SAVINGS BOND INTEREST RATE INCREASE

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

ON

H. R. 5520

AN ACT TO AMEND THE SECOND LIBERTY BOND ACT TO INCREASE THE MAXIMUM INTEREST RATE PERMITTED ON UNITED STATES SAVINGS BONDS

APRIL 3, 4, AND 5, 1957

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SAVINGS BOND INTEREST RATE INCREASE

WEDNESDAY, APRIL 3, 1957

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10:05 a. m., in room 312, Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Long, Smathers, Anderson, Douglas, Gore, Martin, Williams, Flanders, Carlson, and Jenner.

Also present: Mrs. Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order. The matter under discussion is H. R. 5520, a bill to increase the maximum interest rate permitted on United States savings bonds, copy of which I insert into the record together with the report of the Treasury Department.

(The bill and report referred to follow:)

[H. R. 5520, 85th Cong., 1st sess.]

AN ACT To amend the Second Liberty Bond Act to increase the maximum interest rate permitted on United States savings bonds

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso in the second sentence of section 22 (b) (1) of the Second Liberty Bond Act, as amended (31 U. S. C., sec. 757c (b) (1)), is amended to read as follows: "*Provided*, That the interest rate on, and the issue price of, savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of 3½ per centum per annum compounded semiannually".

SEC. 2. The authority granted by the amendment made by the first section of this Act may be exercised with respect to United States savings bonds and United States Treasury savings certificates bearing issue dates of February 1, 1957, or thereafter. For purposes of section 22 (b) (2) of the Second Liberty Bond Act, as amended, such authority may be exercised with respect to those series E savings bonds maturing on or after February 1, 1957, which are retained after maturity, but only with respect to the investment yield after maturity.

Passed the House of Representatives March 18, 1957.

Attest:

RALPH R. ROBERTS, *Clerk*.

UNDER SECRETARY OF THE TREASURY,
Washington, March 8, 1957.

Honorable HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: I am transmitting herewith for your information a copy of H. R. 5520, to increase the maximum permissible rate on United States savings bonds, as favorably reported by the Committee on Ways and Means, and a copy of that committee's report. The bill was reported yesterday, March 6, and it is my understanding that the House leadership anticipates scheduling its consideration by the House in the near future.

As you know, the interest on savings bonds is now limited to 3 percent. As approved by the Committee on Ways and Means, H. R. 5520 would increase the permissible rate to 3½ percent. If the proposed legislation is passed, the Treasury plans to increase to 3¼ percent the interest on new savings bonds held to maturity, in place of the present 3 percent.

The legislation originally requested by the Treasury would have given the Department the same discretion with regard to interest rates on savings bonds that it has on other types of Treasury bonds. The maximum permissible rate on such other bonds is 4¼ percent. The Treasury remains of the opinion that there are no compelling reasons why the terms of savings bonds should not be subject to the same flexibility as are the terms of other United States bonds.

However, we believe it to be of paramount importance that legislation be enacted without undue delay so that the Treasury can put into effect promptly its plans to increase the yield on savings bonds issued on and after February 1, 1957, to 3¼ percent. It is imperative that the position of these bonds in the savings program of the American people be continued in full vigor. To do this now requires an adjustment in interest rates.

We will be glad to discuss in detail with you and the Committee on Finance the need for this legislation as well as the Treasury's plans for adjustment of the terms of savings bonds if the additional authority is granted.

Sincerely yours,

W. RANDOLPH BURGESS.

The CHAIRMAN. The first witness is the Honorable W. Randolph Burgess, Under Secretary of the Treasury.

STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY

Mr. BURGESS. Mr. Chairman, I have a very brief statement I would like to make.

I am glad to be with you today in support of H. R. 5520, which would raise the ceiling on the interest which the Treasury can pay on savings bonds.

The savings bonds program has played an important role in our national life ever since it was first introduced in 1935. There are now more than $41 billion of series E and H savings bonds outstanding in the hands of about 40 million investors. This program has been a principal means of achieving a wide distribution of the public debt in the hands of individuals.

There are approximately 8 million people now buying bonds through payroll savings plans alone. The program is encouraging thrift at a time when the Nation requires additional savings to balance spending and avoid inflation.

Savings bonds have many unique qualities. They are free from market fluctuations. They are protected against loss. They are easy to purchase and easy to redeem.

For the vigorous continuation of the program it is also essential that the buyer of savings bonds feel that he is getting a fair interest return on his savings. With increases in interest rates on other types of savings during recent years, a modest upward adjustment in the rate of interest on new E and H bonds is indicated. That is the purpose of the present legislation. It is simply to give the millions of small buyers of savings bonds the benefit of the interest rates the large buyers of bonds are already receiving.

The legislation which the Treasury requested from the House of Representatives in February would have given the Treasury the same discretion with regard to interest rates on savings bonds that is permitted on other types of Treasury bonds. That maximum permissible rate is 4¼ percent. H. R. 5520, which has just been passed, fixes the savings bond ceiling at 3½ percent. While the greater flexibility suggested by the Treasury is preferable, H. R. 5520 would enable the Treasury to put into effect its plans to increase from 3 to 3¼ percent the yield to maturity on all E and H bonds sold beginning February 1, 1957—we dated it back because otherwise the sale of savings bonds would have been very seriously damaged during this period of discussion; as it is, they are hurt a good deal by the delay in getting this thing fixed up—and would provide some additional flexibility, that is, up to 3½ percent, to meet possible future changes in conditions. We are therefore prepared, in the interest of prompt action, to accept H. R. 5520, as passed by the House of Representatives.

The E bonds which the Treasury has been offering sell for 75 percent of their face value and the bonds yield 3 percent when held to their maturity of 9 years and 8 months. If this bill is passed, the Treasury proposes to leave the issue price and face value of the new E-bonds unchanged because people are familiar with them and they fit into the program mechanically very well.

The increase in the interest return from 3 percent to 3¼ percent would be accomplished by shortening the term of the bond from 9 years and 8 months to 8 years and 11 months.

We also propose to increase the redemption values of new bonds to provide a substantially higher yield to owners who find it necessary to cash their bonds early. The return on the new bond when held for 3 years, for example, would be 3 percent compared with 2¼ percent at present, improving the yield curve.

The Treasury also plans to offer, effective February 1, 1957, a revised 10-year series H savings bond, paying interest each 6 months by check instead of selling at a discount and then going to a par value at maturity, with yields generally comparable to the new E-bond.

I should like to submit a number of tables which show the facts with respect to the sale and redemption of savings bonds and the changes in interest rates.

Perhaps if I ran over them very briefly, Mr. Chairman——

The CHAIRMAN. Without objection, they will be inserted at the appropriate places of reference in your statement. Are these the tables the committee requested?

Mr. BURGESS. No. These are the tables I have in my statement. I have, in addition, the table which you requested last time. But, this first table—No. 1—shows the entire picture of savings bonds outstanding.

TABLE 1.—*Savings bonds outstanding: All series*

[In millions of dollars]

	E	H	Total E and H	F, G, J, K	Total all series [1]
Dec. 31, 1945	30, 727	----------	30, 727	13, 979	48, 224
1946	30, 263	----------	30, 263	16, 366	49, 864
1947	30, 997	----------	30, 997	18, 314	52, 174
1948	32, 188	----------	32, 188	20, 613	55, 197
1949	33, 766	----------	33, 766	21, 501	56, 910
1950	34, 493	----------	34, 493	23, 089	58, 248
1951	34, 727	----------	34, 727	22, 859	57, 739
1952	35, 143	181	35, 324	22, 616	58, 046
1953	36, 036	627	36, 663	21, 190	57, 934
1954	36, 778	1, 455	38, 233	20, 058	58, 358
1955	37, 510	2, 553	40, 063	18, 432	58, 548
1956	38, 087	3, 310	41, 398	15, 576	57, 018
1957—Jan. 31	38, 066	3, 365	41, 430	15, 096	56, 570
Feb. 28	38, 058	3, 392	41, 450	14, 824	56, 317
Mar. 31	38, 045	3, 418	41, 463	14, 563	56, 068

[1] Includes series A to D.

Source: Office of the Secretary of the Treasury, Analysis Staff, Debt Division.

As you will see by the total column, at the very foot, on March 31 we had $56 billion of savings bonds outstanding. Going across the bottom line, of that, 14½ billion are of the F, G, J, and K's. They are not the bonds that the small buyer has been buying so much. They were wartime bonds that were put out, some to the banks but mostly to other forms of investors—larger private investors. They are available each year up to $200,000 per buyer, whereas the E- and H-bonds, as you know, have been limited to $20,000 for each series per buyer per year. We are proposing to limit them to $10,000 per purchaser so as to keep them focused on the small buyer, so we get a wide dispersion of bonds among small buyers.

So the figure we really are interested in most is the E and H savings bonds. And of that, as I said before, there is over $41 billion outstanding, of which $38 billion are E's and three billion and a half are H's.

The H's were just inaugurated in 1952. They have been going along since then, and they appeal to a little different type of buyer who wants current income.

Now you see that we have held our own pretty well on the E-bonds, but there is beginning to be a little sag. Now, this includes the accrued interest, and if you will turn to table 2, you will see how much of this outstanding represents the amount paid by the purchaser of the issue price and how much represents the accrued discount, that is, the interest that accumulates. The issue price is $31,190 million outstanding, and then there is nearly $7 billion of interest accumulated on these bonds, making it a total of $38 billion.

TABLE 2.—*E and H savings bonds outstanding*

[In millions of dollars]

	Series E			Series H	Series E and H		
	Issue price	Accrued discount	Total		Issue price	Accrued discount	Total
Dec. 31 levels:							
1945	30, 164	563	30, 727		30, 164	563	30, 727
1946	29, 300	963	30, 263		29, 300	963	30, 263
1947	29, 571	1, 426	30, 997		29, 571	1, 426	30, 997
1948	30, 220	1, 968	32, 188		30, 220	1, 968	32, 188
1949	31, 152	2, 612	33, 766		31, 152	2, 612	33, 766
1950	31, 153	3, 340	34, 493		31, 153	3, 340	34, 493
1951	30, 655	4, 072	34, 727		30, 655	4, 072	34, 727
1952	30, 427	4, 715	35, 143	181	30, 608	4, 715	35, 324
1953	30, 723	5, 312	36, 036	627	31, 350	5, 312	36, 663
1954	30, 876	5, 903	36, 778	1, 455	32, 331	5, 903	38, 233
1955	31, 197	6, 313	37, 510	2, 553	33, 750	6, 313	40, 063
1956	31, 317	6, 770	38, 087	3, 310	34, 627	6, 770	41, 398
Mar. 31, 1957	31, 190	6, 855	38, 045	3, 418	34, 608	6, 855	41, 463

Source: Office of the Secretary of the Treasury, Analysis Staff, Debt Division.

Table 3 is the one I would like to invite your particular attention to because that shows what has happened by months with respect to cash sales and redemptions of series E and H savings bonds. Cash sales are shown in the left-hand column—first, at the top, by years.

TABLE 3.—*Monthly sales and redemptions of series E and H savings bonds*

[In millions of dollars]

	Cash sales	Cash redemptions	Cash gain or loss
Calendar years:			
1951	$3, 190	$4, 036	−$846
1952	3, 575	4, 098	−523
1953	4, 368	4, 157	211
1954	4, 889	4, 444	445
1955	5, 368	4, 652	717
1956	5, 043	4, 832	211
Monthly:			
1955—January	573	404	169
February	465	343	122
March	518	406	112
April	448	376	72
May	419	392	28
June	428	437	−9
July	439	402	37
August	439	399	40
September	414	393	21
October	404	358	46
November	395	358	36
December	425	383	42
1956—January	572	450	122
February	476	368	108
March	465	400	65
April	414	402	11
May	418	412	6
June	398	405	−6
July	443	431	11
August	403	414	−11
September	335	380	−45
October	390	411	−21
November	366	368	−2
December	363	392	−29
1957—January	465	547	−82
February	361	426	−65
March	365	438	−73

Source: Office of the Secretary of the Treasury Analysis Staff, Debt Division.

We have been selling about $5 billion a year, which is a very big program, of course, when you think that is sold to millions of people, and those were running $450 million a month or so through 1955. In 1956, toward the end of the year, the sales began tapering off, and the redemptions increased a little. So if you look at the right-hand column, you will see that whereas in all of 1955 and half of 1956 we were making gains, that is, we were selling more than we redeemed, starting last June, and particularly in autumn, we began to lose. We began to redeem more bonds that we were selling, and then the publicity thing took hold. There was some unfortunate criticism of the program, particularly critical of the fact that the interest rate was not in keeping with the general level of interest rates and that the E-bond holder wasn't getting a fair break, so the sales went off and fell below redemptions. So we lost $82 million in cash in January, $65 million in February, March $73 million.

In other words, our program for distributing these bonds as a part of our public debt program is slipping, and that is why we have had to come to the Congress and ask for an increase in the rate of interest so that these bonds will give a yield to the small man that is comparable with the yield that the larger buyer gets who buys bonds the price of which is determined by the law of supply and demand in the market.

Table 4 shows the relationship between our sales of these E and H bonds to other forms of savings; that is, this shows the accumulation of savings of individuals in different types of savings institutions.

TABLE 4.—*E and H bond share of individual savings: Annual changes in savings*

[In millions of dollars]

Calendar years	Savings and loan	Mutua savings banks	Commercial bank time deposits (individuals)	E and H	Total	Percent E and H of total
1953	+$3, 641	+$1, 774	+$2, 568	+$1, 339	+$9, 322	14.4
1954	+4, 415	+1, 964	+2, 526	+1, 571	+10, 476	15.0
1955	+4, 965	+1, 837	+1, 561	+1, 830	+10, 193	18.0
1956	+5, 110	+1, 836	+1, 993	+1, 335	+10, 275	13.0

Source: Office of the Secretary of the Treasury, Analysis Staff, Debt Division.

The savings and loan associations have been gaining very rapidly in their accumulation of people's savings. This past year it was over $5 billion; so that the amount of money that people save through savings and loan associations, the net increase is now just about the same as the net increase in life insurance.

Senator FREAR. Mr. Chairman, may I ask questions as we go along, or do you prefer waiting?

Mr. BURGESS. Either way you like, gentlemen.

The CHAIRMAN. I imagine we can wait a few moments. I want to ask a few questions.

Mr. BURGESS. Savings in mutual savings banks have been fairly steady, with commercial banks, deposits going down relatively. They have been raising rates now and coming back.

Then the table shows the figures on E and H bonds. The annual increase, as you see, was running along—in 1954 got up to a billion and a half; in 1955, a billion, eight hundred million; and in 1956 it slipped back to 1.3 billion. Now you take the percentage of the total savings through these four channels, which represents E and H bonds, as shown in this final figure, we were running along, selling 14 or 15 percent of the total of new savings in these forms. We were getting that much through Government savings bonds—it got up to 18 percent in 1955. In 1956, it dropped to 13 percent.

So that we are slipping. We are like an automobile manufacturer whose sales are slipping in the market. Some other person is making the sales.

Now then, the next table—table 5—compares the maturity yield of savings bonds at different times with the 10-year rate on marketable bonds which is determined by the supply and demand in the market.

TABLE 5.—*Market rate for 10-year maturities at the time savings bond maturity yields were set*

Savings bonds			10-year rate on marketable bonds [1]
Series	Date first offered	Maturity yield	
		Percent	*Percent*
A	Mar. 1, 1935	[2] 2.90	2.78
E (original)	May 1, 1941	[3] 2.90	[2] 1.75
E (present)	May 1, 1952	3.00	2.53
E (proposed)	Feb. 1, 1957	3 25	[4] 3.23

[1] Based on market pattern of rates.
[2] Partially tax exempt.
[3] Fully taxable.
[4] Market rate on Feb. 13, 1957, the day before the announcement.

Source: Office of the Secretary of the Treasury Analysis Staff, Debt Division.

As you see, when the program was set up in March 1, 1935, it was set up with a 2.90 yield and the rate on marketable bonds at the time was 2.78. In 1941, at the start of the war, when this program was really stepped up and made a great national program, the difference was even greater. The rate on marketable bonds was 1¾. That is partly an artificial rate, a pegged rate.

On May 1, 1952, when the present bond was set up, it was put up to 3 percent. At the time the marketable rate on bonds was 2.53. Now the market rate on bonds has gone to 3¼.

