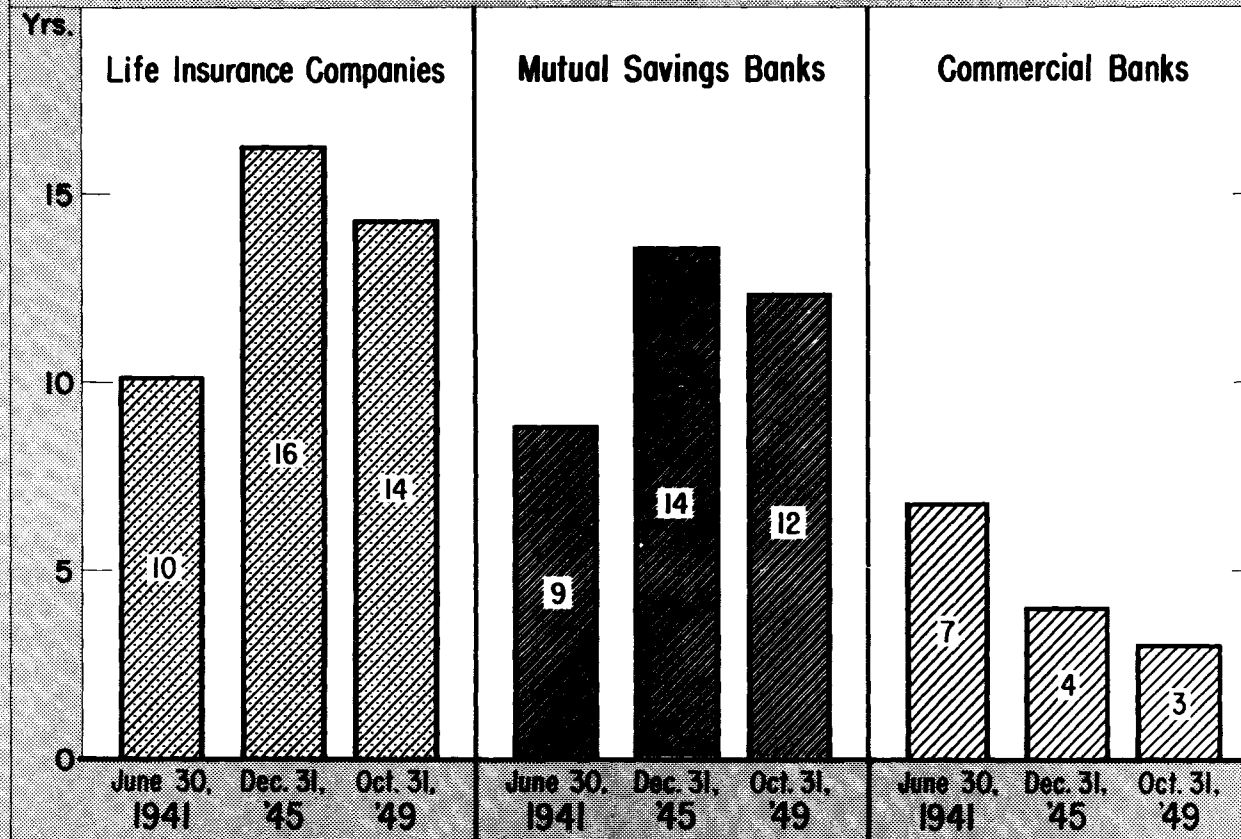
Chart 3



*Callable bonds in months of earliest call dates.

