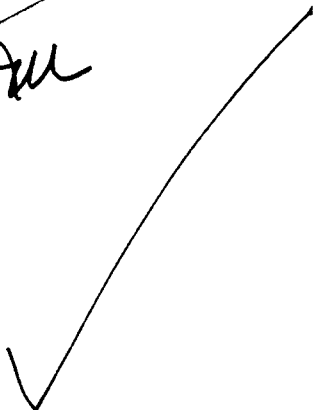


MEMORANDUM

FROM THE OFFICE OF GOVERNOR M. S. SZYMCAK

TO: Honorable John W. Snyder

Received 4/11/51
5 P. M.



*File
F. R. B.*

PAYMENT OF DIVIDENDS ON NATIONAL SERVICE
LIFE INSURANCE POLICIES

(Special report of Task Force No. 5, established by Defense
Mobilization Director C. E. Wilson's letter of March 12, 1951)

The Director of Mobilization, the Chairman of the Board of Governors of the Federal Reserve System, and the Secretary of the Treasury have received identical letters under date of April 3, 1951, from the Administrator of Veterans' Affairs requesting an expression of opinion regarding a proposed distribution of about \$685 million of dividends on National Service Life Insurance policies. The letters were sent pursuant to a request of the Subcommittee of the Committee on Appropriations of the United States Senate and relate to the questions of inflation involved in the proposed payment.

The Task Force has considered this matter and has discussed it with Mr. H. W. Breining, Assistant Administrator of Veterans' Affairs for Insurance. The conclusions of the Task Force are set out below:

1. The exact status of the funds represented by the proposed dividend is a matter on which there may be some difference of legal opinion. In view of the fact that it has been determined and announced publicly that there is a surplus in the insurance fund, there are strong reasons of law and of fairness for making the payments at this time. While the law appears to give the Administrator of Veterans' Affairs wide latitude in the timing of the distribution, especially since the dividends which accrued from 1940 to 1948 were not distributed until about two years ago and the distribution here in question would cover the dividends from 1948 through the anniversary date of the policies in 1951, the fact that he has already declared that there is a surplus in the fund may be a barrier against a postponement of a distribution which will require further study.

2. It is clear that the payment of the proposed dividend of about \$685 million would be inflationary. Raising the funds would increase the demands on the Treasury and on the Government securities markets. Even though veterans could be expected to save some part of the dividends they receive, the distribution would add appreciably to the spending stream. These facts do not necessarily mean that the payment should not be made -- there are some payments that must be made even though

they are inflationary, the most important being payments for planes, tanks and other defense materials. It is clear, however, that the payment would add appreciably to inflationary pressures, and therefore should be scrutinized with special care.

3. The Veterans' Administration proposes to spread the payment fairly evenly over the coming 12 months. Such a spreading out of the payment would help to minimize its inflationary impact.

4. It is understood from the Veterans' Administration that about \$1.5 million to \$2.5 million has already been spent preparing for the distribution, and that virtually all of the time, money, and effort thus far expended would be wasted if the distribution is not made as planned by the Veterans' Administration.

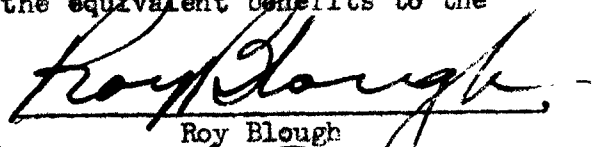
5. One reason for the size of the dividend at the present time is the fact that for various reasons beyond the control of the Veterans' Administration, distribution of the dividends heretofore has not been on an annual basis. A \$2.5 billion distribution was made about two years ago to bring the payments down to 1948. The presently proposed distribution would bring the payments up to the anniversary date in the calendar year 1951. The Veterans' Administration proposes to make any payments annually that may fall due thereafter.

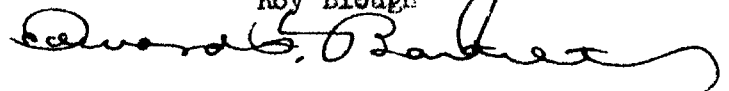
6. If the payment herein considered were postponed, it is not clear whether a less inflationary period could be expected to exist in the near future. The present defense program is likely to last for several years. Accordingly, while a postponement of the payment might avoid an increase in inflationary pressures at this time, the delay would add to the size of the payments -- and hence to the inflationary potential -- which would have to be released at some future time.

7. The Task Force gave some consideration to the possibility of making the distribution in some form which would itself constitute savings or would encourage the recipient to add it to savings. It has seemed to the Task Force that at the present time it would not be feasible or desirable to substitute a bond for the cash payment. The Veterans' Administration has indicated that great expense would be involved in offering to veterans an alternative of accepting cash or adding the amount of the distribution to the value of their policies. It is recognized that, whatever might have been the expense of such a procedure as an original proposition, it would undoubtedly be greater at the present time in view of the work that has gone forward toward the different type of distribution.

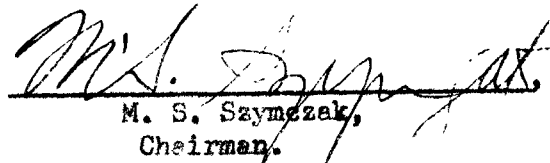
8. The Task Force suggests that the Veterans' Administration and the Treasury Department explore every possibility for encouraging the saving of the largest possible amount of the dividend distribution not only generally, but particularly in the form of United States Savings Bonds. It might be helpful to enclose specially designed literature with the check. Consideration might be given to going further and including order blanks and return envelopes for investing the payment in savings bonds. As a further means of facilitating and simplifying such investment by the veteran, consideration might even be given to enclosing two separate checks, one representing the cost of the largest savings bond purchasable with the dividend and the other representing the remaining part of the dividend. This, however, would involve serious administrative difficulties and the additional cost to the Treasury Disbursing Office in making the payments would be substantial. This proposal would add materially to the expenses of the Treasury Division of Disbursement for the reason that under existing procedure checks are inscribed through a method known as the "Transfer Posting Process," through which the inscription of the check is accomplished by means of the transfer of a carbon deposit on the back of the schedules prepared by the Veterans Administration to the face of the checks, thus avoiding the manual typing of the checks. Further special consideration should be given to the question whether these or any other steps that could be taken to encourage the saving of the dividend would justify the additional expense involved.

9. The Task Force suggests that the Veterans' Administration give further consideration to the relative advantages and disadvantages -- from the standpoint of cost, convenience, and other aspects -- of making provision in the future for allowing veterans the alternative of adding the amount of future dividends to the value of their policies. Even after the dividends are placed on an annual basis, such an option offered to the veterans might be worth while for helping to attract more of these funds to the Treasury and for providing the equivalent benefits to the policy-holding veterans.


Roy Blough



Edward F. Bartelt


M. S. Szymczak,
Chairman.

April 11, 1951.