At the time we presented this matter to the Congress, it was 3.23 on a 10-year marketable bond, and we are proposing to make the savings bond 3.25, simply to catch up with the market.

One problem—on table 6—is how about the present holder of E-bonds. This table shows the redemption value of savings bonds over the 10-year period.

TABLE 6.—*E bonds outstanding prior to first maturity redemption values and investment yields*

[Based on $75 bond—Issue price]

Number of years held after issue date	Redemption value	Yield for:	
		Period held [1]	Period to maturity [2]
		Percent	*Percent*
Bonds issued beginning May 1952:			
Up to ½	$75.00		3.00
½ to 1	75.40	1.07	3.10
1 to 1½	76.20	1.59	3.16
1½ to 2	77.20	1.94	3.19
2 to 2½	78.20	2.10	3.23
2½ to 3	79.20	2.19	3.28
3 to 3½	80.20	2.25	3.34
3½ to 4	81.20	2.28	3.41
4 to 4½	82.20	2.30	3.49
4½ to 5	83.60	2.43	3.50
Bonds issued before May 1952:			
4½ to 5	81.00	1.72	3.87
5 to 5½	82.00	1.79	4.01
5½ to 6	83.00	1.85	4.18
6 to 6½	84.00	1.90	4.41
6½ to 7	86.00	2.12	4.36
7 to 7½	88.00	2.30	4.31
7½ to 8	90.00	2.45	4.26
8 to 8½	92.00	2.57	4.21
8½ to 9	94.00	2.67	4.17
9 to 9½	96.00	2.76	4.12
9½ to 10	98.00	2.84	4.08
10 years (1st maturity)	100.00	2.90	

[1] To beginning of each accrual period.
[2] From beginning of each accrual period.

Source: Office of the Secretary of the Treasury Analysis Staff, Debt Division.

As you see, you buy the bond at 75 and the redemption value steps up each year. The first few years it steps up very slowly. That is, we have paid a very low return to the holder who cashed in his bonds immediately. Then the last column shows the yield that the bond shows from that particular time to maturity. That is, if you have held the bond for 2 years—look down—from 1½ to 2 years, it will yield you 3.19 to maturity.

Now, this is the reason why most present holders of savings bonds will not benefit by cashing in their bonds and buying the new ones. That is one thing we had to consider. We couldn't put out a bond that will lead to a tremendous flood of redemption of the old bonds to go into the new ones. Anybody who has held his bonds 2½ years is better off to hold them. He already has his 3¼ percent bonds.

Senator FREAR. That is also true of the bonds that were matured.

Mr. BURGESS. They yield 3 percent now compounded, and they are cashable at any time. If a person cashed that in and bought a new bond, it would take him 3 years before he had a 3 percent bond. So he is not apt to cash in readily.

The privilege of immediate encashment, I think, offsets a good deal of the fact that the new bond will yield him 3¼. He is free to do it if he wants to, but our belief is that not many will want to make that exchange.

The CHAIRMAN. Mr. Burgess, before we go into a discussion of the pending bill, I would like to ask several questions that relate to another matter.

I see a great deal in the newspapers with regard to reduction of taxes. As Under Secretary of the Treasury, what prospect can you see for reduction of taxes on a sound basis?

Mr. BURGESS. Well, sir, I think that all depends on what we do about spending. If we could cut back this budget from $72 billion to 69 or 70 and could hold that next year, we could probably cut taxes next year.

The CHAIRMAN. If the pending budget which Mr. Eisenhower has submitted to the Congress, is not reduced, do you see any prospect for reduction of taxes?

Mr. BURGESS. No, sir.

The CHAIRMAN. How much should the budget be reduced in order to bring about a reasonable reduction in taxes?

Mr. BURGESS. Well, there are several variables there.

The CHAIRMAN. To be of any consequence cuts must be from 3 to 5 billion—not less than 3.

Mr. BURGESS. I think if we reduced it 2 to 3 billion and held that in 1959——

The CHAIRMAN. In other words, you as Under Secretary of the Treasury state that the only prospect of reduction in taxes is to reduce the Eisenhower budget?

Mr. BURGESS. Yes, sir.

The CHAIRMAN. In your judgment are the estimates of revenue upon which the balanced budget is predicated for this fiscal year conservative estimates?

Mr. BURGESS. Yes, sir, I think so.

The CHAIRMAN. You think that those estimates will come out?

Mr. BURGESS. I think so.

The CHAIRMAN. The budget for fiscal year 1958, I understand, is predicated upon the passage of the increase in postal rates.

Mr. BURGESS. That is correct.

The CHAIRMAN. That is about 600 million, is it?

Mr. BURGESS. That is about right.

The CHAIRMAN. The increase in postage rates, as I understand it, is based upon 4 cents first-class postage.

Mr. BURGESS. Well, sir, I can't give you that breakdown. It is estimated to yield about half a billion dollars.

The CHAIRMAN. Well, the budget is predicated on, is it six or seven hundred million dollars of new revenue that comes from increasing the postage rates?

Mr. BURGESS. I can't answer that question exactly. It is about six hundred million, I think.

The CHAIRMAN. Now, if those increases are not enacted by Congress, then your budget margin, your balance is reduced from 1.8 million to 1.2 million, is that correct?

Mr. BURGESS. That is correct.

The CHAIRMAN. And then you estimate an increase of $1 billion in revenue, the net revenue of corporations for the next fiscal year? You think that is likely to occur above past fiscal year?

Mr. BURGESS. Well, Mr. Senator, those corporate profits estimates are very difficult to make. That is the estimate that our people have made conscientiously and carefully. We think it is a reasonable estimate.

The CHAIRMAN. But hasn't there been some change in business conditions? Isn't there evidence of levelling off?

In other words, this budget is predicated upon a constant continuing increase——

Mr. BURGESS. That is right.

The CHAIRMAN. In the so-called business prosperity.

Mr. BURGESS. That is right.

The CHAIRMAN. Do you have any reason to think that so far as the net earnings of corporations are concerned there will be an increase of net profits for the next fiscal year as compared to this fiscal year?

Mr. BURGESS. Well, I think the evidence so far is very unclear, Senator, as it always is.

The CHAIRMAN. If that is unclear, it is likely that this present budget may not have a surplus.

Mr. BURGESS. That is entirely possible.

The CHAIRMAN. In other words, if you don't get the increase in the postal rates, unless there is a continuing increase in business prosperity, which may not occur, then it is perfectly possible to have a deficit for the fiscal year 1958 unless the budget is reduced.

Mr. BURGESS. We are operating on a very narrow margin.

The CHAIRMAN. How much do you think the budget should be reduced to operate on a sound basis?

Mr. BURGESS. Well, sir I think that is a very difficult thing.

The CHAIRMAN. Well, you are the Under Secretary of the Treasury. You are supposed to give us advice about these matters.

Mr. BURGESS. Well, my personal opinion is that it could be cut two to three billion dollars and that would be a sound thing to do.

The CHAIRMAN. All right. Senator Martin.

Senator MARTIN. Mr. Burgess, the latest reports are that there is a great fall-off in the sale of automobiles and the sale of the accessories, one of the great segments of our economy; and there is also a report now that the steel industry is operating at about 90 percent. Now, if those figures were continued throughout the year, what effect would that have on the corporate taxes?

Mr. BURGESS. It is very hard to nail that down in terms of actual figures. It would, of course, hurt it. I don't think, Senator, that the future is at all clear. That is, there are a great many strong elements in the economy. I think the last Federal Reserve summary of the situation was that it was holding a pretty level pace. There are things that are weak and things that are strong.

Senator MARTIN. I was just reading the comments this morning on the fall-off in the sale of automobiles and then, of course, a very important thing in our country is the amount of steel that we use, and indications are that all of them—the average operation now is 90 percent.

Now that will affect dividends, and dividends, of course, will affect the individual taxpayers; and I was so much interested in the Chairman's questions and I feel that it would be very important if you folks could make an estimate of what this effect may be.

Now we are through a quarter of the year, and you have so much better opportunity to come to a proper conclusion on things of that kind than this committee has, although we have some very good people on our staff.

Well, Mr. Chairman, I won't press for an answer, but I mean it is something, Mr. Burgess, I wish you folks would give consideration to.

Mr. BURGESS. We are studying it all the time, Senator.

Senator MARTIN. I know you are; and if you would just give us the benefit of your study, I think it would be very helpful, Mr. Chairman, to our committee.

The CHAIRMAN. One more question: The current situation is less clear as to increasing so-called prosperity than it was when you made up the budget estimates?

Mr. BURGESS. I think that is a fair statement.

The CHAIRMAN. Senator Kerr.

Senator KERR. Mr. Burgess, do you know, or do you have the figures on the total debt in this country, business and individual?

Mr. BURGESS. Yes, sir, we have that.

Our last estimate, December 1956, is that the total is $793 billion.

Senator KERR. Would you take that slowly?

Senator MARTIN. Excuse me. What was the date?

Mr. BURGESS. This was December 1956—last December. Federal debt, 277 billion. State and local, 50. Corporation, 253. Individual, 213.

Senator JENNER. Senator Kerr, does that include also the obligation to the social security fund, the commitment on the social security fund?

Mr. BURGESS. That would be a part of the Federal debt, Senator.

Senator MARTIN. That totals how much?

Mr. BURGESS. Seven hundred and ninety-three billion.

Senator KERR. What was the total debt on January 1, 1953?

Mr. BURGESS. We will have to dig that one out. I have got it here for 1946, the close of the war.

Senator KERR. I think you have got it for January 1953, too.

Mr. BURGESS. I have got it somewhere, yes, sir.

Senator KERR. Federal, State, and local.

Mr. BURGESS. The Federal was 267 billion.

Senator KERR. I thought the Federal was a little less than that?

Mr. BURGESS. The end of 1952.

Senator LONG. That is December 1952, sir.

Senator KERR. What was the Federal?

Mr. BURGESS. That is what I just gave you: 267. That is December 1952.

Senator KERR. Two hundred and sixty-seven. All right.

Mr. BURGESS. That is December 1952.

Senator KERR. State and local?

Mr. BURGESS. $25.8 billion, net in June 1952.

(The following was subsequently received for the record:)

Gross debt of State and local governments on a gross basis for December 1952 was $31 billion.

Senator KERR. Corporation?

Mr. BURGESS. Corporation, $171 billion. Mr. Mayo tells me that that is a net figure.

Senator KERR. Is that a comparable figure to the $253 billion?

Mr. BURGESS. No. It is not quite comparable. I had better supply you with that on the same basis.

(The following was separately received for the record:)

On a gross basis the corporate debt on December 31, 1952, was $203 billion.

Senator KERR. Well, approximately what is it?

Mr. BURGESS. This was $171 billion on a net basis. That would compare with $211 billion net in 1956.

Senator KERR. The individual?

Mr. BURGESS. Individual was $137.4 billion.

Senator KERR. And the total?

Mr. BURGESS. Well, I haven't totaled that up.

Senator KERR. Well, it would be $600 billion?

Mr. BURGESS. Yes, that is right.

(The following was subsequently received for the record:)

The gross total was 639 billion for 1952.

Senator KERR. Now what was the average interest rate on that $267 billion Federal debt?

Mr. BURGESS. About 2.35.

Senator KERR. What was the average interest rate on the State and local?

Mr. BURGESS. We haven't got a figure on that.

Senator KERR. What was it on corporation?

Mr. BURGESS. Haven't got that either.

Senator KERR. Individual?

Mr. BURGESS. Haven't got that.

Senator KERR. What is the average interest rate on the present $277 billion?

Mr. BURGESS. 2.73.

Senator LONG. Could you supply us that average rate on the other three?

Mr. BURGESS. I don't know if anybody has computed those. We can make a stab at it. (See p. 21.)

Senator LONG. We would like to have it.

Senator GORE. Senator Kerr, could I ask for one additional figure there. What is the average interest rate of the issues thus far in calendar year 1957?

Senator KERR. Well, that was the next question I had.

Senator GORE. Excuse me.

Senator KERR. What is the average interest rate on new issues now being offered?

Mr. BURGESS. It ranges between 3.05 and 3½.

Senator KERR. Well, that is a pretty wide rate.

Mr. BURGESS. On Treasury bills—the last one sold about 3.05.

Senator KERR. Treasury bills—let's get that. They have been up as high as 3.31, haven't they?

Mr. BURGESS. That is about right.

Senator KERR. What has been the average on those you sold this year?

Mr. BURGESS. I would say the bills average pretty close to 3¼, a little under 3¼. We sold a 1-year issue for 3⅝; we sold a 3-year issue for 3½.

Senator KERR. What other forms of indebtedness have you issued this year?

Mr. BURGESS. Well, we have issued savings bonds as already outlined here.

Senator KERR. I am talking about other issues.

Mr. BURGESS. That is all we have put out for the market. In addition, we have issued securities, notes to the various trust funds in the Government, social-security fund, and so on.

Senator KERR. But the interest rate on those——

Mr. BURGESS. Is fixed by law in most cases.

Senator KERR. The 3-year bills?

Mr. BURGESS. Three and a half percent—3-year note, we call it. Anything from 1 year to 5 years is a note. Anything over 5 years is a bond.

Senator KERR. What were the Treasury bills—what is the total of the Treasury bills that are out?

Mr. BURGESS. $22 billion, in round figures.

Senator KERR. What is the total of notes that are out?

Mr. BURGESS. Thirty-four and a half.

Senator KERR. Approximately 35?

Mr. BURGESS. Yes.

Senator KERR. What was the total Treasury bills out as of January 1, 1953?

Mr. BURGESS. 17 billion.

Senator KERR. And at what interest rate were they being issued prior to January 1953?

What was the average interest rate on those outstanding December 31, 1952?

Mr. BURGESS. I will give you something pretty close to that: June 1952, 1.7; June 1953, 2¼. It was rising during the second half of 1952. (The average as of December 31, 1952, was 1.9 percent.)

Senator KERR. Now what was the amount of notes out in December 1952? December 1952, what was the total number of notes out?

Mr. BURGESS. June 1952 was 19. June 1953, it was 30.

(The following was subsequently received for the record:)

It was 30 billion on December 31, 1952.

Senator KERR. It was 19?

Mr. BURGESS. In June 1952, yes. There was a change from certificates to notes during the year.

Senator KERR. Well, of comparable forms of indebtedness.

Mr. BURGESS. Well, I think I ought to give you both figures, Senator. In June 1952 there were 28½ billion of what we call Treasury certificates of indebtedness.

Senator KERR. That is notes and certificates?

Mr. BURGESS. Well, that is certificates. That is maturing within a year; and that was reduced during fiscal 1953 to 16 billion. (The figure on December 31, 1952, was $16½ billion.)

Senator KERR. Well, the certificates, though, in 1952 were 28 billion.

Mr. BURGESS. That is right.

Senator KERR. At what interest rate?

Mr. BURGESS. That rate was 1.87.

Senator KERR. Were there any other short-term obligations?

Mr. BURGESS. Yes, there were the notes.

Senator KERR. June 1952, how much notes?

Mr. BURGESS. June 30, 1952, there were 19 billion of notes.

Senator KERR. What rate of interest?

Mr. BURGESS. That rate was at 1.56; and that was increased June 30, 1953——

Senator KERR. We will get to that in a moment. Now I want to go to the 1957 situation.

Senator LONG. What rate were the notes?

Senator KERR. 1.56.

Mr. BURGESS. That is on the outstanding. That is not new ones. That is adding up everything that is outstanding.

Senator ANDERSON. He wanted to give a June 1953 date. Is there objection to that?

Mr. BURGESS. The notes were up to 30 billion and a half.

Senator ANDERSON. Is that 3¼ interest rate?

Mr. BURGESS. 1.75.

Senator KERR. Now, as of today, we have, a total of 22 and 35 which is 57. Is thre another classification of short-term obligations now outstanding other than what you have called Treasury bills and 3-year notes?

Mr. BURGESS. Bills, certificates, and notes. The notes run up to 5 years.

Senator KERR. Well, now, what are the certificates now outstanding? This $35 billion is up to 5-year notes, then?

Mr. BURGESS. That is right.

Senator KERR. Are there certificates outstanding now?

Mr. BURGESS. Yes. There are $19 billion.

Senator KERR. And——

Mr. BURGESS. That includes both regular and tax anticipation series.

Senator KERR. Well now, what are the regular?

Mr. BURGESS. $18 billion. Tax anticipation——

Senator KERR. And the regular; what interest rate do they bear?

