I would like to talk today about a subject which is of direct personal interest to every citizen of our country. It has to do with the management of the Federal debt of this country. There are a great many people who feel that this subject is one which can only be understood by financiers or by specialists in monetary management. A decision relating to the management of the public debt, they feel, can have little bearing on their own personal lives or on their own personal finances.

Nothing could be further from the truth. The public debt is owned by every one of us, whether we actually have in our possession a savings bond, or whether we own Government bonds indirectly -- such as the depositors in commercial banks or in mutual savings banks, or as the policyholders in insurance companies. Moreover, the payment of the interest on the public debt affects every one of us. Interest on the public debt this fiscal year will represent more than 10 percent of the total expenditures of the Federal Government

It will be more than twice as large as the entire projected deficit of the Federal Government for this fiscal year.

It is clear that every person in this room, every taxpayer, and every American citizen is affected by decisions which have to do with interest payments on the public debt. That is why I should like to take a few minutes today to bring to the attention of the people of our country an extremely important announcement recently made with respect to such payments.

The announcement to which I am referring relates to the rate of interest on the long-term securities of the Federal Government. The present return on such securities is 2-1/2 percent per year. The Secretary of the Treasury, as chief fiscal officer of the Government, has recently announced that 2-1/2 percent will continue to be the maximum rate paid on Federal securities throughout the period of national crisis in which we now find ourselves.

As the members of the Congress are well aware, the Secretary of the Treasury since this Nation was founded has been charged by law with full responsibility for the management of the Nation's finances. The Congress has further provided that every issue of Federal securities with a maturity of more than one year must be approved by the President of the United States. But no part of the Secretary's responsibilities can be delegated. That is why it is both important and necessary that only the Secretary of the Treasury formulate and announce financial policies which are appropriate for the Federal Government.

The 2-1/2 percent rate now paid on long-term Government securities is not a new rate. It has been in effect for more than 10 years. It was an integral part of our financial system during a period when we financed the most costly war in our history and then made a most rapid and successful return to peacetime business at a high level of activity. During this momentous decade in our history, the 2-1/2 percent rate paid on long-term securities has been the most important single factor in the financial policies adopted by private business throughout the entire country. It is the most important factor in the financial markets where the obligations of private business are bought and sold. It is a key factor in the rates charged by public utilities. It is a key factor in insurance operations. It is a major consideration in the operation of practically all of the Nation's financial institutions. Most of these institutions, it may be noted, have shaped their policies and built their business around that rate. And their business has been better in the past 10 years than ever before.

Most life insurance companies, for example, have brought the guaranteed interest provisions of their policies into alignment with the 2 1/2 percent rate which they receive for the investment funds which they put into long-term Federal securities. Today, a very large proportion of the new life insurance premiums received by insurance companies are on policies written at interest rates of 2-1/2 percent or less. It is clear that this rate has been satisfactory both to the insurance companies and to their customers, since there is $100 billion more life insurance in force now than there was 10 years ago.

Mutual savings banks have had the same satisfactory experience. The interest which they pay on funds of their depositors is closely related to the interest they receive on their large investments in Federal securities. But the mutual savings banks have not suffered - their deposits are twice as large as before World War II.

It is evident that the 2-1/2 percent rate has not interfered with a tremendous expansion in these financial institutions. And it has been sufficient to make their operations highly profitable. After investing very substantially in Government securities based on the 2-1/2 percent rate, earnings of banks and life insurance companies are double those of 10 years ago. In addition, financial institutions of all types are enjoying the best earning position in their entire history.

Our country has never been more prosperous than during the recent postwar period. Our individual citizens, who saved during the war years in order to build up financial backlogs and in order to buy houses, automobiles, household equipment, and so on when war restrictions were over, have never been in a better financial position than they are right now. Yet the funds available for investment in our economy during the past decade, whether of private individuals, financial institutions, or business concerns, have received a rate of return closely tied to the 2-1/2 percent rate paid on long-term Federal securities.

The securities of the United States Government make up one-half of all the debt obligations of the country, public and private. As long as they constitute such a significant portion of the debt of the country, the rate paid on long-term Federal securities will be the controlling factor in the rate of return on investment funds in this country. For that reason, any change in this rate is of overwhelming importance not only to our financial institutions and to individuals who hold large portions of their assets in Federal securities, but to every citizen in the country. That is why the announcement on the part of the Treasury that the 2-1/2 percent rate will be continued and will not be raised is of such extreme significance. That is why the demand for a higher rate -- which has been particularly insistent in some sectors of the financial community -- must be examined and analyzed for what it is worth.

The first fact which should be made crystal clear in the minds of every taxpayer is that the present interest charge on the public debt amounts to almost $6 billion. A rise of 1/2 of one percent in the average rate of interest would add $1-1/4 billion to the budget expenditures of the Federal Government. Let me repeat that figure -- $1-1/4 billion.

Right now, interest on the public debt has to be paid at the rate of $16 million every day of the year. It has to be paid at the rate of over $600 thousand every hour of the day. To pay the added cost brought about by a 1/2 of one percent rise in the average rate of interest, there would have to be an increase in the Federal income taxes paid by individual taxpayers, or, instead, the burden would be shifted to business corporations. If, on the other hand, we did not increase taxes to pay for the added interest charge on the debt, this cost under present budget conditions would have to be paid for by deficit financing, thereby increasing inflationary pressures.