Chart 4

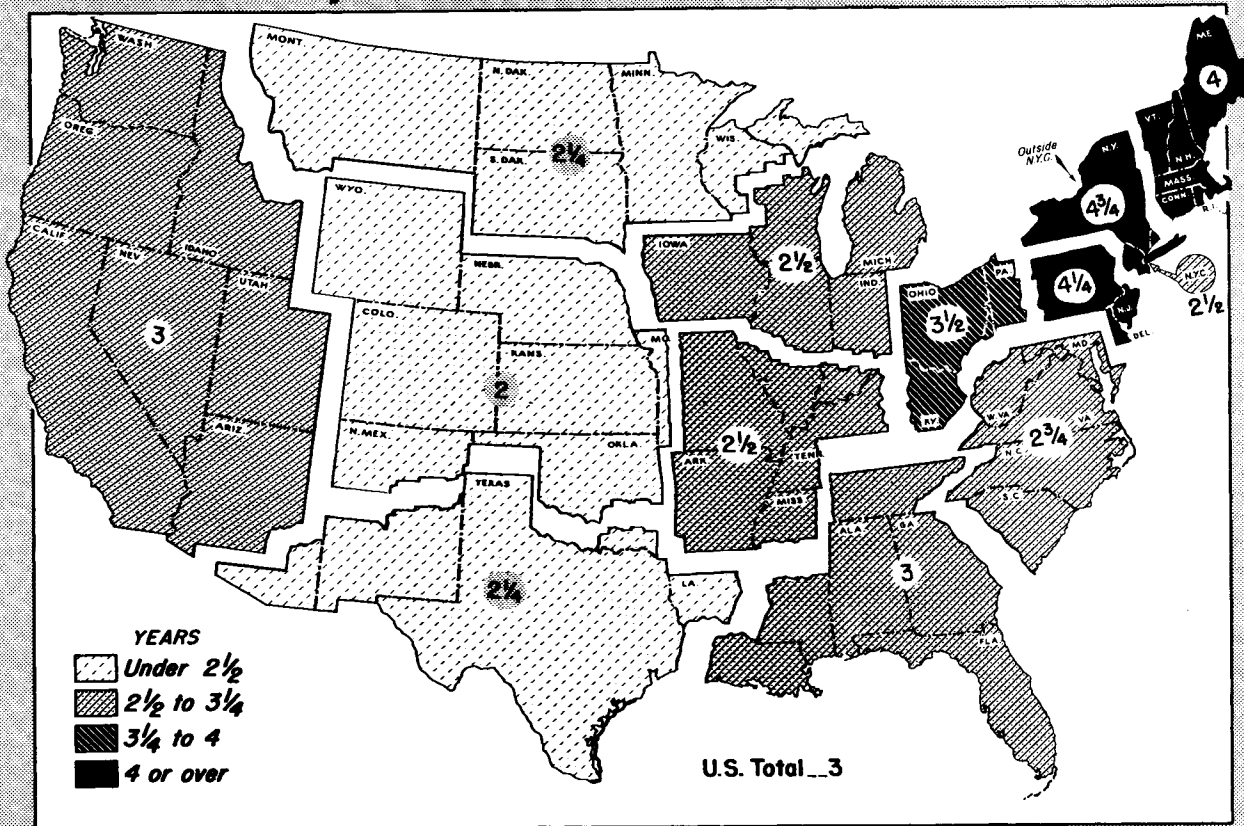
AVERAGE NUMBER OF YEARS TO MATURITY* OF FEDERAL SECURITY HOLDINGS



*Callable bonds to earliest call date

Chart 5

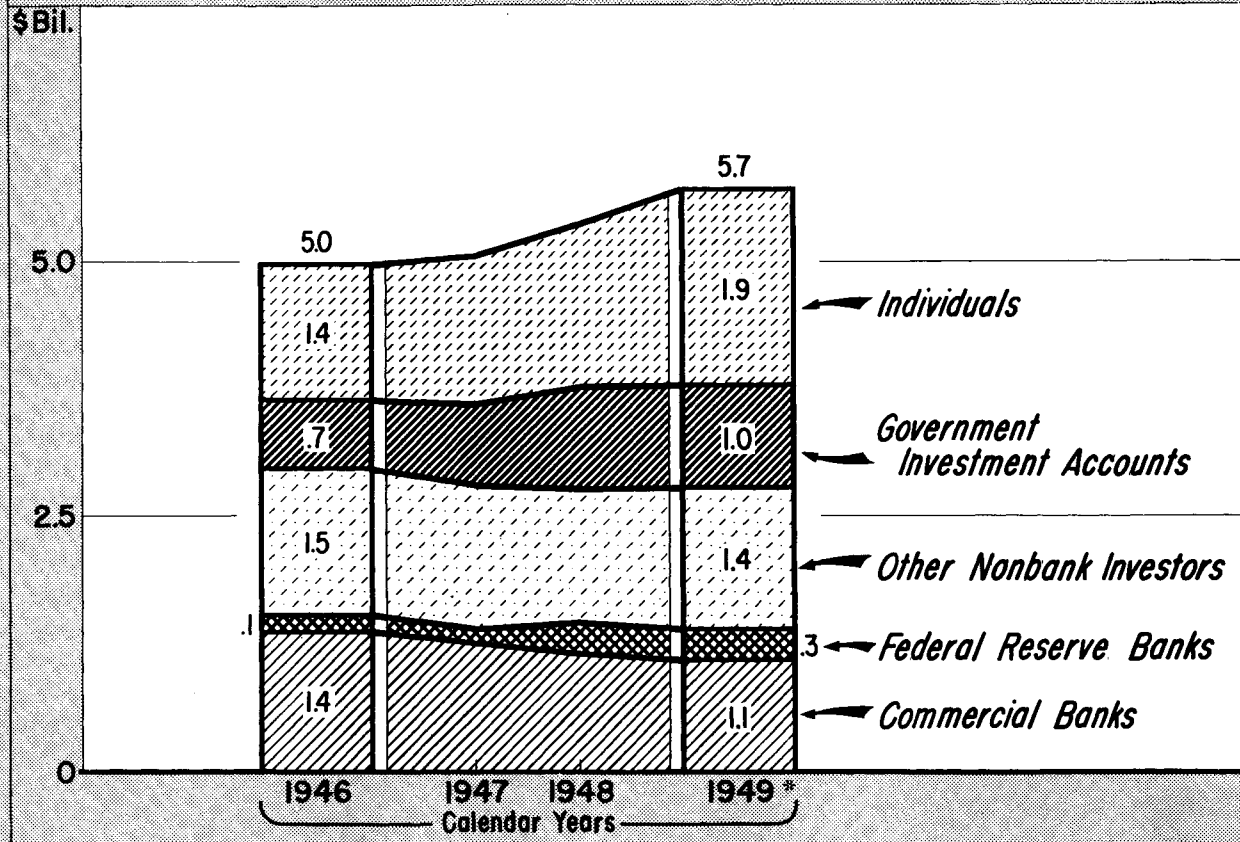
**COMMERCIAL BANK HOLDINGS OF FEDERAL SECURITIES,
AVERAGE NUMBER OF YEARS TO MATURITY***
By Federal Reserve Districts. Oct. 31, 1949