Mr. BURGESS. That average rate is now 3.3.

Senator KERR. Now, generally speaking, other than these that you have given us of the current $277 billion national debt, other than that included in the $76 billion, the rest of the outstanding Federal debt, generally speaking, is in the form of obligations that were in existence along about January 1, 1953?

Mr. BURGESS. No. The amount of bonds outstanding has been increased. We put out several issues of long-term bonds.

Senator KERR. What is the total that you have put out?

Mr. BURGESS. Of bonds? Well, we will have to supply that.

Senator KERR. Approximately, would you say?

Mr. BURGESS. Well, let's see. We have only put out—I think we had better supply that.

Senator KERR. You won't give us some general idea?

Mr. BURGESS. It is something over $3½ billion.

(The following was later received for the record:)

Since December 1952, the Treasury has issued $4.3 billion of long-term marketable bonds.

Senator KERR. The statement then I made is substantially correct?

Mr. BURGESS. Well, Senator, we sweat so hard to try to put out some bonds to lengthen the thing that each one of those seems pretty big to me.

Senator KERR. But, insofar as the proportion of the $200 billion now outstanding, other than the $76 billion included in Treasury bills, notes, and certificates, the amount of bonds that have been issued since January 1953 are not a very great percentage?

Mr. BURGESS. Not a large percentage.

Senator KERR. It would be less than 2 percent?

Mr. BURGESS. Something like that.

Senator KERR. Of the approximately $200 billion in bonds not yet due and now outstanding, do you have there a tabulation of the years of their maturity?

Mr. BURGESS. Yes, sir. We would be glad to put that in the record.

(The material referred to is as follows:)

Tabulation by final maturity date[1] of the $80.8 billion Treasury marketable bonds outstanding Mar. 31, 1957:

	Billions		*Billions*		*Billions*
1957	----	1964	----	1971	3.0
1958	9.0	1965	----	1972	8.4
1959	4.7	1966	----	1983	1.6
1960	5.3	1967	2.1	1995	2.7
1961	13.4	1968	2.8		
1962	8.7	1969	7.6	Total	[2] 80.8
1963	6.8	1970	4.7		

Senator KERR. What is the longest maturity date of any outstanding?

Mr. BURGESS. It is the 3-percent bond which we sold in 2 offerings in 1955.

Senator KERR. Other than that, very small amount?

Mr. BURGESS. Which was a 40-year bond. The next longest was the 3¼-percent bond.

Senator KERR. I am talking about other than the approximately 3 to 4 billion that have been issued by the present administration.

Mr. BURGESS. Well, the others were the 2½-percent bonds, the longest maturity of which was 1967–72.

Senator KERR. That is, they have to be paid in 1972, but are callable at any time after 1967.

Mr. BURGESS. That is correct. Yes, sir.

Senator KERR. So that the $200 billion will come due approximately in the next 10 years?

Mr. BURGESS. Yes; something like that.

Senator KERR. Well, this is 1957.

Mr. BURGESS. Yes. That is right.

Senator KERR. They will have to be retired in the next 15 years, but they can be retired on the basis of the provisions in them in 10 years?

Mr. BURGESS. Retired or refunded.

Senator KERR. Yes. Now, would you say that they come due approximately in equal percentages in the next 10 years?

Mr. BURGESS. Not exactly equal. It is reasonably well spread out.

Senator KERR. Spread out over the 10-year period?

Mr. BURGESS. Yes.

Senator KERR. I noticed a few days ago where American Telephone & Telegraph Co. put out $250 million worth of corporate indebtedness. Did you know that?

Mr. BURGESS. Yes, sir.

Senator KERR. What interest rate did they pay?

Mr. BURGESS. 4.30.

[1] Partially tax-exempt bonds are classified according to first call date.
[2] Difference between this figure and $200 billion referred to above is mainly nonmarketable issues of savings bonds, investment bonds, and special issues to Government trust funds.

Senator KERR. 4.37?

Mr. BURGESS. 4.30 they sold for. Well, they sold to the investor at 4.30, but the syndicate bought them at around 4.35, I think.

Senator KERR. What did American Bell & Telegraph pay?

Mr. BURGESS. I would like to correct that in the record. The coupon rate was 4⅜. That is my recollection.

Senator MARTIN. That is net to the corporation?

Senator KERR. That is right.

Senator MARTIN. That is what I think we ought to get at.

Senator KERR. That is right. But you will tell us exactly, if it was other than 4⅜.

(The following was subsequently received for the record:)

The coupon rate was 4⅜%, but since it sold at slightly above par the net interest cost to A. T. & T. was about 4.34 percent.

What is the total indebtedness of A. T. & T.?

Mr. BURGESS. I have to put that in the record, but it runs into $2 billion dollars or more than that.

Senator KERR. Do you know——

Senator MARTIN. Senator Kerr, let's have that in the record.

Mr. BURGESS. I would like to put that in exactly.

(The material requested is as follows:)

The total funded debt of the American Telephone & Telegraph Co. as of December 31, 1956, was $1,970 million. This is the funded debt of the parent company only; the funded debt of the entire Bell system on December 31, 1956, was $4,618 million.

Senator KERR. The total corporate debt he gave us as $253 billion.

Senator MARTIN. I know of the corporate, but let's get the A. T. & T.

Senator KERR. Now what interest rate would A. T. & T. have paid on that issue 6 years ago?

Mr. BURGESS. Well, there I rely on my memory and a little guessing. I would like to put that in the record, but would it be 3, 3¼, something like that?

(The material referred to is as follows:)

There was no borrowing by the American Telephone & Telegraph Co. in 1952 comparable to their recent 4⅜-percent issue. Although the A. T. & T. did offer one-half billion dollars of 3½-percent convertible debentures in mid-1952 to stockholders, these are not directly comparable with the current issue.

Senator KERR. I believe——

Mr. BURGESS. Well, here are the AAA corporations in 1952 with 2.96 at the end of the year.

Senator KERR. During a period of 1952 it was around 3 percent or less?

Mr. BURGESS. In that neighborhood.

Senator KERR. Now, I know that on new money that insurance companies are loaning today they are charging 5½ to 6 percent.

Mr. BURGESS. Well, I think you are a little on the high side, Senator. On mortgages they may average 5—perhaps a little over 5 percent. On direct loans to business, I would say that 4½ might be nearer the figure. Again I am speaking from recollection.

Senator KERR. Would we be safe in saying that the overall rate to corporations has increased in the neighborhood of from somewhere in the neighborhood of 3 percent to somewhere in the neighborhood of 4½ percent?

The CHAIRMAN. What year is that?

Senator KERR. In 5 years.

Mr. BURGESS. Well, on new issues I would say it would be somewhere around 1 percent.

Senator KERR. You got the AAA rate there in '52 as approximately 3 percent?

Mr. BURGESS. That is right—on outstandings; new issues would be higher, just as A. T. & T. is higher now than outstanding issues are yielding.

Senator KERR. What was the other rated corporation paying?

Mr. BURGESS. Well, BAA was 3.52.

Senator KERR. What is that same group paying now?

Mr. BURGESS. BAA now, 4.37. That is on outstanding.

Senator KERR. I am talking about new issues.

Mr. BURGESS. Well, we haven't got it. There isn't an index of new issues that I know of. On new issues they have to pay more than the market on the outstanding.

Senator KERR. They are sure going to have to pay more than A. T. & T.

Mr. BURGESS. They certainly are.

Senator KERR. And A. T. & T. just got through paying 4.37.

Mr. BURGESS. That is right.

Senator KERR. Now what was the difference between what the two groups paid in '52?

Mr. BURGESS. In '52 it was about half of 1 percent.

Senator KERR. Well, it would be at least that now, wouldn't it?

Mr. BURGESS. I should think so.

Senator KERR. So that the overall average increase is about 1½ percent?

Mr. BURGESS. Based on those figures it would be very close to it, but that compares a new issue now with outstandings then.

Senator KERR. Now, how much is 1½ percent on $253 billion?

Mr. BURGESS. About $3¾ billion.

Senator KERR. How much?

Senator ANDERSON. $3.80 billion.

Senator KERR. About 3¾ billion dollars is right, I think.

Mr. BURGESS. That is about right.

Senator KERR. Now, if corporations are now paying 3¾ billion dollars more interest by reason of increased interest rates than they paid 5 years ago, the Government is losing 52 percent of that in taxes that they are not getting.

Mr. BURGESS. That is right except that corporations aren't paying anywhere near that much more. Also we are collecting more taxes from the person that gets the interest.

Senator KERR. Well, is it? How much more taxes are we collecting from insurance companies than we were then?

Mr. BURGESS. Well, it isn't all insurance companies. There is a lot of it held by individuals and by other taxable entities.

Senator KERR. But insurance companies—how much of their holdings of corporate indebtedness increased?

Mr. BURGESS. I will be glad to put that in the record. I don't think I have it here. I can find it.

(The figures referred to are as follows:)

Life-insurance company holdings of corporate bonds and notes

	Billion
December 1952	$29.1
December 1956	38.1
Increase	+9.0

Senator KERR. Now, as I read these other figures, you are paying about 1.60 more higher interest rate on approximately $75 billion of Government indebtedness than was being paid 5 years ago?

Mr. BURGESS. Well, of course, there again we get some of that back to the extent that the ——

Senator KERR. I am talking about what you pay.

Mr. BURGESS. I was thinking of the aggregate effect.

Senator KERR. Now, 1.60 on 75 billion is how much?

Mr. BURGESS. Of course, another way you can do is simply take the interest charges, annual interest charges, on the total interest-bearing debt, which is——

Senator KERR. But I am not talking about that part of the interest-bearing debt that had been created prior to 1953 because you haven't increased the interest rate on outstanding bonds which have not come due; have you?

Mr. BURGESS. We haven't found any way to do that, Senator.

Senator KERR. You have been sympathetic toward it—if you could have figured a way to do it.

I haven't expected to go into that, but if you have a statement in that regard you want to put into the record, we will be glad to have it.

Mr. BURGESS. I think I will refrain at that point, Senator, if you don't mind.

Senator KERR. But on the bills, certificates, and notes that you have issued to the extent of about $76 billion, at 1.6 differential, how much is that?

Senator ANDERSON. One billion two hundred million.

Mr. BURGESS. A billion two; yes.

Senator KERR. Now, how much is 1.6 on 277 billion, Mr. Burgess?

Mr. BURGESS. It is 4½ billion.

Senator KERR. How much is it?

Mr. BURGESS. 4½ billion.

The CHAIRMAN. Senator Kerr, will you make that clear, what that applies to?

Senator KERR. I am figuring what the increased cost of carrying this $277 billion national debt will be when it has been refunded at the higher interest rates which are now in effect and which are being applied to new obligations as they are issued.

The CHAIRMAN. Would you permit the Chair to make a suggestion? I think this is very valuable information. I would like to see the same information that was given for the corporations. Five years ago the overall rate was 3 percent?

Senator KERR. No. That was not the overall rate, Mr. Chairman. The 3 percent was the rate which the Triple A corporations were paying. But the differential with reference to the entire group of corporations, they are paying now about 1½ percent more than they did then. In other words, those that paid 3 percent then are having to pay about 4½ now. Those that paid 4 percent are having to pay about 5½.

The CHAIRMAN. What I would like to see is a definite concrete statement about the corporations, the State and local indebtedness, the Federal Government indebtedness, and also the individual, if such is obtainable. Of course, we know some of it must be estimated.

Senator KERR. I thank the chairman. That is what I was driving at.

The CHAIRMAN. Along the lines of what you asked for about corporations, it is a very interesting subject. I think it is extremely important.

Senator MARTIN. Mr. Chairman, as I understand, you want the rate as of December 31, 1956, on those four?

The CHAIRMAN. I want it first in December 1953.

Senator KERR. June 1, 1952, December 31, 1952, June 30, 1956, and December 1, 1957, is what I was asking for.

Senator MARTIN. No; you mean January 1, 1957; and let's get that on the Federal debt, State and local debt, corporate debt, and individual debt.

Senator GORE. Mr. Chairman, could we have some breakdown of the individual debt? Would that be possible?

Mr. BURGESS. Yes.

(The material referred to is as follows:)

Breakdown of estimated individual debt as of Dec. 31, 1956

	Billion
Farm	$20½
Nonfarm:	
Mortgage	121½
Consumer	42
Other	29½
Total	213½

No data are available as to average interest rates paid, either on loans outstanding or on new loans made under any of these categories. Such data could be prepared only after exhaustive research covering all types of lenders, making loans under a wide variety of circumstances, and differing significantly in different parts of the country.

Senator GORE. Many small borrowers in my State now are having to pay 10 percent.

Senator MARTIN. Have them move up to Pennsylvania.

Senator LONG. They are paying a lot more than that some places in Louisiana after they pay the discount.

Senator KERR. That is exactly, Mr. Chairman, the information that I was trying to develop.

The CHAIRMAN. I didn't want to interrupt the Senator.

Senator KERR. That is fine.

The CHAIRMAN. You are about the best cross-examiner I know anywhere.

We would like to get that along those lines, especially the State and local increases in the bonds. There is great complaint in my State that it is very difficult selling the county and the State and the local bonds. So if the Senator from Oklahoma with his great ingenuity about such very complicated matters would direct his questions so as to bring about or give a picture of these other categories as he has done with the corporations——

Senator KERR. Do you understand what the chairman has asked?

Mr. BURGESS. Yes, sir. We will do our best.

Senator KERR. And supply that to us for the record.

Mr. BURGESS. Some of that will take a good deal of estimating or may not be available at all.

(The material referred to is as follows:)

The only available overall data on interest-rate trends on various segments of the debt (outside of the Federal debt) relate to averages of yields in the money markets or capital markets of various types of debt instruments outstanding. These figures cover only a few key areas of outstanding debt and are by no means typical of the entire universe that they are sometimes used to represent. Outside of these key areas—selected corporate and municipal bonds, a sample on bank loans to business, and certain short-term money market instruments—data are sketchy or, in the vast majority of cases, nonexistent. Some debt outstanding, such as corporation tax liabilities and a large part of individual accounts payable (charge accounts, etc.) is, of course, non-interest-bearing. There are no series available on average rates paid on new securities issued outside of the Federal Government.

The two tables which follow present available data for the dates requested for the outstanding Federal debt and for outstanding corporate and State and local government debt:

I. *Interest rate trends relating to the Federal debt, selected dates, 1952–57*

[Percent]

	1952		1954	1956		1957
	June	December	June	June	December	March
Computed average interest rate on outstanding debt (end of month).						
Marketable						
Bills [1]	1.711	1.931	0.843	2.654	3.063	3.247
Certificates [1]	1.875	1.897	1.928	2.625	2.939	3.325
Notes	1.560	1.755	1.838	2.075	2.337	2.380
Bonds	2.317	2.320	2.440	2.485	2.482	2.482
Total	2.051	2.099	2.043	2.427	2.591	2.684
Nonmarketable (savings bonds, etc.)	2.659	2.677	2.751	2.824	2.836	2.841
Special issues to trust funds	2.675	2.678	2.671	2.705	2.703	2.702
Total debt	2.329	2.353	2.342	2.576	2.671	2.726
Market yield (average for month):						
3 month bills	1.70	2.09	.64	2.49	3.21	3.08
9 to 12 month issues	1.74	2.03	.76	2.69	3.33	3.35
3 to 5 year issues	2.04	2.30	1.79	2.87	3.65	3.38
10 to 20 year bonds	[2] 2.61	[2] 2.75	2.53	2.89	3.43	3.25
Over 20 year bonds			2.70	2.98	3.37	3.27

[1] Excluding tax-anticipation issues

[2] 12 years and over

II. *Interest rate trends outside of Federal debt, selected monthly averages, 1952–57*

[Percent]

	1952		1954	1956		1957
	June	December	June	June	December	March
Corporate bonds: [1]						
Aaa	2.94	2 97	2.90	3.27	3 75	3.66
Aa	3.03	3.05	3 06	3 35	3 85	3.80
A	3.20	3 22	3.18	3.48	3.98	3.97
Baa	3.50	3.51	3.49	3.75	4.37	4.43
Total	3 17	3 19	3 16	3.46	3 99	3.97
Industrial	2.98	3.04	3.10	3.39	3.95	3.90
Railroad	3.32	3.34	3.23	3.55	4.08	4.04
Public utility	3.20	3.19	3.15	3 44	3 93	3.95
State and local government bonds. [1]						
Aaa	1.73	1 96	2.17	2 34	3 04	2 88
Aa	1.93	2.22	2 29	2 52	3.32	3.15
A	2.25	2 66	2.66	2 74	3.72	3 42
Baa	2.63	2.92	3 22	3.26	4.19	3 97
Total	2 14	2.44	2.59	2.71	3 57	3.36
Bank rates on short-term business loans:						
$1,000 to $10,000	4.90	4.88	4.97	5.18	5.32	n. a.
$10,000 to $100,000	4 21	4 21	4.35	4.69	4.90	n. a.
$100,000 to $200,000	3 72	3.77	3 89	4.34	4.63	n. a.
$200,000 and over	3.29	3 29	3 37	3.97	4.20	n. a.
Total	3.51	3 51	3.60	4.14	4.38	n. a
Money market rates.						
Federal Reserve discount rate [2]	1.75	1.75	1.50	2 75	3 00	3.00
Prime commercial paper (4 to 6 months)	2.31	2.31	1.56	3.38	3 63	3.63
Finance company paper (3 to 6 months)	2.13	2 13	1.31	3 00	3 38	3.38
Prime bankers acceptances (90 days)	1.75	1.75	1.25	2.45	3.35	3 27

[1] Moody's Investors Service.
[2] Federal Reserve Bank of New York.
Source: Federal Reserve Board.