Yet the very people who are clamoring for higher interest rates also want to balance the budget by forcing cuts in nondefense expenditures. Higher interest costs on the public debt would turn the budget in just the opposite direction. They would increase nondefense expenditures. They would increase the deficit. They would increase the need for higher taxes at a time when every dollar of added tax money is needed to pay for the defense requirements of this Nation.

Since this is true, we need to ask what the real driving force is behind this demand that the Government pay more for the money it borrows from its citizens.

Those who want a greater interest return on Federal securities say that slightly higher rates will cause more individuals and more institutions with available funds to invest in the securities of their Government. I simply do not believe that this argument can hold water. The people of this country -- whether individual citizens, presidents of financial institutions, members of boards of directors, investment managers, or those who in some other way are concerned with investment funds -- do not, I am certain, need the inducement of an added levy on the taxpayers of the Nation to invest their funds in the securities of their Government. Investment in Federal securities is already well recompensed. It has already proven highly profitable.

Federal Reserve officials have stated that the purpose of raising interest rates is to combat inflationary pressures by restraining credit expansion. Credit expansion must be restrained, but this cannot be done by small increases in interest rates -- either short-term or long-term. Such increases are not effective in combating inflationary pressures. Moreover, in my view, the use of such ineffective measures is extremely dangerous, because they give the country a false sense of security. People believe that the fight against inflation is being won in a painless way. This cannot be done.

The fight against inflation is a hard fight. It is a fight which cannot be won by a theoretical approach that has no practical basis of successful operation behind it. It is a fight which cannot be won by talk and propaganda -- by saying that small increases in interest rates will keep prices down. Those who advocate this course of action do not prove their case.

Those persons who are answerable for running the fiscal affairs of the Government of the United States have tremendous responsibilities. The stakes are so large and the risk so great that we cannot try experiments. We must let the cold light of careful analysis shine on the problem and use tools in the fight against inflation that we know have a real opportunity of winning the battle.

The rapid credit expansion that this country is experiencing can be controlled. We have effective measures for this purpose. But events have shown that small increases in interest rates do not cut down the urge of businessmen to borrow. They do not stop credit expansion. The situation in recent months is a case in point. Starting in August, the Federal Reserve, through open-market operations, caused yields on Government securities to rise. It carried on an extensive propaganda campaign to lead people to believe that these small increases in interest rates would, by themselves, deter businessmen from borrowing. The record makes clear what happened. In nearly every week since August 18, for example, loans of weekly reporting member banks have risen. The total loan increase of these banks in the past five months has amounted to over $4 billion. This, it seems to me, should have been no surprise. Businessmen know that a fraction of one percent is too little to matter when it comes to borrowing money for carrying inventories, plant construction, and the like.

Years ago, we had more extreme examples. In 1919 and 1920, rates on short-term Treasury issues were run up sharply.

They reached nearly 6 percent, and the rate on call money went as high as 30 percent. In 1929, the rates on short-term Treasury issues were run up to above 5 percent, and the call money rate went to 20 percent. All of you are familiar with the market crashes which followed.

It seems to be clear that increases in interest rates large enough to result in effective discouragement of loans would represent a crude application of economic laws that is out of harmony with proper economic policy. It would be on a par with driving civilian users of essential defense materials -- such as steel, aluminum, copper, zinc -- out of the market by means of excessive price rises. This is a course of action which in any area of our economic life is not only unjust in its effects, but is extremely dangerous to the healthy functioning of the economy.

In my view, the demand that the Government pay the investors more money for their funds at the expense of taxpayers is in reality a cloak for an effort on the part of certain sectors of the financial community to use the national emergency for selfish advantage. I believe that such is the real force and the real motivation of the pressure being exerted on the Government for higher rates now. It is no more and no less than an attempt on the part of a few to profit at the expense of many. That is why I have used this occasion to throw some additional light on a current issue of such great import to every one of us -- an issue which needs only to be clearly viewed to be appreciated in its true proportions.

The Treasury has stated that its policy is to maintain stability in the Government bond market. I agree with that policy. The great number of financial people agree with that policy. The announcement has been made that the 2-1/2 percent rate will be maintained, and that such financing as is required will be done within the framework of that rate.

This program is essential in order to keep a high level of confidence in Government securities -- confidence that has been built up over a long period of years. It is essential in order to keep the millions of investors who have been brought into the Government security market so laboriously during the past decade.

We have an army of bondholders. We need them now. We don't want to make the mistake of chasing them away as we did after World War I, when Liberty bonds were allowed to drop to 82. As you well know, it has taken years of financial planning plus tremendous quantities of promotion and aggressive selling to bring nonbank buyers of Government securities -- particularly individuals and small corporations -- back into the Government security market. We cannot waste this effort.

The fiscal policy of the Treasury recognizes these facts. That is why it calls for stability in the Government bond market built around the 2-1/2 percent rate on long-term bonds.

I agree with such a program. I feel that it is tremendously important. The credit of the United States Government is the foundation on which the financial strength of our Nation is built.

We must keep this foundation strong. We have the ability and the resources to do so. And I am certain that we have the will to do so. A debt management policy which succeeds in maintaining stability and confidence in the credit of the United States Government is essential to our national survival.