*Callable bonds to earliest call date

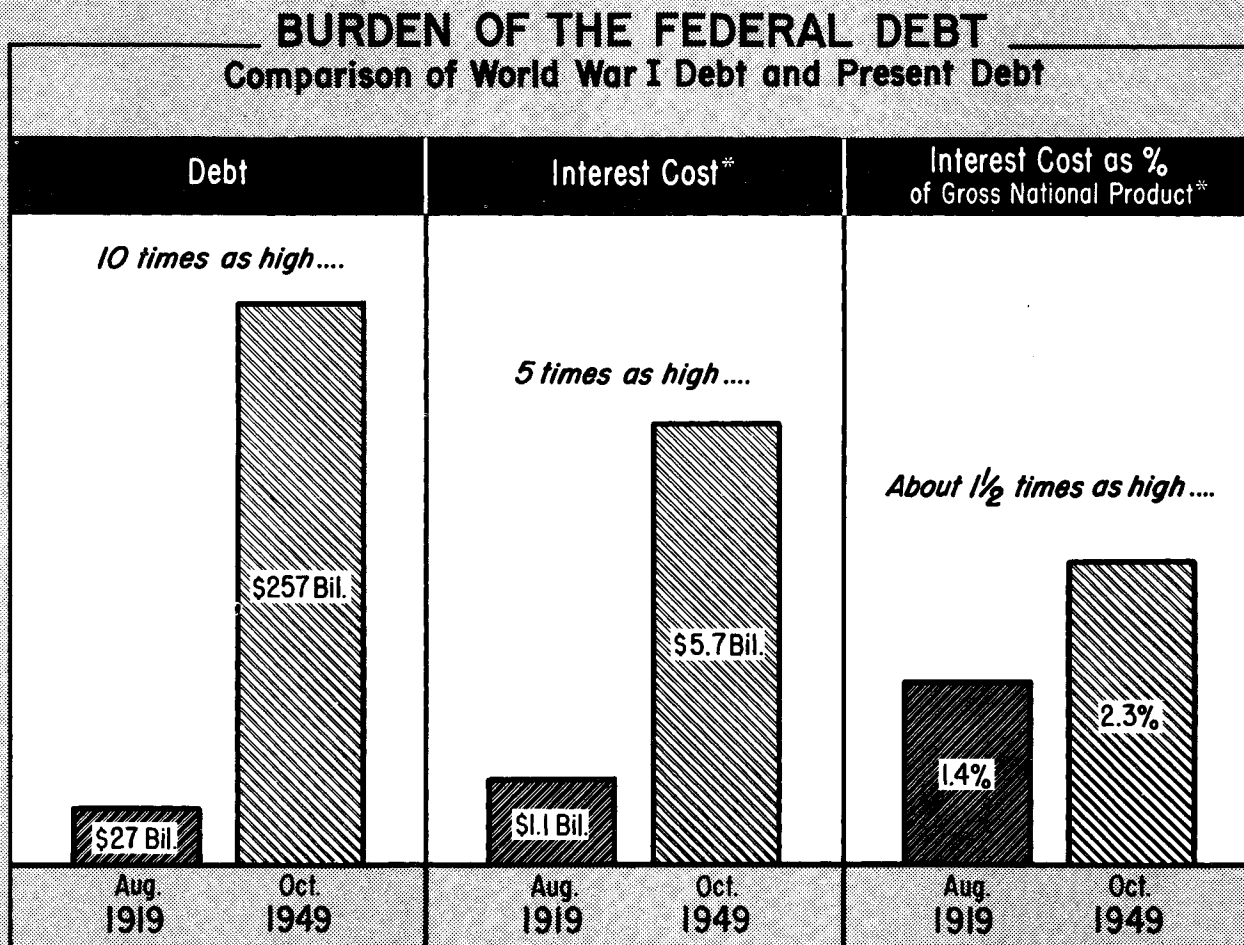
Chart 6

INTEREST ON THE FEDERAL DEBT By Class of Recipient, 1946-'49



*Estimated

Chart 7