There is no feasible way to work out any estimate of increased interest cost to corporate, State and local government, or individual borrowers from these figures. However, the Department of Commerce does prepare estimates of interest as a component of national income Net interest received by individuals and businesses in the United States from sources other than Government, together with the percentage of such interest to total national income from 1952 to date, is estimated as follows:

	Seasonally adjusted annual rates	Percent of national income		Seasonally adjusted annual rates	Percent of national income
	Billions			*Billions*	
By quarters:			By quarters—Con.		
1952: III	$7.5	2 6	1955: I	$10 4	3 3
IV	7.6	2.5	II	10.6	3.3
1953: I	8 2	2.7	III	11 0	3.4
II	8 5	2.8	IV	11 3	3.4
III	8 9	2 9	1956: I	11 5	3 4
IV	9 2	3.1	II	11.7	3.5
1954: I	9.3	3.1	III	12.0	3.5
II	9.5	3.2	IV	12.4	3.5
III	9.8	3.3			
IV	10.1	3.3			

Net interest income includes, in addition to the direct receipt of cash interest an estimate of imputed interest, measured by the value of services performed by financial intermediaries for which no specific charges are made.

The figures above reflect, of course, the increase in debt outstanding as well as the increase in average interest rates paid on that debt.

Senator MARTIN. Mr. Chairman—would there be any way, Mr. Burgess, to set apart the number of municipal and State authority bonds that are now issued in the United States? They are bonds that are not necessarily approved by a vote of the people. Is there any way to get that information?

Mr. BURGESS. We may be able to distinguish between the revenue bonds from the full faith and credit bonds. I will see.

Senator MARTIN. That is what I wanted to get at.

(The material referred to is as follows:)

No total figures are available on revenue bonds. Although for most individual bond issues it is fairly easy to distinguish between the revenue issues and the full faith and credit issues, in many cases these issues are primarily revenue with a full faith and credit backing. Under these circumstances of mixed character issues, the Census Bureau technicians have told us that a separate tabulation of revenue bonds for all State and local governmental units is not feasible.

The CHAIRMAN. What the Senator from Oklahoma has been bringing out is not only the tremendous increase in indebtedness but the increased interest rate on the increased indebtedness; and what I would like to have in some concrete form is how much additional burden that is putting upon all these different classes for interest payments which they did not have 5 years ago.

Senator GORE. Mr. Chairman, could I suggest two additional categories of information? I would like to know the discount rate at which veterans home loan mortgages and FHA home loan mortgages are now being accepted, both the discount rate and the interest rate as between 1952 and 1957; also the interest rate on installment purchases with respect to the two dates.

Mr. BURGESS. I think that anything on the latter will be in the Federal Reserve survey. We can find that.

(The material referred to is as follows:)

In a study in February 1953, the Federal National Mortgage Association estimated that at that time 4¼ percent FHA residential mortgages were selling in the secondary market at an average price of 99.6, and 4 percent VA residential mortgages were selling at an average price of 96.3. Comparable FNMA estimates for March 1957 show 4½ percent FHA mortgages at 93.0, 4½ percent VA mortgages at 93.3, and 5 percent FHA mortgages at 97.2.

Finance charges on instalment loans vary from one locality to another and with respect to the terms and conditions on specified transactions financed. So far as we are aware, the only general data on finance charges are contained in the recently published study of consumer instalment credit by the Board of Governors of the Federal Reserve System. This study includes an index of finance charges based on information reported by a sample of sales finance companies which operate on a nationwide basis. The index measures financing costs to the purchaser per $100 of unpaid balance of a 12-month contract on a low priced popular model passenger car. On a 1946 base of 100, the index was 99 in 1952 and 105 in 1956. For further information on this subject, see pages 49–60 of Consumer Instalment Credit, part I, volume I, Board of Governors of the Federal Reserve System, 1957.

The CHAIRMAN. Are you clear now on what the committee wants? Just repeat it—just in the most concise form you can give it to us. This is a matter of the most extreme importance.

Mr. BURGESS. I understand Senator Kerr wants to see the total burden of the debt and the way the interest charge has changed, so that you see the total weight of the interest charge.

The CHAIRMAN. And debt itself, how it has changed in all these different categories.

Now we have four categories, the Federal, State and local, corporate, and individual Senator Gore wants to add the——

Senator GORE. Discount rate on veterans' mortgages.

The CHAIRMAN. The discount rate on veterans' mortgages.

Senator ANDERSON. That will vary across the country.

Mr. BURGESS. Yes. There are some figures there compiled by Al Cole's outfit that are pretty good. They are estimates, but they indicate pretty well the discounts.

Senator ANDERSON. I think you would have to indicate whether it was in Ohio or out in another area because there is a very substantial difference in the discount.

Mr. BURGESS. Yes, indeed.

Senator GORE. Mr. Chairman, perhaps it should be made plain that what I have in mind—and I think what Senator Kerr has in mind—is not the average of outstanding but the average rate.

Senator KERR. Of new obligations.

Senator GORE. Of new obligations in 1957 compared with obligations issued in 1952.

The CHAIRMAN. That is the information I understood was given. The average rate 5 years ago for AAA corporations was 3 percent, and should it be issued under present conditions, it would be 4½ percent.

Mr. BURGESS. That is right, although the increase hasn't been quite that much.

The CHAIRMAN. Assuming they go to 4½ percent, that would put a burden of $4,400 billion for additional interest, is that correct?

Mr. BURGESS. That is correct; 1.6 percent on the whole national debt would be $4.4 billion or $4.5 billion if you had to roll it all over at the higher rate. We don't, of course.

Senator KERR. That is on the national debt.

Senator ANDERSON. The corporate debt would run about $3,790 billion.

Senator KERR. Mr. Chairman, the 4.4 is on the Federal debt, and, of course, we will be able to compute the increased interest rate the State and local will be paying when he supplies the information as to what they were paying for new issues in 1952 and what they are paying for new issues in 1957.

The CHAIRMAN. In other words, the assumption is that they will be reissued on the present rate basis. We want to know the increased cost if all of them should be issued.

Senator WILLIAMS. Mr. Burgess, you referred to the national debt as being 277 billion. Now, in addition to that, to what extent is the Federal Government obligated through guaranteed payments of mortgages, notes or debts, either of States, corporations, or individuals?

Mr. BURGESS. Well, I will be glad to put that in the record, Senator. I can't give it offhand.

The CHAIRMAN. The Hoover Commission says it is about 250 billion. We have contingent liabilities in addition to the direct liabilities of about 250 billion.

Senator WILLIAMS. You would furnish that for the record, would you, Mr. Burgess?

Mr. BURGESS. I would be glad to do that.

(The material requested is as follows:)

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE UNITED STATES GOVERNMENT AS OF JUNE 30, 1956

The attached statement covers the major financial commitments of the United States Government, except the public debt outstanding and those involving recurring costs for which funds are regularly appropriated by the Congress and are not yet obligated, such as aid to States for welfare programs and participation in employee-retirement systems. The statement is segregated into four categories, namely (*a*) loans guaranteed and insured by Government agencies, (*b*) insurance in force, (*c*) obligations issued on credit of the United States, and (*d*) undisbursed commitments, etc.

The items appearing in this statement are quite different from the direct debt of the United States. They are programs of a long-range nature that may or may not commit the Government to expend funds at a future time. The extent to which the Government may be called upon to meet these commitments varies widely. The liability of the Government and the ultimate disbursements to be made are of a contingent nature and are dependent upon a variety of factors, including the nature of and value of the assets held as a reserve against the commitments, the trend of prices and employment, and other economic factors.

Caution should be exercised in any attempt to combine the amounts in the statement with the public debt outstanding for that would involve not only duplication, but would be combining things which are quite dissimilar. As indicated by the enclosed statement, there are $98.7 billions of public debt securities held by Government and other agencies as part of the assets that would be available to meet future losses. The following examples illustrate the need for extreme caution in using data on the contingencies and other commitments of the United States Government.

1. The Federal Deposit Insurance Corporation had insurance outstanding as of June 30, 1956, amounting to $114.6 billion. The experience of the Federal Deposit Insurance Corporation has been most favorable. During the period this Corporation has been in existence, premiums and other income have substantially exceeded losses which has permitted the retirement of Treasury and Federal Reserve Capital amounting to $289.3 million (all repaid to Treasury), and the accumulation of $1.7 billion reserve as of June 30, 1956. The Corporation's holdings of public debt securities as of that date amounted to $1.8 billion which already appears in the public debt total. Out of $228.5 billion of assets in insured banks as of June 30, 1956, $61.6 billion are in public debt securities (also reflected in the public debt). The assets, both of insured banks and the Federal Deposit Insurance Corporation, as well as the continued income of the Corporation from assessments and other sources, stand between insured deposits and the Government's obligation to redeem them.

2. The face value of life insurance policies issued to veterans and in force as of June 30, 1956, amounted to $42.9 billions. This does not represent the Government's potential liabilities under these programs since some of these policies will probably be permitted to lapse and future premiums, interest and the invested reserves amounting to $6.7 billions of public debt securities should cover the normal mortality risk.

3. Under the Federal Reserve Act of 1913, as amended, Federal reserve notes are obligations of the United States which as of June 30, 1956 amounted to $25.5 billions. The full faith and credit of the United States is behind the Federal reserve currency. These notes are a first lien against the $50.7 billion of assets of the issuing Federal Reserve banks which includes $23.8 billions of Government securities already included in the public debt. These notes are specifically secured by collateral deposited with the Federal Reserve agents which as of June 30, 1956, amounted to $16.9 billion in Government securities and $11.5 billion in gold certificates.

Long-range commitments and contingencies of the U. S. Government, as of June 30, 1956

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed or insured by Government agencies:		
Agriculture Department		
Commodity Credit Corporation	[1] $586	
Farmers' Home Administration Farm tenant mortgage insurance fund	[2] 137	
Commerce Department: Federal Maritime Board and Maritime Administration	11	(3)
Export-Import Bank of Washington	36	
Housing and Home Finance Agency.		
Federal Housing Administration:		
Property improvement loans	[4] 260	$87
Mortgage loans	18,892	320
Office of the Administrator Urban renewal fund	49	
Public Housing Administration	2,816	
International Cooperation Administration	[5] 100	
Small Business Administration	4	
Treasury Department.		
Reconstruction Finance Corporation (in liquidation)	[6] 11	
Defense Production Act of 1950, as amended	[6] 18	
Veterans' Administration	14,915	
Defense Production Act of 1950, as amended	272	
Total loans guaranteed or insured by Government agencies	38,107	407
nsurance in force:		
Agriculture Department: Federal Crop Insurance Corporation	[7] 309	
Civil Service Commission: Employees' life insurance	10,084	1
Federal Deposit Insurance Corporation	114,601	1,815
Held by insured commercial and mutual savings banks		61,578
Federal Home Loan Bank Board:		
Federal Savings and Loan Insurance Corporation	32,127	257
Held by insured institutions		2,419
Veterans' Administration:		
National service life insurance	41,227	5,481
United States Government life insurance	1,664	1,217
Total insurance in force	200,012	72,768
Obligations issued on credit of the United States:		
Postal Savings certificates.		
United States Postal Savings System	[8] 1,765	1,741
Canal Zone Postal Savings System	[8] 6	7
Total Postal Savings certificates	1,771	1,748
Other obligations: Federal Reserve notes (face amount)	25,524	[9] 23,758
Undisbursed commitments, etc :		
To make future loans.		
Agriculture Department:		
Commodity Credit Corporation	(3)	
Disaster loans, etc., revolving fund	2	
Farmers' Home Administration Loan program	6	
Rural Electrification Administration:		
Electric program	483	
Telephone program	159	
Defense Department: Loan to Peru [10]	8	
Export-Import Bank of Washington:		
Regular lending activities	739	
Defense Production Act of 1950, as amended	8	
Housing and Home Finance Agency:		
Office of the Administrator:		
College housing loans	89	
Liquidating programs	(4)	
Public facility loans	(3)	
Urban renewal fund	110	
Public Housing Administration	162	
Interior Department:		
Defense Minerals Exploration Administration. Defense Production Act of 1950, as amended	5	
Virgin Islands Corporation	(3)	
International Cooperation Administration:		
Loans to foreign countries [9]	264	
Small Business Administration	32	

See footnotes at end of table.

Long-range commitments and contingencies of the U. S. Government, as of June 30, 1956—(Continued)

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Undisbursed commitments, etc.—Continued		
To make future loans—Continued		
Treasury Department:		
Reconstruction Finance Corporation (in liquidation)	$2	------
Defense Production Act of 1950, as amended	25	------
Federal Civil Defense Act of 1950, as amended	3	------
Veterans[8] Administration (veterans' direct loan program)	16	------
Total undisbursed commitments to make future loans	2,113	------
Other:		
Agriculture Department: Commodity Credit Corporation	444	------
Panama Canal Company	6	------
Treasury Department:		
Federal Facilities Corporation	11	------
All other	6	------
Total other undisbursed commitments	467	------
To purchase mortgages:		
Agriculture Department.		
Farmers' Home Administration: Farm tenant mortgage insurance fund	(3)	------
Housing and Home Finance Agency: Federal National Mortgage Association	92	------
Total commitments to purchase mortgages	92	------
To guarantee and insure loans:		
Agriculture Department: Farmers' Home Administration: Farm tenant mortgage insurance fund	12	------
Commerce Department. Federal Maritime Board and Maritime Administration	7	------
Housing and Home Finance Agency: Federal Housing Administration	4,103	------
Defense Production Act of 1950, as amended	148	------
Total commitments to guarantee and insure loans	4,270	------
Unpaid subscriptions.		
International Bank for Reconstruction and Development	2,540	------
International Finance Corporation	35	------
Total unpaid subscriptions	2,575	------

NOTE.—The above figures are subject to the limitations and precautionary remarks, as explained in the note attached to this statement.

1 The Corporation finances part of its activities by issuing certificates of interest to private lending agencies. The outstanding amount of $232 million as of June 30, 1956, is included in this figure.

2 Includes accrued interest of $2 million.

3 Less than $500,000.

4 Represents the administration's portion of insurance liability. The estimated amount of insurance in force and loan reports in process as of June 30, 1956, is $1,035 million. Insurance on loans shall not exceed 10 percent of the total amount of such loans.

5 Represents industrial and informational media guaranties.

6 Includes loans sold subject to repurchase agreements and deferred participation agreements.

7 Represents estimated insurance coverage for the 1956 crop year.

8 Excludes accrued interest.

9 Includes public debt securities amounting to $16,935 million that have been deposited with the Federal Reserve agents as specific collateral.

10 The Export-Import Bank of Washington acts as agent in carrying out this loan program.

Senator WILLIAMS. In each category. And the party which the Government has guaranteed in these various categories, are they included in the State items, the corporation and the individual items as given to Senator Kerr?

Senator JENNER. Is there any approximation on that item, Senator?

Mr. BURGESS. I have here a compilation of that sort of thing. What you run into is this kind of thing, Senator.

