



# Business Trends

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## WHAT'S HAPPENING TO DEBT?

Since the early years of the Great Depression, the net debt incurred by public and private borrowers in each year has not failed to increase. In 1959, it is now fact that the largest annual dollar debt expansion on record took place. As a result, net public and private debt outstanding at the end of the year was in excess of \$846 billion. The 1959 increase of \$66.7 billion compares with the previous annual high of \$60.5 billion registered during 1955. However, on a percentage basis, the 1959 increase of 8 1/2 percent failed to challenge the all-time high of nearly 10 percent posted in 1955.

It is noteworthy that aggregate debt has more than doubled during the post-World War II period. Or putting it more dramatically, in the past fifteen years more debt has been incurred than during the entire prewar history of the United States.

Understanding of what is happening to debt may best be served by relating changes in debt to changes in the over-all level of economic activity. In 1959, the amount of debt outstanding and the Gross National Product both increased by almost identical percentages. The ratio of debt to GNP, that is, the debt-income ratio, stood at 1.76 last year, and was appreciably below the long-run average for the economy for the second straight year.

According to a recent study by the Brookings Institution, the debt-income ratio has been remarkably stable over the long run. For example, in the past four decades, through 1957 but excluding 1930 through 1934, the debt-income ratio averaged 1.85. This means that, on the average, for each dollar of increase in GNP borrowers have tended to go into debt by about \$1.85. By this standard the 1959 debt increase was not as high as it would seem at first glance, if only the dollar figure were considered. However, even if the lower ratio were maintained, net public and private debt outstanding is likely to reach the one trillion dollar mark before 1965.

The debt referred to here is overwhelmingly an "internal" debt. Although foreign-held items are not excluded from the totals discussed here, by far the largest amounts represent domestic relationships. It should be remembered, too, that one man's debt is another man's asset. If the entire country is viewed as a unit, it is true that "we owe the debt to ourselves", although such a truism should not be taken as automatic justification of any particular level of debt or pattern of debt structure.

Major Changes During 1959. With the upswing in economic activity in 1959, the economy's financing requirements increased sharply. The rising demand for funds by the private sector of the economy to finance capital

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outlays and the financing of the \$8 billion "cash budget" deficit of the Federal Government combined to put considerable strain on the nation's financial resources, and to push the cost of credit to the highest level in the past three decades.

Total public debt outstanding increased more than \$15 billion in 1959, as compared with a \$12.5 billion increase in the previous year. Roughly two-thirds of the 1959 increase was incurred by the Federal Government, representing the largest net increase in the Federal debt outstanding for a calendar year in the peace-time history of the United States. At the same time, state and local governments increased their net indebtedness by \$4.7 billion, continuing the fairly steady annual rate of increase in their debt outstanding.

The net increase in debt incurred by private borrowers in 1959 amounted to \$51.5 billion, which was nearly seven-eighths larger than in the preceding year. This figure had been exceeded only in 1955, when the net addition to outstanding debt by private borrowers was in excess of \$54 billion. Approximately one-half of the 1959 increase in the private debt was incurred by corporate borrowers, with about one-half of total financial requirements being obtained from external sources. The sharpest changes in the corporate debt structure centered in short-term obligations. Short-term corporate debt rose \$17.5 billion last year, compared with a one-half billion dollar decline in 1958. On the other hand, the expansion in long-term corporate debt slowed down in 1959, rising only \$8.3 billion, as against a \$9.4 billion increase in the previous year.

A sharp increase in consumer expenditures for durable goods and residential housing contributed to a substantial expansion in individuals' indebtedness. A \$13.5-billion net increase in home mortgage borrowing was the largest single factor in a \$25.4 billion addition to indebtedness of individuals and unincorporated enterprises. The 1959 expansion in consumer credit, up \$6.5 billion, was matched only in 1955; however, unlike 1955, the growth

of consumer credit resulted mainly from strong demand for consumer goods rather than from a stimulation provided by relaxation of credit terms.

At the same time that individuals were borrowing in 1959, as a group, they were also saving heavily. The record shows that during the year, financial savings of individuals actually exceeded new borrowings by an appreciable amount. As a result, the net financial equity of individuals continued its substantial postwar rise.

Debt Expansion Slows in 1960. The increase in the major forms of indebtedness during the first quarter of 1960 amounted only to about one-third of the increase in the corresponding quarter of 1959. The main reason for the smaller rise in debt has been the substantial change in the fiscal position of the Federal Government, with a large deficit in 1959 being turned into a near balance in 1960. Thus, the bulk of the shift to smaller debt expansion in the first quarter of 1960 was the \$2.6 billion reduction in the publicly held Federal debt.

In the first part of this year, demand for capital and credit have also moderated in other areas, particularly in the case of mortgage financing. With housing starts running below 1959 during the first quarter, the increase in mortgage debt outstanding has been about one-fifth below a year ago. Smaller increases also have been registered in securities outstanding of corporate and state and local governments; in addition, the decline in consumer credit which usually occurs in the first quarter was somewhat larger than in 1959.

Fragmentary estimates for the first two months of the second quarter indicate that the increase in debt continues at a rate well below a year ago.

As a result, although the expansion in debt during the second half of this year is expected to be above the first half, it is estimated that in 1960, the increase in outstanding debt is likely to be between one-fourth and one-fifth smaller than in 1959.