*Annual rates

Chart 8

OWNERSHIP OF FEDERAL DEBT BY INDIVIDUALS

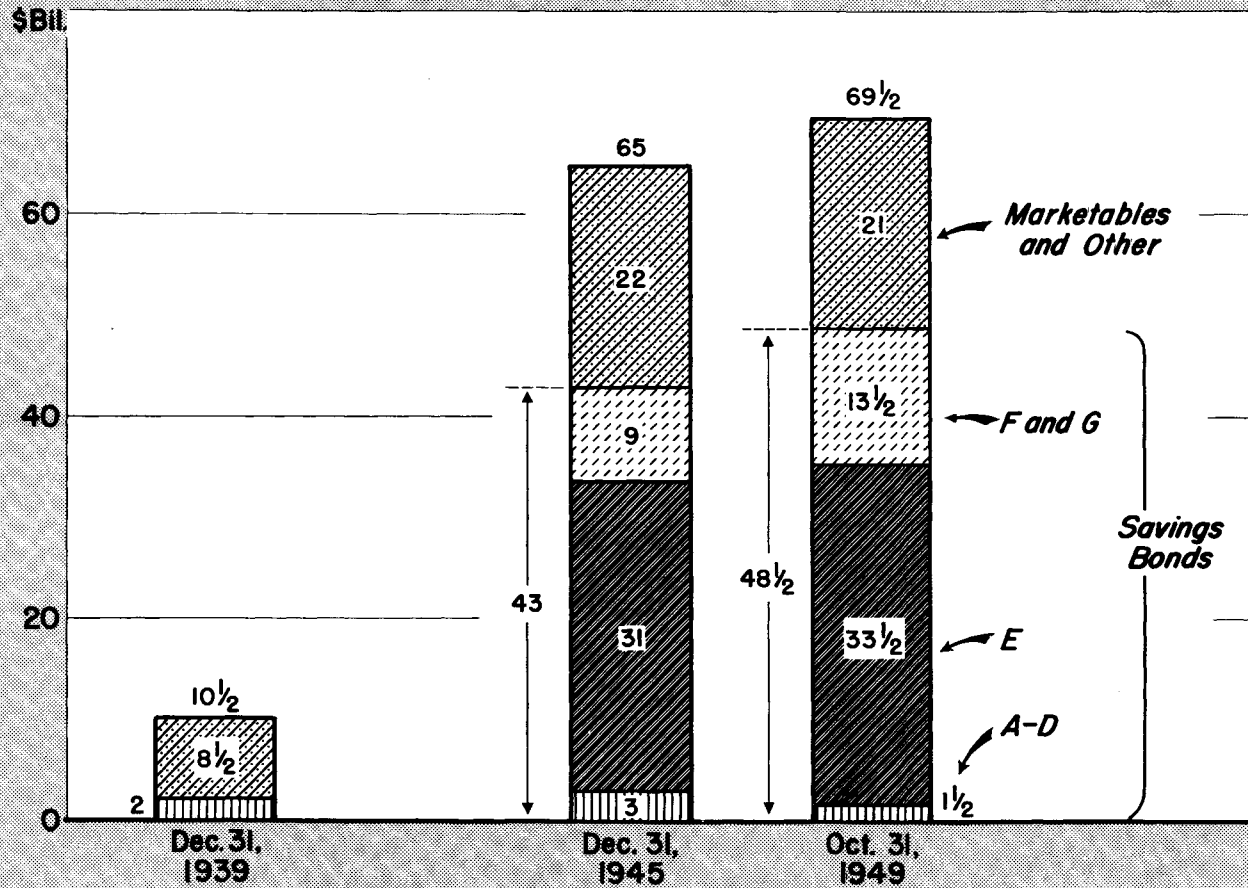


Chart 9

GEOGRAPHIC DISTRIBUTION OF SAVINGS BONDS OWNED BY INDIVIDUALS....