Senator WILLIAMS. But the question is: Are they included in this item making up the $793 billion which you gave to Senator Kerr?

Mr. BURGES. No, sir, only some of them.

The mortgages are in, yes. Here is one item that is not, for example: The Federal Deposit Insurance Corporation has insurance on $114 billion of bank deposits. Those, of course, are not in. They are in a sense a form of debt, but that isn't what you want. You want it more direct.

Senator WILLIAMS. I want the direct amount to which the United States Government has guaranteed the payment of obligations, and I would like to have it broken down and shown as to in which category it is listed among that group given to Senator Kerr, both the State, corporation and individual groups, and if there are additional groups not included, I would like to have that information as well.

Mr. BURGESS. We will do our best on that.

Senator WILLIAMS. Do you have an approximate estimate of the amount of our contingent liability other than the national debt?

Mr. BURGESS. Here are total loans guaranteed or insured by Government agencies. That is $38 billion. The big items on that are the FHA loans which are mortgage loans, of $18.9 billion.

Senator WILLIAMS. That would show up under the individual item as the total?

Mr. BURGESS. That would be an individual item as well because it is individual debt as well as contingent obligation of the Federal obligation. Only the contingency is a certain definite kind of contingency. There is an insurance fund.

Senator WILLIAMS. The point I am bringing out is that would mean 38 billion of this 213 million individual debt is guaranteed by the United States Government.

Mr. BURGESS. That is correct; yes, sir.

Senator WILLIAMS. And I would like to have that followed through all of those categories and show the classifications and the total extent to which we have guaranteed the payment of the remainder of that debt.

Mr. BURGESS. Yes, sir. We can do that.

(The material requested is as follows:)

Except for a small amount of foreign-aid loans the entire $38.1 billion of loans guaranteed or insured by Government agencies shown in the statement of contingent liabilities is included in the private debt totals. Although some of this represents the debt of corporations and State and local governments the major portion is debt owed by individuals, mostly in the form of insured or guaranteed mortgages.

Senator WILLIAMS. Now, another question: The debt today, December 31, was $277 billion, and the debt in December 31, 1952, was $267 billion, representing an increase of $10 billion.

Mr. BURGESS. That is right.

Senator WILLIAMS. Now, what has been the effect on the income of the Treasury Department as a result of the Mills plan during the past 4 years which in effect represented an accelerated payment of corporations?

In other words, how much extra money was brought in in that 4-year period as a result over and above the amount that would have been without the Mills plan?

Mr. BURGESS. I would like to put that in the record.

Senator WILLIAMS. Do you have an estimate as to that?

Mr. BURGESS. No. That swung it over from the second half of the calendar year over into the first half, so that as of December 31 it won't have any particular effect.

Now what we have done since then, the moving forward of an additional 10 percent a year has already moved over about $2 billion from March and June over to September and December.

Senator WILLIAMS. Yes. That procedure has been in effect almost in each of the years for the past 4 to 5 years, hasn't it?

Mr. BURGESS. That is right.

Senator WILLIAMS. We have been collecting about 11 percent each year. So to that extent, we would have collected—I will ask you the question: What would you estimate that we have collected during this 4-year period over and above the normal income?

Mr. BURGESS. May I put that in the record, Senator?

(The material referred to is as follows:)

Calculation of the net effect of the speedup in corporation income-tax payments since 1950 depends on the date selected. In the first half of the speedup (Mills plan) the Treasury was well ahead on revenue by June 30 each year but lost most of the gain by the ensuing December as compared with the old quarterly payment system. In the current half of the speedup (Revenue Code of 1954) the Treasury is gaining on its December position—in comparison with the situation at the culmination of the Mills plan—with very little change in the June position.

Improvement in receipts as a result of corporation tax payment speedup:

Cumulative effect through:	Billions
1951—June	$1.5
December	.2
1952—June	3.2
December	.3
1953—June	4.9
December	.5
1954—June	6.6
December	.7
1955—June	8.3
December	2.0
1956—June	8.6
December	3.4
1957—June	8.8

NOTE.—A precise calculation of the impact of the Mills plan and the continued speedup is difficult because of changes in corporate tax rates, levels of corporate income, the allocation of receipts between current and back taxes, the effect on receipts of the amount of full-paid returns, and random variations in receipts. The above figures have been computed on an average of the corporate rates and incomes for the periods covered.

Senator WILLIAMS. But that would represent an additional expenditure over and above the $10 billion differential in the debt, wouldn't it?

Mr. BURGESS. Yes. In a sense, we have moved forward our bills payable, which has helped us.

Senator WILLIAMS. You include in the national-debt figure, you carry the redemption value of the bonds rather than the purchase value?

Mr. BURGESS. That is right. The current redemption value on savings bonds.

Senator KERR. He doesn't carry the redemption value at maturity.

Mr. BURGESS. No; as of today.

Senator WILLIAMS. The accumulated interst is included in that?

Mr. BURGESS. That is right.

Senator WILLIAMS. You suggested in your statement that you are going to mark this new issue of bonds, if you get this permission, to maturity, 8 years 11 months. Will those bonds read "8 years 11 months," or will they read "10 years"?

Mr. BURGESS. Well, they will mature in 8 years 11 months. We have given, as you know, the extension for an additional 10 years under an authorization of Congress, on our present E-bonds.

Now, we have not made any announcement as to what we propose to do about any extension on the new bonds. We are going to wait to see what the interest rates are when that time comes.

Senator WILLIAMS. When a man buys this new bond, when you get this authority, assuming you get it, and it will mature at 8 years 11 months, on the face of that bond what will the bond read: "Mature 8 years 11 months"?

Mr. BURGESS. That is right; after we get the new bonds printed.

Senator WILLIAMS. It will not read the "10 years"?

Mr. BURGESS. No.

Senator WILLIAMS. You are going to change that whole picture?

Mr. BURGESS. Yes.

Senator WILLIAMS. Senator Byrd asked you the question as to the extent you thought we could cut the budget, and you said 5 percent, is that right?

Mr. BURGESS. I said 2 to 3 billion dollars. That is only a personal opinion.

The CHAIRMAN. You don't really think 2 or 3 billion cut is going to enable any tax reduction?

Mr. BURGESS. I stated earlier that we might, if we held the budget in 1959.

Senator WILLIAMS. Do you have any suggestions where we could make that cut and hold it?

Mr. BURGESS. Well, I suggested in a talk yesterday that there were five places that the President has already suggested that the budget could be improved. One of them is postal rates.

The CHAIRMAN. That is an increased taxation.

Mr. BURGESS. All right. But it is a way of improving the budget from the present situation.

Senator WILLIAMS. That doesn't cut the spending. I am speaking of spending.

Senator MARTIN. Excuse me, Senator. The postal rates—that is already included in the budget plan?

Mr. BURGESS. That is already included, but it hasn't been done yet; whenever the post office runs a deficit, that is classed as a budget expenditure.

Senator MARTIN. It has to be done or we will be out of balance—that would tend to put us out of balance?

Mr. BURGESS. That is correct.

Senator WILLIAMS. But I am speaking of the 2 to 3 billion dollar cut which we both think we can make now. Now where would we make that?

Mr. BURGESS. Well, the other thing the President suggested in his budget message relates to interest rates on GI mortgages.

The CHAIRMAN. That is an increase, too.

Senator WILLIAMS. That is an increase. That has nothing to do with the cut in spending, has it?

Mr. BURGESS. Wait a minute. It has this to do with it: If you don't raise that rate, that mortgage privilege becomes obsolete. You no longer give the veteran the privileges that he is entitled to under the law. There will be enormous pressure under those conditions to make direct loans to veterans—we now have some authority—and that comes directly out of the budget.

Senator WILLIAMS. That would increase your budget over and above the amount submitted, wouldn't it?

Mr. BURGESS. Yes, but there is something in the budget for those direct loans which we would not need if the rate on mortgages were a going rate so that they could be bought commercially.

Senator WILLIAMS. What specific item would you suggest we cut, assuming these interest rates are raised?

Mr. BURGESS. You won't have to cut specifically. You will be able, then, I think, to refrain from substantial additional appropriations.

Senator KERR. How much is the figure in the budget for that?

Mr. BURGESS. Perhaps two or three hundred million dollars.

Senator WILLIAMS. Well, say three. Give you the outside. Now where is the next cut?

Mr. BURGESS. Well, this isn't really my job.

Senator WILLIAMS. Well, you mentioned it, and I think it is part of your job.

Mr. BURGESS. Another point that the President mentioned the other day in his press conference was the interest rates that are paid on various types of Government loans, and he suggested there that, by lending at under the market, in many of those cases we were encouraging a use of Government funds that was not necessary, because the market would supply it otherwise. How much that amounts to as you go through the budget I would not be prepared to say.

The CHAIRMAN. Where are you going to cut expenses? That is the place you have got to do it if you are going to have any tax reduction or have a balanced budget.

Mr. BURGESS. The Director of the Budget is now preparing a report on that, and I don't think I am privileged to anticipate that, Senator.

The CHAIRMAN. You said in response to my question you thought the budget should be cut \$2 billion to \$3 billion. Now, you have given 1 item there of \$300 million on these veterans loans which you get by increasing the interest rate to the veterans. That is the way you get that. This other \$700 million for postage rates is already in the budget. And it is a very unsound way, if I may say it, Mr. Secretary, to try to balance a budget, or claim you are balancing a budget, by putting in revenue that has not been enacted by the Congress. You know that. You would not do that as a businessman.

And furthermore, you have got your budget on a very precarious balance, because you are estimating an increase in revenue from improved business conditions which I do not think are going to occur.

So this budget may be a deficit budget, even though it is cut some. It may be a deficit instead of being in balance. Am I right about that?

Mr. BURGESS. We are operating, sir, on a narrow margin, I agree to that.

The CHAIRMAN. It is not sound at all. I am surprised at this administration for bringing in a budget predicated on enacting legislation increasing postage rates, which has not been passed by Congress, and predicated on increased business prosperity which you yourself now say is very uncertain, and in my judgement is not going to occur.

Mr. BURGESS. Well, I think those estimates, Senator, are always precarious.

The CHAIRMAN. But usually you make up a budget based upon past revenue.

Mr. BURGESS. Yes, we always take that into consideration.

The CHAIRMAN. This time you made it up predicated on an increased prosperity. Now, that is certainly unsound.

Mr. BURGESS. We have in the past often assumed continued prosperity.

The CHAIRMAN. Well, not as much increase as you have in this instance.

Mr. BURGESS. I think it is fairly comparable.

Senator WILLIAMS. Mr. Secretary, you seem to feel that there are methods, if we could find them, wherein we could cut at least 5 percent in this budget as it is recommended by this administration, is that correct?

Mr. BURGESS. I think so.

Senator WILLIAMS. And you agree that it is a little hard to pinpoint the specific items, even for you, in your own department, is that correct?

Mr. BURGESS. That is correct.

Senator WILLIAMS. It would be equally hard for us in Congress; would it not?

Mr. BURGESS. Yes.

Senator WILLIAMS. And would you suggest that maybe one way to approach this would be as each department appropriation comes before the Congress, including the Treasury Department, that we just put a blanket 5-percent cut on that department and then let the administrator of the department fit it into the pattern wherein it would be most applicable. Would you say that would be a right approach for us to take?

Mr. BURGESS. Well, I would not want to hazard an opinion on that, Senator. I am not the Director of the Budget. That has a great many complications.

Senator WILLIAMS. Do you have any other suggestions as to how we could approach it.

Mr. BURGESS. I haven't any other, except a very careful examination of every expenditure; any such cut involves curtailing or postponing programs, not just administration.

Senator WILLIAMS. Who is in the best position to give that careful examination, the Congress or the administrator of the department?

Mr. BURGESS. I think it is both, Senator. I have a very high regard for the studies which have been made by the chairman of this committee, and I think he suggested a great many ways.

The CHAIRMAN. I hope you will follow the cuts the chairman recommended, if it gets the Treasury back of it and the administration.

Senator WILLIAMS. Are you in agreement with the recommendations of the chairman of this committee that this budget be cut and that he has a very reasonable proposal made for it?

Mr. BURGESS. Well, I think he has suggested a figure that is going to be very hard to realize. I would suggest one somewhat lower than that.

The CHAIRMAN. Any further questions?

Senator KERR. I have some further questions.

Mr. Secretary, referring to your table No. 4, can you give us the increase in the savings going into the four organizations that handle savings.

Mr. BURGESS. There are others, of course, but these are the four large ones. Life insurance could be there.

Senator KERR. Yes, that is one of the things I was getting to. Do you have a table there showing the liquid assets of commercial banks, savings and loan associations, mutual savings banks, and insurance companies?

Mr. BURGESS. We can very easily put that in the record. It is all published in the Federal Reserve Bulletin.

Senator KERR. You do not happen to have it there?

Mr. BURGESS. Well, I have some of them here.

Senator KERR. What I would like to have you put into the record is a table showing the growth in terms of liquid assets of these four categories of business—insurance companies, savings and loan, mutual savings banks, and commercial banks, let's say beginning in 1941 down to and through 1956.

Mr. BURGESS. Now, you say liquid assets, Senator.

Senator KERR. Total assets.

Mr. BURGESS. Total assets. I think that is easier. It is very hard to say what are the liquid assets.

Senator KERR. That is right—I agree with you.

Senator ANDERSON. That is 15 years, now.

Senator KERR. Yes.

Mr. BURGESS. We can do that very easily.

(The data referred to are as follows:)

Total assets of selected financial institutions

[In billions of dollars]

Dec. 31	Life insurance companies	Savings and loan associations	Mutual savings banks	Commercial banks
1941	32.7	6.0	11.8	79.1
1942	34.9	6.2	11.9	97.1
1943	37.8	6.6	13.0	114.4
1944	41.1	7.5	14.8	137.3
1945	44.8	8.7	17.0	160.4
1946	48.2	10.2	18.7	149.8
1947	51.7	11.7	19.7	155.4
1948	55.5	13.0	20.5	154.7
1949	59.6	14.6	21.5	157.7
1950	64.0	16.9	22.4	168.9
1951	68.3	19.2	23.4	179.5
1952	73.4	22.7	25.2	188.6
1953	78.5	26.7	27.1	193.0
1954	84.5	31.7	29.3	202.4
1955	90.4	37.7	31.3	210.7
1956	95.8	43.1	33.4	[1] 213.8

[1] Data as of Dec. 26, 1956.

Senator KERR. Now, referring back to your testimony on page 1, the last paragraph, you referred to the legislation which the Treasury requested from the House of Representatives in February of this year, and that was legislation giving you authority to issue these savings bonds at rates up to 4¼ percent.

The present crisis, if it is a crisis, confronted by the Treasury, or let us say the present difficulty confronted by the Treasury in the sale of these E-bonds has resulted from an increase in the interest rates paid by mutual savings banks and building and loan associations and commercial banks primarily, isn't it?

Mr. BURGESS. Yes, I think it is a little more than that. I think there is a psychological problem.

Senator KERR. Well, as I see it here, in 1953 your E- and H-bonds had a relationship of what percentage of savings and loan associations—a little over a third.

Mr. BURGESS. Yes.

Senator KERR. What was the relationship in 1956?

Mr. BURGESS. Well, about a quarter. It is partly that we slipped and partly that they have been going great guns.

Senator KERR. Well, that is because they have been paying 3½ percent interest.

Mr. BURGESS. Some of them are, but many of them aren't, paying that much. Also, they have been doing a very good sales job.

Senator KERR. I know. But the thing that they have been selling is the fact that they are paying more interest than you are.

Mr. BURGESS. That is right.

Senator KERR. Now, the same thing is true of the mutual savings banks, as I read the figures here. While the differential has not been as great, yet your total sales are some less and their total sales are some more than they were in 1953.

Mr. BURGESS. That is right, although not many savings banks pay more than 3¼.

Senator KERR. So that primarily the situation that you find yourself in has been caused by the fact that they have increased their interest rates on savings, and you have not been able to do so.

Mr. BURGESS. That is right.

Senator KERR. Now, what do you think will happen if we pass legislation here permitting you to pay 3½ percent, which is generally what they are now paying?

Mr. BURGESS. The savings banks are still mostly 3 percent.

Senator KERR. Well, now, commercial banks have gone up from 2 percent to generally 3 percent, have they not?

Mr. BURGESS. Not generally. The commercial banks are between 2 and 3. A great many are still paying 2 percent. It is a different kind of money. It is more short-term money. But some are up to 3—some are 2½.

