

REC'D IN RECORDS SECTION
JAN 23 1978

REMARKS BY STEPHEN S. GARDNER
VICE CHAIRMAN

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BEFORE THE
METROPOLITAN WASHINGTON INDUSTRIAL PAYROLL SAVINGS BOND COMMITTEE

FEBRUARY 15, 1978

GENTLEMEN. I'M DELIGHTED TO BE HERE THIS MORNING AND FOLLOW JOHN DEALY, YOUR CHAIRMAN. THIS COMMITTEE AND YOUR COUNTERPARTS IN OTHER DISTRICTS OF THE COUNTRY ARE IMPRESSIVE EVIDENCE OF BUSINESS' COMMITMENT TO A PARTNERSHIP WITH GOVERNMENT TO ACHIEVE SOME VERY VALUABLE AND NONCONTROVERSIAL GOALS. I WISH ALL ISSUES WERE SO ARGUABLY NONCONTROVERSIAL BECAUSE WHEN THE POWER OF THE PRIVATE SECTOR IS MARSHALLED IN COMBINATION WITH GOVERNMENT TO ACHIEVE SUCH GOALS, WE HAVE AN IRRESISTIBLE FORCE. CLEARLY DEFINED ACCEPTABLE GOALS HELP ACCOUNT FOR THE EXTRAORDINARY SUCCESS OF THE INDUSTRIAL PAYROLL SAVINGS COMMITTEE.

EVER SINCE I'VE BEEN IN WASHINGTON AND BECAME FAMILIAR WITH INDUSTRIAL PAYROLL SAVINGS COMMITTEES, I HAVE BEEN TREMENDOUSLY IMPRESSED WITH THE DEDICATION AND EARNEST PARTICIPATION OF BUSINESS AND CIVIC LEADERS.

THEREFORE, I THINK I'D BETTER DEFINE THE NON-CONTROVERSIAL GOALS BECAUSE THAT'S WHAT THIS MEETING IS ALL

ABOUT. THAT'S WHAT THE SAVINGS BOND PROGRAM IS ALL ABOUT, AND I DISTAIN THE FEW SKEPTICS WHO CRITICIZE SAVINGS BONDS. FIRST, PAYROLL SAVINGS BONDS UNQUESTIONABLY SERVE A CONSUMER NEED. AS A FORMER BANKER, I CAN TELL YOU THAT THE MARKETPLACE TELLS US THAT PEOPLE HAVE MANY SAVINGS NEEDS AND NOT ALL CAN BE BEST MET BY ANY SINGLE FORM OF SAVINGS. IF THIS WERE NOT SO, THERE WOULD NOT BE SO MANY VARIED SAVINGS PLANS OFFERED BY THE 5,282 THRIFT INSTITUTIONS IN THE UNITED STATES AND THE 20,000 CREDIT UNIONS, AND THE 14,000 COMMERCIAL BANKS. THERE ARE THRIFT PLANS SPONSORED BY BUSINESSES WITH A RICH RETURN TO THE DEPOSITOR. THERE ARE LIFE INSURANCE PLANS TO PROVIDE FOR RETIREMENT. THERE ARE CONTRIBUTORY PENSION PLANS. THERE ARE A HUNDRED DIFFERENT WAYS THAT A PERSON CAN SAVE IN OUR SOCIETY, OR PERHAPS MORE, AND THERE APPEAR TO BE JUST AS MANY SPECIFIC GOALS OF SAVERS. THE INDUSTRIAL SAVINGS BOND PLANS OFFERED ON THE PAYROLL DEDUCTION BASIS ARE JUST ONE WAY THAT A PERSON CAN MEET SPECIAL NEEDS FOR PROVIDING FOR THE FUTURE. THE UNIQUE ADVANTAGES OF SAVINGS BONDS ARE THE FACT THAT A MODEST AUTOMATIC WEEKLY OR BIWEEKLY PAYROLL DEDUCTION CAN CHANNEL REGULAR SMALL AMOUNTS INTO A MEANINGFUL THRIFT