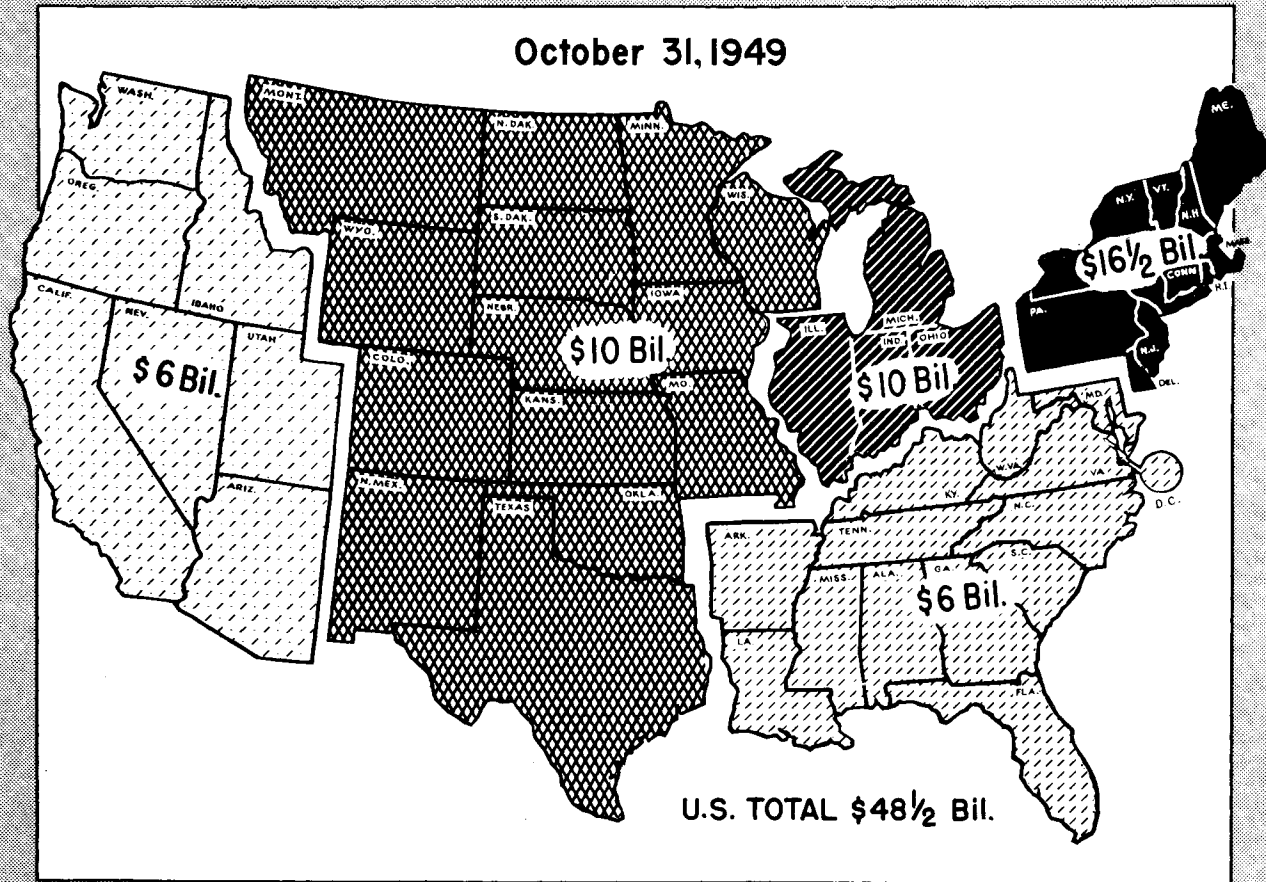


Chart 10