Senator KERR. They have been moving toward the posture of meeting the competition.

Mr. BURGESS. That is right.

Senator KERR. Now, if the Congress passes legislation permitting the Treasury to pay 3½ percent on E- and H-bonds, don't you think the building and loan associations will just move theirs up to 4 percent?

Mr. BURGESS. I should doubt it, Senator. I think we are lagging behind. I think this simply catches up to the procession. I don't think this starts a rate war.

Senator KERR. Well, when did they move up from an average of 3 percent to an average of 3½ percent?

Mr. BURGESS. Well, we have got an estimate of that. Savings and loan were 2½ as early as 1949, and they have been moving up gradually.

Senator KERR. In 1949 they were paying 2½, and you were paying 3.

Mr. BURGESS. That is right.

Senator KERR. In 1950, what were they paying?

Mr. BURGESS. They were paying about 2.52.

Senator KERR. What were they paying in 1951?

Mr. BURGESS. 2.58.

Senator KERR. 1952.

Mr. BURGESS. 2.69.

Senator KERR. 1953.

Mr. BURGESS. 2.81.

Senator KERR. 1954.

Mr. BURGESS. 2.87.

Senator KERR. 1955.

Mr. BURGESS. 2.94.

Senator KERR. 1956.

Mr. BURGESS. Well, we have not made a good estimate there. Three percent, a little over 3, I think.

Senator ANDERSON. What were those figures for?

Senator KERR. Building and loan associations.

Mr. BURGESS. That is an average of rates paid by savings and loan associations. It is an estimate. It is the annual average dividend return of member associations of the Home Loan Bank System. That would tend to be a little lower than that for all savings and loan associations, because the nonmembers tend to be in areas of higher rates.

Senator KERR. Isn't the fact that they have increased from 3.6 investment by the public up to 5.1, and you have gone from 2.56 down to 1.99, in your judgment attributable solely to the increased interest rates that they have been paying for deposits and the sales job that they have been able to do based on that increase?

Mr. BURGESS. Very largely.

Senator KERR. And since they have moved in that direction, isn't it entirely probable that if you move up to 3.50, that they will just move on to 4 percent?

Mr. BURGESS. Well, these different institutions have got other problems. They have got to earn it on their assets.

Senator KERR. You are keeping the umbrella over them in that regard by the overall increase in interest rates, are you not?

Mr. BURGESS. Wait a minute. You have said something there that I want to put a plug in. You said we have done it.

Senator KERR. I would be glad to have you do that.

Mr. BURGESS. We have not created these interest rates, Senator.

Senator KERR. Well, the Federal Reserve has either created them or permitted them, hasn't it?

Mr. BURGESS. I would think that supply and demand has created these interest rates, and it relates to just these figures you have before you. The rate of savings has not kept up with the tremendous amount of money that people want to borrow. That is the primary reason. Now, the Federal Reserve could print money and keep the rates low by printing printing-press money, but the penalty would be inflation.

Senator KERR. Now—inflation is something that applies to the cost of commodities. But when you have increased interest rates, what do you call it? Is that not inflation, too?

Mr. BURGESS. No, sir. I think that is anti-inflation.

Senator KERR. You think the fact that the Government is going to wind up by paying $4.4 billion more interest on its public debt is anti-inflationary?

Mr. BURGESS. Yes, sir; your figure assumes, of course, that we roll over the whole debt at these rates.

Senator KERR. And that corporations will wind up by paying 3.90 more interest on their debt is anti-inflation?

Mr. BURGESS. It acts two ways to check inflation. In one way, it slows down the borrower a little. And on the other hand——

Senator KERR. It slowed them down to the tune of their total indebtedness 5 years ago was $600 billion and now it is $793 billion.

Mr. BURGESS. If you would give them all the money they want, it would be more than that.

Senator KERR. I am not talking about what would happen if they had all they wanted. But you have not slowed them down a whole lot.

Mr. BURGESS. Not very much, but some.

Senator KERR. They have increased about 33 percent; have they not?

Mr. BURGESS. We have had a wonderful prosperity, and it is based on big borrowing. That is fine. It is all to the good. But it tends to run out of hand.

Senator KERR. You have slowed them down from where the total was $600 billion, December 31, 1952, to where 4 years later it has decreased to $793 billion. Is that about the rate you have slowed them down?

Mr. BURGESS. I don't think we have slowed them down very much, but I think we have slowed them down a little.

Senator KERR. What do you suppose would have happened if you had doubled the rate of slowing them down? Now——

Mr. BURGESS. I made one mistake. I said we slowed them down. That is not correct.

Senator KERR. You disassociated yourself a while ago both from the law of supply and demand and from the Federal Reserve Board.

Mr. BURGESS. My business is debt management in the Treasury, not——

Senator KERR. I understand. I am not holding you individually and completely responsible, Mr. Secretary.

Mr. BURGESS. Thank you, sir.

Senator KERR. We are talking generally, and I presume in the final anlysis the people will either be confused or arrive at their own conclusion as to who did what.

Mr. BURGESS. I think so.

Senator KERR. You do not think, then, that if the Treasury were permitted to fix the savings bond ceiling at 3¼ or 3½ it would result in comparable increases in the interest being paid for savings by either building and loan associations or mutual savings banks.

Mr. BURGESS. No, sir; I do not.

Senator GORE. Mr. Chairman, would the Senator yield there for a brief reading of the testimony of the Chairman of the Federal Reserve System, before the House Committee on Ways and Means?

Senator KERR. Yes.

Senator GORE. In an appearance before the House Committee on February 21, 1957, as recorded on page 35 of the hearing, Congressman Mills asked this question of Mr. Martin (reading):

> Are you saying then that this may well have the effect of increasing the overall rate of interest?
>
> Mr. MARTIN. That is right.
>
> Mr. MILLS. It would have that effect?
>
> Mr. MARTIN. That is right.

Senator KERR. Well, to the extent that there is a different viewpoint than the one held by the Secretary here, it can be accounted for, I presume, in the fact that wise men differ. And I would certainly not hold it against either one of them that they did not agree with the other. But I appreciate the fact that the Senator, at this point in the record, has disclosed that there is some disagreement.

Mr. BURGESS. Senator, since we are trying to get Mr. Martin's opinions on the record, may I put in the record the paragraph from Mr. Martin's written and considered testimony before the House Committee on Ways and Means.

Senator KERR. Yes. As you put it into the record, would you read it so we will have the benefit of it.

Mr. BURGESS (reading):

> The proposed revision—

and he is referring to the revision of the rate on E bonds——

Senator KERR. Now, is he referring to the proposal of 3½ or 4¼?

Mr. BURGESS. 3¼.

Senator KERR. I didn't know there was one at 3¼. I thought the bill before us provided 3½ and I thought your recommendation was 4¼.

Mr. BURGESS. Our recommendation was 4¼ for the ceiling within which we could move.

Senator KERR. Yes.

Mr. BURGESS. We have at the same time announced to the Congress and publicly that we propose to move to 3¼.

Senator KERR. But the ceiling proposed in your recommendation is 4¼.

Mr. BURGESS. To allow us that much leeway.

Senator KERR. And the ceiling proposed in the bill before us is 3½.

Mr. BURGESS. That is correct.

Senator KERR. Now, to which was Mr. Martin addressing himself?

Mr. BURGESS. He said [reading]:

> Yield increases from 3 to 3¼ percent as proposed for E- and H-bonds, are needed if the investment returns available on these issues are not to lag too far behind returns obtainable from alternative uses of savings.

And then he said:

> The proposed revision represents an adjustment of fixed rates of return to advances that have already occurred in more flexible interest rates. As such,

it would be unlikely to create expectations of further general rate increases. General interest rate advances develop when the borrowing demands of businesses, consumers, and governments outrun the supply of savings. An increase in the overall volume of savings would certainly lessen upward pressures on interest rates.

Senator KERR. That is all, Mr. Chairman—except this. As I understand it, Mr. Secretary, was the Federal Reserve bank created to be in a position to meet the requirements of an expanding economy for more capital than is ever available in the form of outstanding currency?

Mr. BURGESS. Well, Mr. Senator, they have also the responsibility of avoiding inflation or deflation.

Senator KERR. Well, let us say that they do. Would you still answer my question.

Mr. BURGESS. They have the responsibility for supplying additional credit when it is called for by what they regard as the current economic situation.

Senator KERR. That was the purpose they were created for; was it not?

Mr. BURGESS. They were created to make for greater stability in the monetary situation.

Senator KERR. Well, in order to arrive at that, do they have authority to discount paper of commercial banks whereby the working capital of the industrial structure of this country is permitted to expand or operate? Do they have that authority?

Mr. BURGESS. Yes; but——

Senator KERR. To what extent?

Mr. BURGESS. But they have an obligation——

Senator KERR. We can have our own ideas about their obligations. I am asking you if they have legal authority.

Mr. BURGESS. Yes, sir.

Senator KERR. To what extent?

Mr. BURGESS. Well, up to the extent of their reserves.

Senator KERR. Now, what is the present amount of currency in circulation at this time?

Mr. BURGESS. $27.5 billion, outside the banks, as of January 1957.

Senator KERR. You say outside the banks.

Mr. BURGESS. Yes, sir.

Senator KERR. Well, what is it inside and outside the banks?

Mr. BURGESS. Well, inside is a very small amount. The total circulation, all money, $30.6 billion.

Senator KERR. What is the total working capital of our economy?

Mr. BURGESS. I don't know just how you define that, Senator.

Senator KERR. Well, you said there is a total of $793 billion debt.

Mr. BURGESS. That is right.

Senator KERR. There is that much working capital, isn't there?

Mr. BURGESS. Well, that could be defined in different ways.

Senator KERR. Well, could it be interpreted as being a part of the working capital of government, Federal, State and local, and individual, and corporate business?

Mr. BURGESS. Currency?

Senator KERR. No—the $793 billion indebtedness.

Mr. BURGESS. Well, a lot of that is in fixed plant.

Senator KERR. But whether it is in fixed plant or unfixed plant, it has been secured in terms of something that they have used for money, has it not?

Mr. BURGESS. That is right, certainly.

Senator KERR. Now, in addition to that, how much more working capital is there in State, local, and Federal government, and corporate and individual accounts?

Mr. BURGESS. I cannot answer that, Senator. I just don't know what it means.

Senator KERR. Would it be $250 billion, in your judgment?

Mr. BURGESS. If you define working capital of business in the normal way, their current assets over and beyond their current liability.

Senator KERR. I include that, in addition to the debt, as generally comprehending what they carry as cash on hand.

Mr. BURGESS. Inventories, receivables, and so on.

Senator KERR. Yes.

Mr. BURGESS. I would not want to take a guess at that. It runs into many billion dollars.

Senator KERR. It runs into many hundreds of billion dollars, does it not?

Mr. BURGESS. Yes. Wait a minute. Many hundreds of billions?

Senator KERR. Yes.

Mr. BURGESS. No; I am not so sure about that. The current assets of corporations total about $213 billion—but they owe $106 billion, so that leaves $107 billion working capital.

Senator KERR. For the corporations.

Mr. BURGESS. Yes.

Senator KERR. And for the individuals.

Mr. BURGESS. We have not got it for individuals.

Senator KERR. It would be equal to that, would it not?

Mr. BURGESS. I suppose it might well be; yes.

Senator KERR. So it does run into hundreds of billions.

Mr. BURGESS. Well, it might be $200 billion.

Senator KERR. I asked you if it was not generally for individuals and corporations and Government somewhere near $250 billion. What is your own situation in the Treasury—$4 billion, $5 billion, $6 billion?

Mr. BURGESS. Well, we have balances; yes, $5 billion or $6 billion.

Senator KERR. So that, roughly speaking——

Mr. BURGESS. When we are lucky.

Senator KERR. It would be somewhere between $200 billion and $250 billion, probably.

Mr. BURGESS. It might well be.

Senator KERR. Now, isn't that a compilation of amounts of what is generally referred to as money?

Mr. BURGESS. Well, I would not have thought so, Senator.

Senator KERR. What is it that they refer to there when they have so much current assets?

Mr. BURGESS. Money would only be a part of that. That is in receivables and inventory and so on. The cash of corporations is only about $30 billion.

Senator KERR. To whatever extent it is, it has been more or less created by bank lending, has it not, or other lending.

Mr. BURGESS. Some of it has been accumulated out of earnings.

Senator KERR. If they have got credit in a bank, the bank has not got the currency to pay off their deposits, have they?

Mr. BURGESS. No; they have somebody else's obligations.

Senator KERR. Well, what term can we arrive at and use here in order that we may discuss this matter?

Mr. BURGESS. I don't know what you are getting at, you see. I could help better if I knew just what you wanted.

Senator KERR. What I am geting at is whatever medium of exchange that individuals and governments and corporations use in the transaction of their business other than currency.

Mr. BURGESS. Well, you could take the total money supply, which is currency plus demand deposits in the banks, let's say, and that runs around—demand deposits of the banks is $109 billion—and you add the currency of $27½ billion—$136½ billion is the active money supply, leaving out time deposits.

Senator KERR. Very well. Then we both finally get around to talking about the supply of money, do we not?

Mr. BURGESS. That is right.

Senator KERR. Now do you understand what I am trying to get at?

Mr. BURGESS. The money supply that we do business with; yes.

Senator KERR. You understand it.

Mr. BURGESS. I think I do. It depends on what conclusions you draw from it.

Senator KERR. Now, if a corporation goes down to a bank, or if A. T. & T. goes to the public and borrows money, they wind up with credit in a bank somewhere against which they can write a check.

Mr. BURGESS. That is right.

Senator KERR. And if the bank runs out of currency with which to pay checks, they get credit in some other bank or the Federal Reserve System, do they not?

Mr. BURGESS. That is right.

Senator KERR. And the Federal Reserve System has authority to accept from member banks, consistent with their reserve requirements, notes or other indebtedness which customers of those banks owe to the banks and which the banks can go to the Federal Reserve and discount or use, and against which they can borrow and receive credit from the Federal Reserve System.

Mr. BURGESS. Normally, of course, the banks borrow directly on their own notes secured by Government securities. It is the easiest way to do it.

Senator KERR. But they are not limited to that.

Mr. BURGESS. No. They can discount their customers' paper.

Senator KERR. They can discount the notes and other obligations that they own from their customers.

Mr. BURGESS. That is right.

Senator KERR. To the extent permitted by the reserve formula of the Federal Reserve.

Mr. BURGESS. That is right.

Senator KERR. And that is what the Reserve bank was created for.

Mr. BURGESS. Within the borrowing limits of the individual bank. There is a limitation on their amount of borrowing in relation to their own capital. I don't say that that is what the Reserve System was created for. It was not created just as a lending machine.

Senator KERR. When created, they were given that authority.
Mr. BURGESS. That is right.
Senator KERR. Then that is one of the things they were created for.
Mr. BURGESS. That is one of their functions, and they are directed to use that for economic stability.
Senator KERR. Where is that directive?
Mr. BURGESS. Well——
Senator KERR. I say where is that directive?
Mr. BURGESS. The Federal Reserve has interpreted the Employment Act as applying to them.
Senator KERR. Where is that directive, Mr. Secretary? Is it in the language of the act that created the Federal Reserve bank?
Mr. BURGESS. Well, the language that created the bank is a little ambiguous. There is some place for the——
Senator KERR. What was it you said about a directive?
Mr. BURGESS. I say the Federal Reserve regards the Employment Act as applying to their policy—so they should be——
Senator KERR. That was not the statement you made. I will ask the reporter to read the statement the Secretary made.
(The reporter read the statement as follows:)

That is one of their functions, and they are directed to use that for economic stability.