PROGRAM. PAYROLL SAVINGS PLANS PRODUCE U.S. SAVINGS BONDS WITH NO MATURITIES TO WATCH, NO ESCHEAT PROCEDURES TO MONITOR. RATE CHANGES ARE AUTOMATIC, AND THE BONDS EARN INTEREST UNTIL CASHED. THE BONDS ARE SECURE AND CAN BE REPLACED AND FEDERAL INCOME TAX PAYMENT ON THE INTEREST EARNED CAN BE DEFERRED INDEFINITELY. IN ADDITION, THE INTEREST EARNED IS EXEMPT FROM OTHER STATE AND LOCAL TAXES. THE INTEREST PAID IS COMPARABLE TO MANY OTHER SAVINGS PLANS, AND, FURTHER, IS AUTOMATICALLY ADJUSTED WHEN THE FEDERAL GOVERNMENT RAISES THE RATE TO ALL BOND HOLDERS. ALL I WANT TO STRESS IS THAT SAVINGS BONDS ARE A SOUND INVESTMENT AND OFTEN CAN BE USED SPECIFICALLY TO MEET INDIVIDUAL SPECIAL SAVINGS GOALS. OF COURSE, BUSINESS IS AN IMPORTANT PARTNERSHIP IN THIS PLAN BECAUSE ONLY THROUGH ITS AGREEMENT TO A PAYROLL SAVINGS PLAN ARE ALL OF THE ADVANTAGES AVAILABLE TO EMPLOYEES. THE SECOND REASON FOR PUTTING YOUR SHOULDER TO A COMBINED EFFORT THAT IS NONCONTROVERSIAL IS THAT THE OPERATION OF THE PROGRAM INCREASES SAVINGS IN THE ECONOMY, A BADLY NEEDED NECESSITY IN 1978 FOR AMERICA. WE HAVE BEEN BESET BY SERIOUS INFLATION. THE GOVERNMENT HAS RUN HEAVY DEFICITS AND THAT WILL CONTINUE. THE MANAGEMENT OF THOSE DEFICITS AND THE MANAGEMENT OF THE

NATIONAL DEBT IS A VOLATILE BUSINESS AND TAKES FROM THE PRIVATE CAPITAL MARKETS FUNDS THAT QUITE OFTEN WOULD BE BETTER EMPLOYED IN INCREASING BUSINESS INVESTMENT TO ADD TO THE PRODUCTIVITY IN OUR ECONOMY, WHICH IS LAGGING. THE U.S. TREASURY IN THE CURRENT CALENDAR YEAR WILL PROBABLY HAVE TO ARRANGE FOR ABOUT 65.0 BILLION OF NEW BORROWING AND REFINANCE AROUND 170 BILLION OF MATURING MARKETABLE DEBT THAT IS ALREADY OUTSTANDING. INsofar AS THIS SUBTRACTS FUNDS FROM THE PRIVATE CAPITAL MARKETS OR ADDS TO PRESSURE ON THEM, WE DENY OTHER PROSPECTIVE BORROWERS WITH JUST AS VALID CLAIMS ON OUR CAPITAL MARKETS. BUT THE MILLIONS OF AMERICANS WHO BUY SAVINGS BONDS NOW ACCOUNT FOR ALMOST 17-18% OF THE INDEBTEDNESS OF THE FEDERAL GOVERNMENT. THAT'S A SIZABLE AMOUNT. THE AVERAGE SAVINGS BOND HAS A LONGER MATURITY THAN THE PRIVATELY HELD MARKETABLE DEBT, A GREAT DEAL OF WHICH IS OF SHORTER MATURITY THAN THE SIX YEARS. THIS LARGE PERCENTAGE OF OUR FEDERAL DEBT WHICH IS HELD IN SAVINGS BONDS DOES, LITERALLY, PERMIT MONEY MARKETS TO FUNCTION MORE SMOOTHLY AND THE PRIVATE SECTOR TO OBTAIN CAPITAL MORE EASILY FOR ITS OWN REQUIREMENTS. THIS TENDS TO HOLD BACK INFLATION AND RISING INTEREST RATES GENERALLY.

I TOTALLY DISMISS THE ARGUMENTS THAT SAVINGS BONDS ARE NOT A GOOD INVESTMENT OR THAT A BUSINESSMAN SHOULD NOT PERMIT HIS FIRM TO USE A PAYROLL DEDUCTION SYSTEM FOR THE BENEFIT OF HIS EMPLOYEES ACQUIRING BONDS. THE PAYROLL DEDUCTION SAVINGS BOND PROGRAM HELPS PEOPLE DIRECTLY AND INDIRECTLY. IT HELPS US QUIET INFLATIONARY PRESSURES ON OUR ECONOMY AND WE ALL BENEFIT FROM THAT. LOOK AT THE FACTS IN THE MARKETPLACE AND THE FACTS IN THE CAPITAL MARKETS AND BE ASSURED THAT YOUR PARTICIPATION IN THIS CAMPAIGN COMMITTEE HAS BROAD BENEFITS TO OUR ECONOMY AND CITIZENS.

THANK YOU.