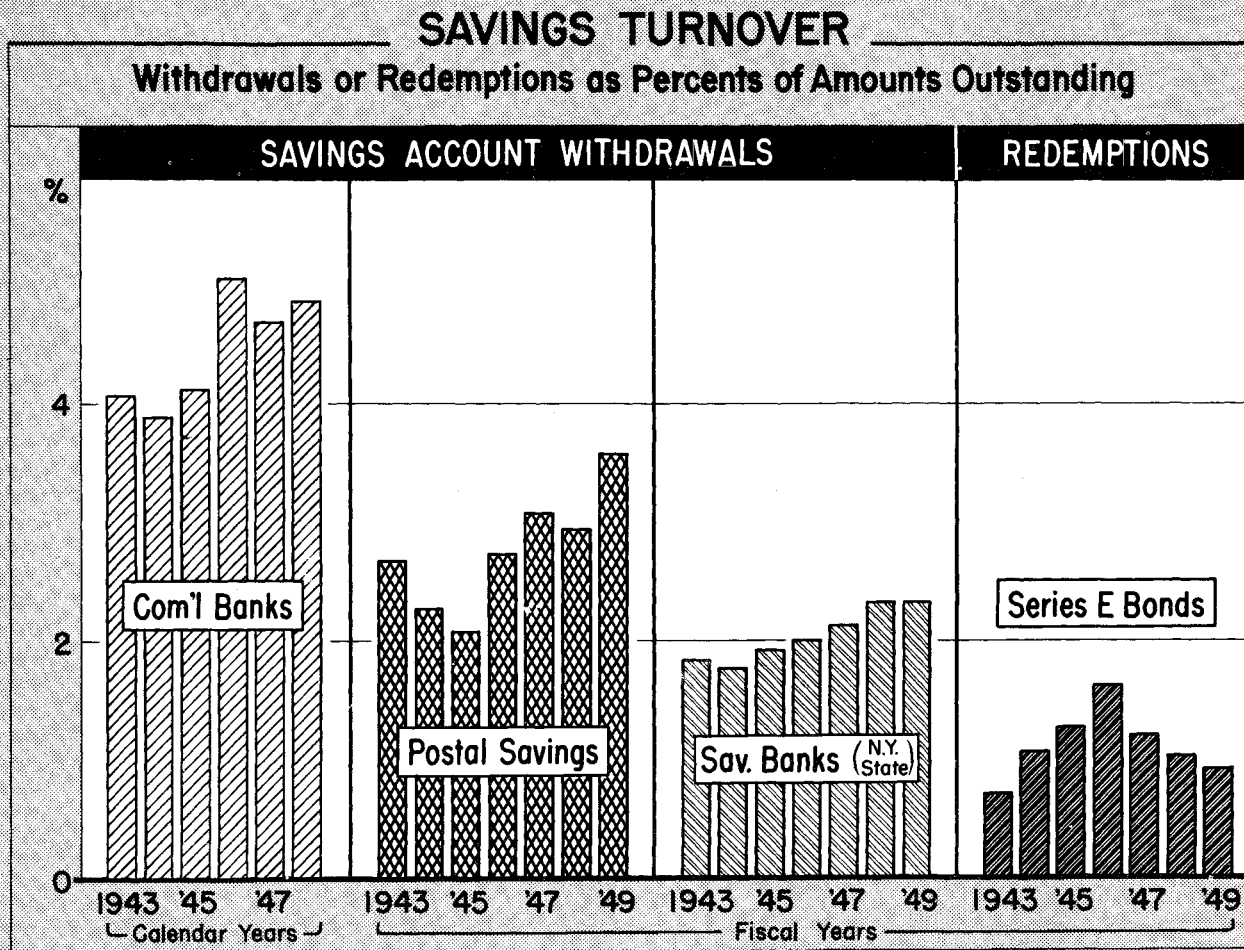
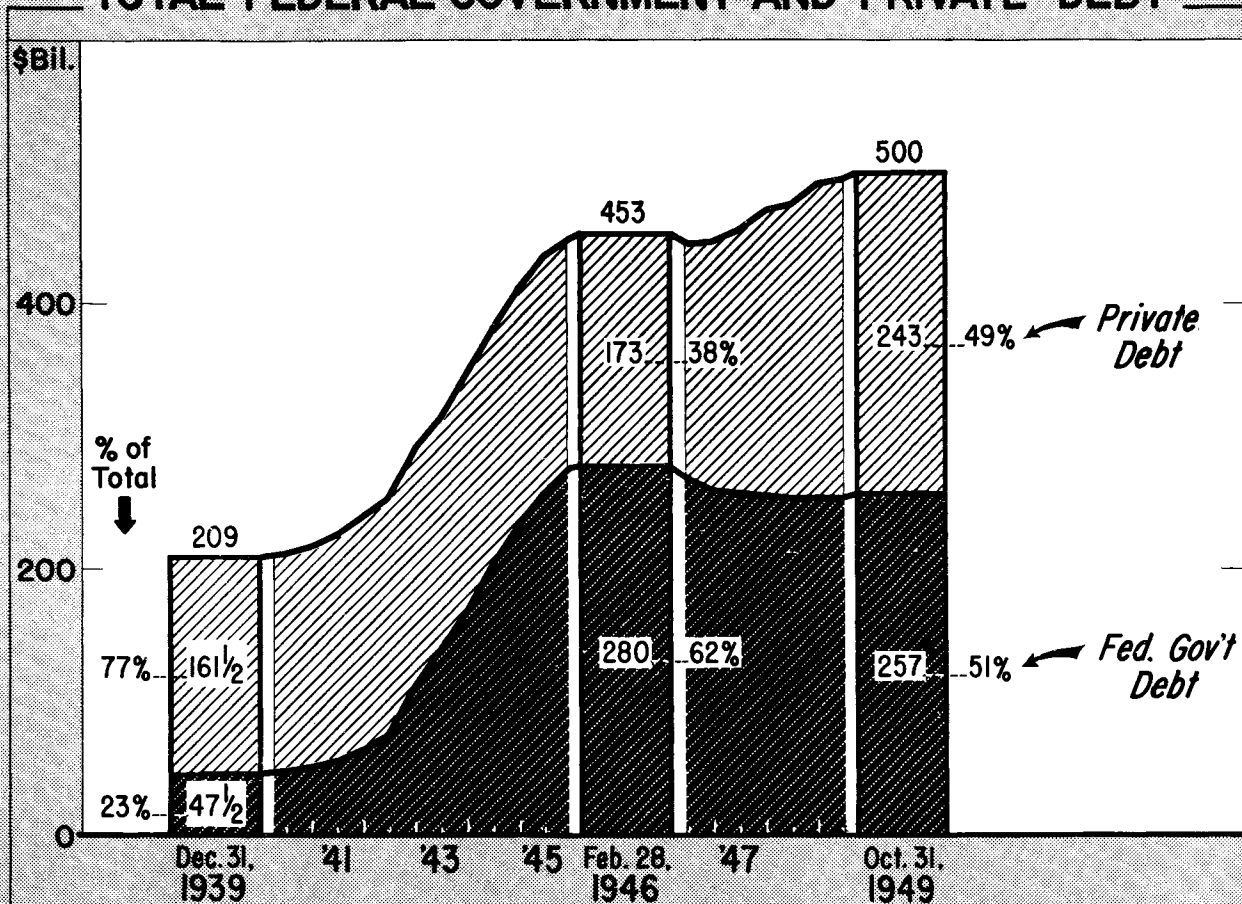