Senator KERR. What directed them? I am trying to get the details on that directive.
Mr. BURGESS. I think the most definite directive was in the Employment Act.
Senator KERR. When was the Employment Act passed?
Mr. BURGESS. 1946.
Senator KERR. When was the Federal Reserve bank created?
Mr. BURGESS. 1914.
Senator KERR. Thirty-two years later Congress got around to giving them directions as to how to operate.
Mr. BURGESS. Well, that is one of those interesting things.
Senator KERR. Well, I tell you I think that is considerate of the Congress, to let them just kind of wobble around for 32 years, and then tell them what to do.
Mr. BURGESS. For a good many years we had in the Senate Carter Glass, who created it, and he gave——
Senator KERR. I do not think the Secretary's reputation for accuracy will be sustained or reinforced by that statement. I did not know Carter Glass created it.
Mr. BURGESS. To say Carter Glass created it is a little strong, but if anyone personally created it, it was Carter Glass.
Senator KERR. I was under the impression that the Congress did it, and it was a bill sponsored by Owen, of Oklahoma, in the Senate, and Glass, of Virginia, in the House.
Mr. BURGESS. That is correct. And it was very dear to the heart of President Wilson. I think while the wording of the Federal Reserve Act is a little ambiguous, perhaps, there was no real misunderstanding from the beginning that the Federal Reserve had responsibility for economic stability in this country.
Senator KERR. That is your opinion, Mr. Secretary, and I respect your opinion. But we do agree on this—that they have the authority

under legislation that is now in effect, to increase the amount of money by loans to their members on the basis of either the member's assets in the form of Government securities or notes from their customers.

Mr. BURGESS. That is correct.

Senator KERR. And it is a fact that the degree to which they exercise that authority, or use it, either expands or contracts the amount of money available for business to operate either at the present tempo or at a lesser tempo or an increased tempo.

Mr. BURGESS. It also has a very considerable effect on the movement of prices and economic movements, whether we have inflation or deflation.

Senator KERR. The observation is profound, but is the answer to my question "yes"?

Mr. BURGESS. That is correct; yes.

Senator KERR. I thank you very much.

Senator FLANDERS. Mr. Chairman, I have to return home shortly, and I would like to get in a brief question. I hope it will be brief.

A little while ago, Mr. Burgess, you were giving the various interest rates at various times in the various categories in which the Government borrowed money. And I think you may have given an answer to this question, although it escaped me as a detail. At what rate is the Government now paying for its current borrowing, say over the last few months.

Mr. BURGESS. Well, our very latest borrowing—we paid 3⅜ percent for 1-year money, and 3½ percent for 3-year money.

Senator FLANDERS. And the current financing or refinancing is done on the short-term borrowings.

Mr. BURGESS. Well, very largely. This 3-year note was a little longer than we have been able to sell previously. Then, in addition, of course, we are still continuing to sell savings bonds which are of longer maturity.

Senator FLANDERS. That brings me up to my question. These rates are all above those you are proposing for the savings bonds.

Mr. BURGESS. That is correct.

Senator FLANDERS. That gives a good reason for bothering about savings bonds?

Mr. BURGESS. Well, Senator, one of our responsibilities, we think, is to distribute the debt widely among the people. It is a sounder way of having the debt distributed. It keeps that much Government securities out of the banks. In the banks it tends to be inflationary. Another reason is that it encourages thrift among the people who buy them and becomes a very valuable asset in their hands.

Senator FLANDERS. Well, that business of encouraging thrift is just a little bit—I am all for it, you understand—but just a little bit on the paternalistic side.

Mr. BURGESS. Well, we do a number of things in Government that do get over that way.

Senator FLANDERS. Yes. Well, I was just wondering whether just from a strict consideration of your fiscal responsibilities whether you would normally endeavor to increase the sales of these instruments if you can get them at cheaper rates by other means.

Mr. BURGESS. Well, we do not get them at cheaper rates. These rates are comparable with the market rates normally, and we think it is enormously important to keep as much of the debt as we can out of the current flow of money. When you borrow it short term, you create part of this money stream.

Senator FLANDERS. You see then good fiscal reasons for expanding the E bonds.

Mr. BURGESS. That is right.

Senator FLANDERS. I think I will ask just one other question. Supposing we should have a serious depression, which none of us want and few of us expect, and the debt ceiling should turn out not to be high enough. What would you do?

Mr. BURGESS. We should have to ask for a higher ceiling.

Senator FLANDERS. What is back of that is the thought that maybe one way to control expenditures is by controlling the debt ceiling. It is drastic medicine—but have you ever thought of that possibility?

Mr. BURGESS. I think we have been using that instrument, Senator.

Senator WILLIAMS. Would you yield for a question at that point. In connection with that question—in view of the fact that the Treasury figures they will have a slight surplus this year, and you are anticipating a surplus next year, do you think we can eliminate this temporary $3 billion extension this year?

Mr. BURGESS. Well, Senator, we have been hoping right along that we would. I want to see the figures on what we have accomplished before giving you an answer to that question?

Senator WILLIAMS. Well, based upon the figures that you have had available, and unless you change your estimated revenue or income, do you think we could do it?

Mr. BURGESS. Well, of course, the theory is if we can run the surplus of $1.5 billion, and we move forward into September and December another $1 billion of corporate taxes that formerly wouldn't come in until spring, that would give us $2.5 billion of help in cutting this debt, which, if we achieved it, would be just about enough to come under the wire. Those are the elements in the problem.

Senator WILLIAMS. I think we are approaching this where it will only be a couple of months before you make the decision.

Mr. BURGESS. We usually make it in June, or shortly thereafter, Senator.

Senator FLANDERS. Mr. Chairman, I just want to suggest that among the various devices by which the administration and the Congress can carry out their joint responsibility on the budget, that this matter of the debt limit not be overlooked.

The CHAIRMAN. I can assure you, Senator, it is not going to be overlooked.

In line with the question of Senator Flanders, I want to ask the Secretary this. I think I was one of those that proposed this temporary debt ceiling. It was quite vigorously opposed at that time by the Treasury. And that was a $6 billion temporary increase. That is to say, it expired each year. Three billion of that was dropped last year. Now we are going to drop three more billion this year.

I hope the Secretary will understand that so far as I am concerned, I am going to oppose that temporary increase, even though the Treasury may not agree with me. Because you can always cut expenses, as Senator Flanders says.

Now, do you think it is a mistake to have a part of the debt limited on a temporary basis as we have had in the last 3 years or not?

Mr. BURGESS. No, sir, I have been personally satisfied with that.

The CHAIRMAN. It gives us in Congress a chance to review these tremendous unexpended balances that the executive branch can use when they please. The only protection we have now is the limitation of the debt.

And I believe, too, in a tight debt ceiling. I think Secretary Humphrey does. Is that correct?

Mr. BURGESS. Well, I can assure you, Senator, that it makes us sweat sometimes to do our financing job within it.

The CHAIRMAN. It is better for you to sweat a little than for the taxpayers to sweat.

Mr. BURGESS. We are very sympathetic with your objective.

The CHAIRMAN. I am glad to hear that, because when this was put on first there was considerable opposition, as you remember.

Senator FREAR. Following this up, one day recently the Wall Street Journal carried an article, I believe, that the proposed $1.8 billion surplus at the end of this fiscal year, if spending continued the last quarter on the average of the first three quarters, that we would wind up with a deficit. That is, in other words, the $1.8 billion has practically been overspent in the first three quarters, or nearly spent. Did I get that right?

Mr. BURGESS. I don't think that is so, Senator.

Senator FREAR. You still expect to have a surplus?

Mr. BURGESS. We still expect to have a surplus.

Senator FREAR. Of approximately $1.8 billion?

Mr. BURGESS. A great deal depends on what happens between now and June 30.

Senator FREAR. Well, what, for instance—more taxes coming in, more revenue coming in?

Mr. BURGESS. Also there are several spending proposals before the Congress, this one for increasing the amount of expenditures on loans to veterans, and so forth.

Senator FREAR. Was that anticipated in your $1.8 billion surplus?

Mr. BURGESS. No additional amount.

Senator FREAR. Sir?

Mr. BURGESS. No additional amount.

Senator FREAR. It is also if they do not pass the postal rate increase bill you may have to alter your $1.8 billion surplus figure.

Mr. BURGESS. Well, we have got a short enough time so that effect would mainly be in fiscal 1958 rather than the current year. We would like to get it in time to begin to have it effective this year.

Senator FREAR. Now, to get back to H. R. 5520 directly, you have made a statement earlier in your testimony today that I did not quite understand, or I did not get the answer to the question properly in my mind. The people who now hold E bonds, either matured bonds or unmatured E bonds, as of the day previous to the enactment of this legislation——

Mr. BURGESS. February 1.

Senator FREAR. What rate of interest will they receive for their bonds?

Mr. Burgess. They will continue to receive the same rate they do now. We think of that as a contract that we made, just as you do when you sell any bond, and we will continue to fulfill that contract.

Senator Frear. And you kind of give an easing-off rate of 2½ years or something like that, where they would be getting the same rate.

Mr. Burgess. On anything they have held 2½ years, they already have a 3¼ percent bond to maturity.

Senator Frear. So that a person who originally purchased the bond in 1941, May, whenever they came out, and they have continued to hold those bonds, they will in effect be getting as much, whether this bill as passed or not.

Mr. Burgess. Yes.

Senator Kerr. That is for the next 3 years.

Mr. Burgess. That is a person who held the bond in 1941, bought it then, and it matured in 1951, and he is holding it in the extended period, he now has a 3 percent obligation which he can redeem at any time.

Senator Frear. Well, he had a 2.9 percent obligation up until 1951 and 3 since.

Mr. Burgess. I'm sorry. Now we are dealing with a different curve on bonds held in the extension period. The 3 percent applies to bonds that matured after May 1952. This earlier person that you picked out with a 1941 bond, he had an extension period that was on a curve with increasing interest returns. So he actually would be better off to hold his bond. He would already have now a 3¼ percent or better yield to final maturity.

Senator Williams. Would you yield at that point. Would not the net effect of passing this bill mean that all of those who have bought E bonds during 1956 could convert them over to the new bonds and profit that way?

Mr. Burgess. They would get a little advantage, but it is pretty small. It might be a dollar on a hundred dollar bond.

Senator Frear. But that does mean something. So there is a little penalty for the people who purchased bonds and held them, unless they reconvert, if we enact H. R. 5520.

Mr. Burgess. There would be a little penalty on those who bought their bonds within the past 2 years. But it is very small.

Senator Frear. Only if they purchased bonds within the 2½ years. How about those holders of matured bonds?

Mr. Burgess. They are all right. They have got a 3 percent yield, redeemable on demand, which we think is pretty good.

Senator Frear. But they would not get the benefit of the 3¼ rate unless they converted.

Mr. Burgess. No. But I think they have something just as good if they have a 3 percent redeemable on demand.

Senator Frear. In other words, where do they get up to 3¼ percent on this one?

Mr. Burgess. The old ones do not. But on the new bonds, they would not get to 3 until 3 years. So that if the fellow had a 3 percent continuing bond and he switched to the new bonds, he would not get his 3 percent rate again until he had held it for 3 years.

Senator FREAR. So the only advantage he would have is he could redeem it without a loss.

Mr. BURGESS. Yes. If he were sure he was going to hold it for 10 years, he might do better to switch.

Senator FREAR. Well, you try to make them sure they want to hold them. That is the object, isn't it—to try to sell them for the maturity date.

Mr. BURGESS. We planned this out pretty carefully so there would not be too much of a jolt to this thing.

Senator FREAR. A final question. Do savings and loan associations invest in Government bonds?

Mr. BURGESS. To a limited extent. Their assets are mostly in mortgages.

Senator FREAR. I notice in your savings table here they have approximately 50 percent of the total, including E and H bonds. What type of bonds do they invest in when they purchase?

Mr. BURGESS. They vary quite a bit. Some of them short-term obligations, but they hold a great many bonds too.

Senator FREAR. Notes?

Mr. BURGESS. Yes—notes or certificates, or bills, but mostly bonds. I may say that is something the home-loan bank has been working on, to make sure these savings and loan associations have a certain amount of liquidity, so they can meet any demand on them.

Senator FREAR. That has been by regulation partly, has it not?

Mr. BURGESS. That is right.

Senator FREAR. But are you going to compete in the market with the savings and loan associations for these thrift dollars.

Mr. BURGESS. Of course all of the savings instruments are to a certain degree competitive. We don't think we are competing unfairly. We think now, with the present rates, that we are getting left behind. Our product is not good enough. We just want to bring it up a point——

Senator FREAR. Well, you pretty much limit your competition to private industry in the financing of the Government, do you not?

Mr. BURGESS. I don't quite understand.

Senator FREAR. In other words, you do not believe in Government in business.

Mr. BURGESS. Oh, yes, we do not believe in putting the Government in business. We think this is——

Senator FREAR. So that your competition with private industry remains in the field of financing.

Mr. BURGESS. Yes. I think the point is that we think that every savings program of an individual should include different kinds of savings—life insurance, savings and loan, some Government bonds. We use the advertisement that savings bonds should be a part of every savings program.

Senator FREAR. I see—Government savings bonds.

Mr. BURGESS. Yes.

Senator FREAR. I suppose a little fellow in business has got to have milk and eggs and butter to go along with it.

Mr. BURGESS. That is right.

Senator CARLSON. Mr. Chairman, two things have come to my mind this morning. One is, of course, reduction of Federal expenditures. I noticed you were very specific in your statement to reduce them and hold them.

Mr. BURGESS. That is right.

Senator CARLSON. And I think that is an important thing. And I want to mention it briefly, because I have here before me a list of items that Congress had approved. For instance, we have $50 million in the budget this year for slum clearance, and this is a program that can well go to $1.5 billion in the next 10 years. And next year it is anticipated we may go to $300 million. Now, it is one thing to reduce expenditures on a deferral basis—and I think that the Secretary has made a very good point. We can reduce them, but if we just reduce them on a deferral basis, we have not accomplished much, because in 1959 and 1960 they will again be with us, in increased amounts.

I would like to mention just briefly, Mr. Chairman, the discussion this morning has been, of course, around the general increase in interest rates, but has there not in this great Nation of ours been a general increase in the economy, in the gross national product, the income of labor, an increase in population, which means that we have an expanding economy. Is it not reasonable, Mr. Secretary, that these other items should continue along with interest, or interest should continue along with them?

Mr. BURGESS. Well, Senator, I think this increase in interest rates goes along with great prosperity. The fact is that for 20 years of depression and war we had artificially low interest rates and low demand for money. We have had great prosperity now with a tremendous demand for money on the part of corporations, individuals who want to borrow, States and local governments—State and local governments have actually increased their debt in the past 3 years by about $15 billion. And this interest rate reflects that prosperity and that demand for money. If you want more money, the price goes up.

Senator CARLSON. I have some tables here, Mr. Chairman, that I want to make a matter of the record, from the Department of Commerce and Labor and the Council of Economic Advisors, on some of these increases.

For example, the per capita personal income after taxes is higher than ever before. That is true if you even adjust for the present price change. For instance, in 1948 the average personal per capita income was $1,279, based on current prices. In 1952 it was $1,512. In 1956, $1,706.

Now, assuming that these individuals with this increased amount of money want to expand, they want to build a new home, they want to buy something, they are naturally going to borrow money. Isn't that reasonable that that would have some effect on interest rates or the volume of money?

Mr. BURGESS. It is bound to.

Senator CARLSON. I think these tables are quite interesting, Mr. Chairman. They are based on the share of labor in the national income. It shows what happened from 1948, based on current prices. This is not based on prices that are not equalized. In 1948 the hourly earnings were $1.35; in 1952, $1.67; in 1956, $1.98.

It occurs to me, Mr. Chairman, that much of this pressure for demand for money comes from the increased earning capacity and the money that people have to spend. And I think the interest rates have reflected that.

I am not advocating high interest rates, but I can readily see what has happened to the economy, and I think we are all proud of the fact that it has had this expanding and strong growth.

So I would like to ask that this table be made a part of the record.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The table reads as follows:)

IMPROVED INCOME OF WAGE EARNERS

1. Per capital personal income after taxes is higher than ever before. That is true even if you adjust for price changes:

	Current prices	1956 prices
Calendar 1948	$1,279	$1,445
1952	1,512	1,548
1956	1,706	1,706

2. Average gross hourly earnings of manufacturing workers are also at a new peak, both before and after price adjustment:

	Current prices	1956 prices
Calendar 1948	$1.35	$1.53
1952	1.67	1.71
1956	1.98	1.98

3. Labor's share of national income has been increasing while aggregate income of businessmen and property owners declined:

	Employees' compensation	
	Billions of dollars	Percent of total national income
Calendar 1948	140.9	63.6
1952	195.1	67.2
1956	239.0	69.8

4. The lower and middle income groups have benefited greatly from increased incomes over the last few decades. In World War I only 1 American family out of every 10 earned as much as $4,000 a year in terms of today's prices. Now, half of our families earn more than $4,000.