Chart 11

TOTAL FEDERAL GOVERNMENT AND PRIVATE* DEBT



*Includes State and local and non-guaranteed Federal agency debt. Figures based on Department of Commerce estimates. Oct. 31, 1949 is Treasury estimate.

Chart 12

OWNERSHIP OF THE FEDERAL DEBT, OCT. 31, 1949

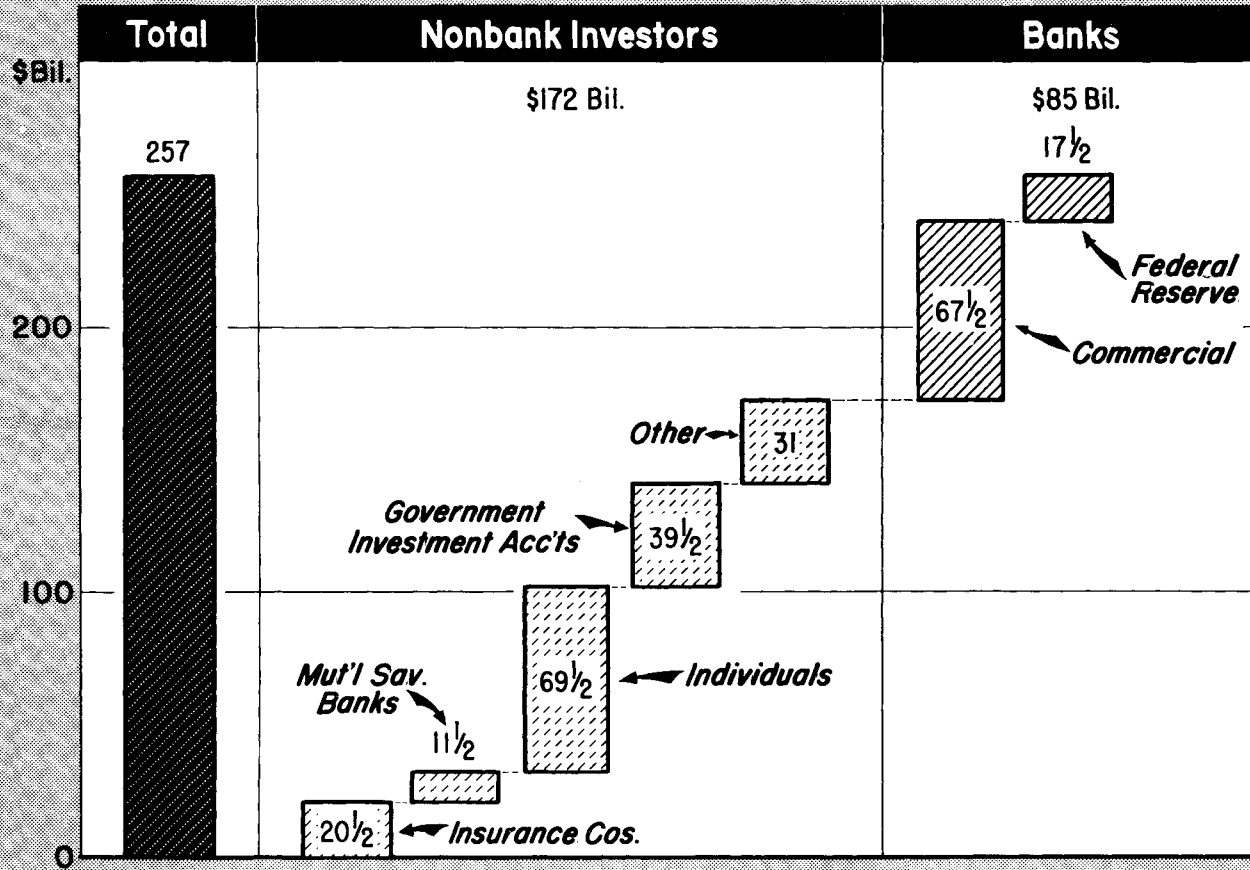
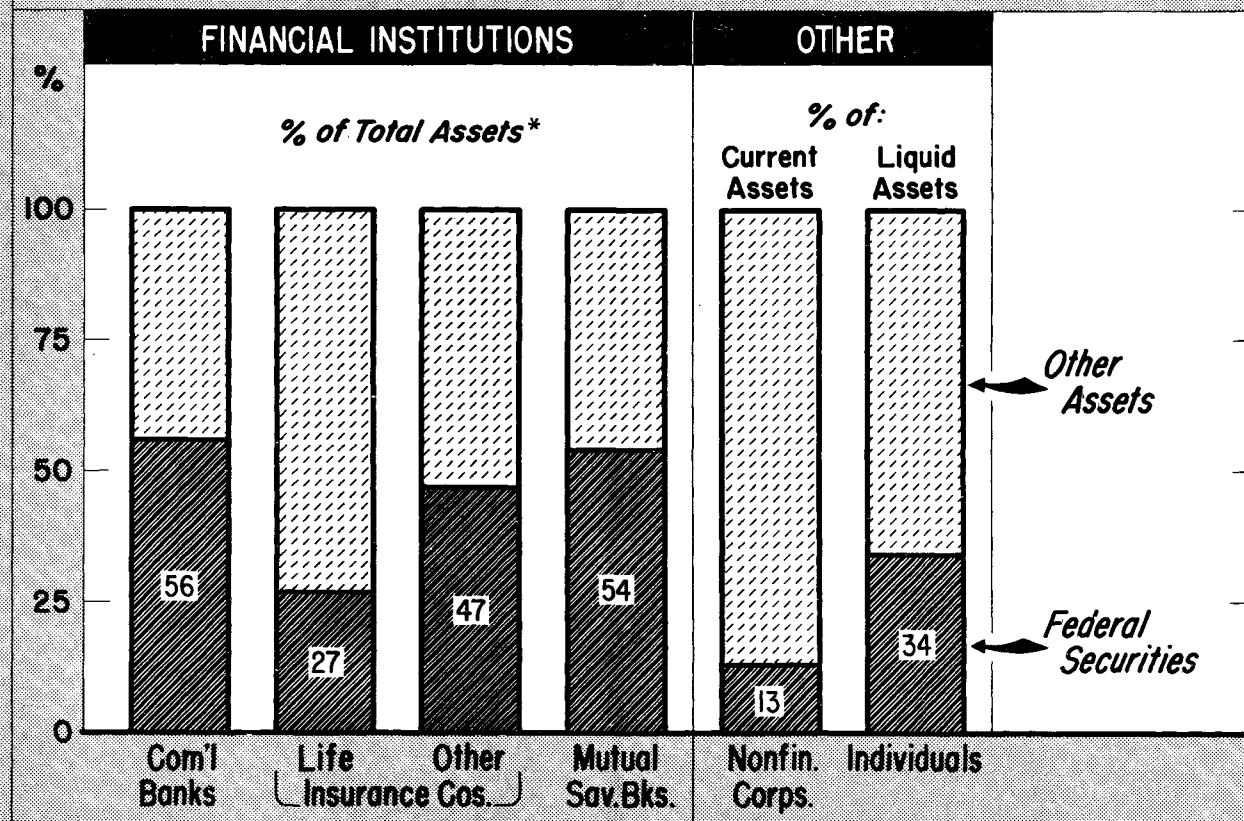


Chart 13

IMPORTANCE OF FEDERAL SECURITIES TO SELECTED INVESTOR CLASSES, OCT. 31, 1949



**Earning assets of commercial banks*