Source: Departments of Commerce and Labor, and Council of Economic Advisors, except for data by income classes which are based on studies made by National Bureau of Economic Research and the Federal Reserve Board.

Senator GORE. Would the Senator yield that I might put a table in at this point, or does he have other tables?

Senator CARLSON. No; that is all.

Senator GORE. I would like, at this point, with the permission of the Senator from Kansas, to place into the record a table which shows a direct correlation between the acceleration of interest rates and the acceleration of business failures.

In 1952 there were 7,611 business failures which represented 29 per 10,000 business establishments. I would like to read these three columns.

In 1953, there were 8,862 failures, representing 33 per 10,000. In 1954, there were 11,086, representing 42 per 10,000. In 1955, there were 10,969, representing 41.6 per 10,000. In 1956, there were 12,686, representing 48 per 10,000. In the first 2 months of 1957 there were 2,294 failures, which represented an annual rate of considerably more than 50 per 10,000.

Senator CARLSON. I wonder if the Senator would be willing to include in there the number of new businesses started in each of those years.

Senator GORE. I realize that the stock answer to the rise in the rate of business failures is the increase in the number of businesses. That is why I made the third column, which shows a rate of failure per 10,000 firms in existence, from 29 per 10,000 in 1952 to better than 50 thus far in 1957.

Senator WILLIAMS. Mr. Chairman, may I ask—Mr. Burgess, have you put in the record the amount of deposits, both time deposits and demand deposits, as of December 31, 1956?

Mr. BURGESS. I think we did. We would be glad to do it.

Senator WILLIAMS. Do you have those figures?

Mr. BURGESS. Yes, sir; it is in the Federal Reserve Bulletin.

Senator KERR. I wonder if the Senator would yield. Is that time deposits and current deposits in all institutions?

Senator WILLIAMS. Yes.

Senator KERR. That means commercial banks, building and loan associations, savings banks.

Senator WILLIAMS. That is correct. And I wanted the figure also for——

Mr. BURGESS. Can we put that in the record. For commercial banks it is around 109.

Senator WILLIAMS. That would be all right. And as Senator Kerr pointed out, I would like to have the combined savings for all of them. And I would like to have that as of December 31, 1956. And also the comparable figures for December 31, 1952. And do you have also available here the amount of savings for individuals?

(The material requested is as follows:)

Deposits, currency and savings and loan shares

[In billions of dollars]

	Dec. 31, 1952	Dec. 26, 1956
Currency outside of banks	27 5	28.4
Demand deposits adjusted	101.5	110.7
Time deposits:		
Commercial banks	40.7	50.3
Mutual savings banks	22.6	30.0
Postal savings system	2.5	1.6
Subtotal	194.8	221.0
Savings and loan shares	19 2	[1] 37.3
Grand total	214 0	258.3

[1] Data as of December 31, 1956.

Source. Office of the Secretary of the Treasury, Analysis Staff, Debt Division.

Mr. BURGESS. Yes, we can supply that.

Senator WILLIAMS. Will you supply that as of both dates, now and 5-years ago?

Mr. BURGESS. That is the rate of saving—how much is the savings each year?

(The material requested is as follows:)

Individuals' savings,[1] 1947–56

[In billions of dollars]

	Total	Percent of personal income after taxes		Total	Percent of personal income after taxes
By calendar years:			By quarters[2]—Continued	20.1	8.0
1947	4.0	2.4	1954—I	17.8	7.0
1948	10.0	5.3	II	16.2	6.4
1949	7.6	4.0	III	16.9	6.6
1950	12.1	5.9	IV	13.9	5.3
1951	17.7	7.8	1955—I	16.7	6.2
1952	19.0	8.0	II	15.9	5.8
1953	19.7	7.9	III	18.8	6.8
1954	17.9	7.0	IV	18.6	6.6
1955	16.6	6.1	1956—I	21.2	7.4
1956	20.9	7.3	II	21.4	7.4
By quarters:[2]			III	22.4	7.6
1953—I	19.3	7.8	IV		
II	19.6	7.8			
III	19.7	7.8			
IV	20.8	8.3			

[1] Personal income, less taxes and consumption, as estimated by the Department of Commerce.
[2] Seasonally adjusted quarterly totals at annual rates.

Source: Department of Commerce.
Office of the Secretary of the Treasury, Analysis Staff, Debt Division.

Senator WILLIAMS. Yes, the amount of savings. And do you have the statistics showing the reserve of the corporations of this country as of any particular dates?

Mr. BURGESS. I don't believe we have a figure there that is very good. It is a problem of defining what is the reserve. It gets back to the question that Senator Kerr and I had such a good time on.

Senator WILLIAMS. Have you any figure that you may supply for the committee which you think will reasonably close?

Mr. BURGESS. We can put in a figure for working capital of corporations. They keep their reserve figures so differently there is not any figure you can pick out that is of much use.

(The material requested is as follows:)

Current assets and liabilities of United States corporations [1]

[In billions of dollars]

	Dec. 31, 1952	Sept. 30, 1956
Current assets:		
Cash on hand and in banks	30.8	31.2
U. S. Government securities	19.9	18.0
Receivables from U. S. Government [2]	2.8	2.4
Other notes and accounts receivable	64.6	83.6
Inventories	65.8	75.1
Other current assets [3]	2.4	3.1
Total current assets	186.2	213.4
Current liabilities:		
Advances and prepayments, U. S. Government [2]	2.3	2.5
Other notes and accounts payable	57.0	65.4
Federal income tax liabilities	18.1	14.2
Other current liabilities	18.7	24.0
Total current liabilities	96.1	106.2
Net working capital	90.1	107.2

[1] All United States corporations excluding banks and insurance companies. Data for 1952 are based on Statistics of Income, covering virtually all corporations in the United States. Data for 1956 are estimates based on data compiled from many different sources, including data on corporations registered with the Commission. As more complete data become available, estimates are revised.

[2] Receivables from and payables to U. S. Government do not include amounts offset against each other on the corporation's books or amounts arising from subcontracting which are not directly due from or to the U. S. Government. Wherever possible adjustments have been made to include U. S. Government advances offset against inventories on the corporation's books.

[3] Includes marketable securities other than U. S. Government.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Securities and Exchange Commission.

Office of the Secretary of the Treasury, Analysis Staff, Debt Division.

Senator WILLIAMS. In addition to that, how much of this $277 billion debt is represented by obligations of the Government that is held by trust funds of the Government.

Mr. BURGESS. We will be glad to put that in.

(The material requested is as follows:)

As of February 28, 1957, all Government investment accounts combined held $54 billion of Federal Government securities.

Senator WILLIAMS. Do you have an estimate as to that figure? That is the social security and retirement funds.

Mr. BURGESS. In that connection, may I put into the record the table that the chairman asked for earlier of the total Government debt outstanding and the various limitations that it operates under.

The CHAIRMAN. Without objection, that will be included.

Mr. BURGESS. And that will show the amount of special issues in the various funds.

(The table referred to is as follows:)

Public Debt Outstanding Feb. 28, 1957

Interest rates subject to limitation:	
Public issues:	
Marketable obligations:	
Treasury bonds	$80,818,452,100.00
Other bonds	49,800,000.00
Total marketable obligations subject to limitation	80,868,252,100.00
Nonmarketable obligations:	
Savings bonds	55,822,960,164.23
Depositary bonds	248,352,000.00
Treasury bonds, investment series	11,478,244,000.00
Total nonmarketable obligations subject to limitation	67,549,556,164.23
Total public issues subject to limitation	148,417,808,264.23
Special issues:	
Civil-service retirement fund (certificates)	62,472,000.00
Federal old-age and survivors insurance fund (certificates)	19,067,270,000.00
Highway trust fund (certificates)	112,150,000.00
Railroad retirement account (notes)	3,491,976,000.00
Unemployment trust fund (certificates)	7,940,817,000.00
Veterans special term-insurance fund (certificates)	29,834,000.00
Total special issues subject to interest rate limitation	30,704,519,000.00
Total debt subject to interest rate limitation	179,122,327,264.23
Interest rates not subject to limitation:	
Public issues:	
Marketable obligations:	
Treasury bills	25,875,673,000.00
Certificates of indebtedness	20,215,674,000.00
Treasury notes	33,939,806,000.00
Total marketable obligations not subject to limitation	80,031,153,000.00
Special issues: Total special issues not subject to limitation	14,765,262,400.00
Total debt not subject to interest rate limitation	94,796,415,400.00
Total interest-bearing debt	273,918,742,664.23
Total matured debt on which interest has ceased	640,711,233.14
Total debt bearing no interest	1,709,707,101.98
Total gross public debt	276,269,160,999.35

Public debt outstanding Feb. 28, 1957; interest-bearing debt

	Amount
Interest rates subject to limitation:	
Public issues:	
Marketable obligations:	
Treasury bonds	$80, 818, 452, 100. 00
Statutory authority: 2d Liberty Bond Act, Sept. 24, 1917, ch. 56, sec. 1, 40 Stat. 288, as amended; 31 U. S. C. 752. "The act provides in pertinent part: "The Secretary of the Treasury, with the approval of the President, is hereby authorized * * * to issue * * * bonds of the United States. * * * The bonds shall be * * * subject to such terms * * * and rate or rates of *interest, not exceeding 4¼ per centum per annum,* * * * as the Secretary of the Treasury * * * may prescribe."	
Other bonds:	
Panama Canal loan of 1961	49, 800, 000. 00
Statutory authority: Tariff Act of 1909, Aug. 5. 1909, ch. 6, sec. 39, 36 Stat. 11, 117, as amended;[1] 31 U. S. C. 745. "The act provides in pertinent part: "That the Secretary of the Treasury is hereby atuhorized to borrow * * * to defray expenditures * * * of the Panama Canal * * * and to * * * issue * * * bonds of the United States * * * *bearing interest* * * * *at a rate not exceeding three per centum per annum* * * *."	
Total marketable obligations subject to interest-rate limitation	80, 868, 252, 100. 00
Nonmarketable obligations:	
United States savings bonds:	
Series E — $38, 057, 712, 175. 18	
Series F — 1, 833, 827, 063. 26	
Series G — 9, 454, 307, 700. 00	
Series H — 3, 392, 413, 000. 00	
Series J — 821, 332, 225. 79	
Series K — 2, 263, 368, 000. 00	
Total United States savings bonds	55, 822, 960, 164. 23
Statutory authority: 2d Liberty Bond Act, Sept. 24, 1917, ch. 56, sec. 22, added Feb. 4, 1935, ch. 5, sec. 6, 49 Stat. 21, as amended; 31 U. S. C. 757c. The act provides in pertinent part: "SEC. 22. (a) The Secretary of the Treasury, with the approval of the President, is authorized to issue * * * United States Savings Bonds. "(b) * * * the issue price of savings bonds and the terms upon which they may be redeemed prior to maturity *shall be such as to afford an investment yield not in excess of three per centum, compounded semiannually.*	

[1] Act of Sept. 24, 1917, ch. 56, sec. 11 (40 Stat. 288, 292; 31 U. S. C. 764), repeals unexecuted authority of the act of Aug. 5, 1909.

Public debt outstanding Feb. 28, 1957; interest-bearing debt—Continued

		Amount
Interest rates subject to limitation—Continued		
Public issues—Continued		
Nonmarketable obligations—Continued		
Depository bonds, First series		$248, 352, 000. 00
Statutory authority: Same as for marketable Treasury bonds, supra.		
Treasury bonds, investment series:[2]		
Series A–1965	$881, 910, 000. 00	
Series B–1975–80	10, 596, 334, 000. 00	
Total investment series bonds		11, 478, 244, 000. 00
Total nonmarketable obligations subject to interest-rate limitation		67, 549, 556, 164. 23
Total public issues subject to interest-rate limitation		148, 417, 808, 264. 23
Special issues:		
Civil-service retirement fund:		
Series 1957 (certificates[3])		62, 472, 000. 00
Federal old-age and survivors insurance trust fund:		
Series 1957 (certificates[3])		19, 067, 270, 000. 00

Civil-service retirement fund, Series 1957 — Statutory authority: Act of May 22, 1920, ch. 195, sec. 8, 41 Stat. 614, 618, as amended by act of July 31, 1956, ch. 804 (Public Law 854, 84th Cong., 2d sess., sec. 401).

The act provides in pertinent part:

"The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act (40 Stat. 288), as amended, are hereby extended to authorize the issuance at par of public debt obligations for purchase by the (civil service retirement and disability) fund. Such obligations * * * shall * * * *bear interest at a rate equal to the average rate of interest* computed as to the end of the calendar month next preceding the date of such issue, *borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of five years from the date of original issue.*"

Federal old-age and survivors insurance trust fund, Series 1957 — Statutory authority: Act of Aug. 14, 1935, ch. 531, sec. 201 (b), 49 Stat. 620, 622; 42 U. S. C. 401 (c), as amended by act of Aug. 1, 1956, ch. 836 (Public Law 880, 84th Cong., 2d sess., sec. 101 (e)).

The act provides in pertinent part:

"It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds (Federal Old-Age and Survivors Insurance Trust Fund and Federal Disability Insurance Trust Fund) as is not, in his judgment, required to meet current withdrawals in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States * * * Such obligations * * * shall * * *

[2] Statutory authority: Same as for marketable Treasury bonds, supra.
[3] Issued under authority of the Second Liberty Bond Act, Sept. 24, 1917, ch. 56, sec. 5 (a), 40 Stat. 288, 290, as amended; 31 U. S. C. 754 (a).

Public debt outstanding Feb. 28, 1957; interest-bearing debt—Continued

Interest rates subject to limitation—Continued
Special issues—Continued
Federal old-age and survivors insurance—Con.
Series 1957 (certificates)—Continued

bear interest at a rate equal to the average rate of interest, computed as to the end of the calendar month next preceding the date of such issue, *borne by all marketable interest-bearing obligations of the United States then forming a part of the Public Debt that are not due or callable until after the expiration of five years from the date of original issue; * * *.*"

	Amount
Highway trust fund:	
Series 1957 (certificates) [3]	$112, 150, 000. 00

Statutory authority: Act of June 29, 1956, ch, 462, sec. 209 (e) (2), 70 Stat. 374, 387. Public Law 627, 84th Cong., 2d sess.)

The act provides in pertinent part:

"It shall be the duty of the Secretary of the Treasury to invest such portion of the [Highway] Trust Fund * * * in interest-bearing obligations of the United States, * * * The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the Trust Fund. *Such special obligations shall bear interest at a rate equal to the average rate of interest,* computed as to the end of the calendar month next preceding the date of such issue, *borne by all marketable interest-bearing obligations of the United States then forming a part of the Public Debt; * * *"*

Railroad retirement account:	
Series 1960 (notes) [4]	3, 491, 976, 000. 00

Statutory authority: Act of Aug. 29 1935, ch. 812, as added June 24, 1937, ch. 382, sec. 15 (b) 50 Stat. 307. 316; 45 U. S. C. 228o (b).

The act provides in pertinent part:

"At the request and direction of the [Railroad Retirement] Board, it shall be the duty of the Secretary of the Treasury to invest * * * in interest-bearing obligations of the United States * * * The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the account. *Such special obligations shall bear interest at the rate of 3 per centum per annum.*"

Unemployment trust fund:	
Series 1957 (certificates) [3]	7, 940, 817, 000. 00

Statutory authority: Act of Aug. 14, 1935, ch. 531, sec. 904 (b), 49 Stat. 620, 641, as amended; 42 U. S. C. 1104.

The act provides in pertinent part:

"It shall be the duty of the Secretary of

[3] See p. 53.

[4] Issued under authority of the 2d Liberty Bond Act, supra, as added Mar. 3, 1919, ch. 100, sec. 1, 40 Stat. 1309; 3 U. S. C. 753.

Public debt outstanding Feb. 28, 1957; interest-bearing debt—Continued

Interest rates subject to limitation—Continued

Special issues—Continued

Unemployment trust fund—Continued

Series 1957 (certificates)—Continued

the Treasury to invest * * * in interest-bearing obligations of the United States. * * * The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the [Unemployment Trust] Fund. *Such special obligations shall bear interest at a rate equal to the average rate of interest*, computed as of the end of the calendar month next preceding the date of issue, *borne by all interest-bearing obligations of the United States then forming part of the Public Dept; * * *.*"

	Amount
Veterans special term insurance fund:	
Series 1957 (certificates) [3]	$29,834,000.00

Statutory authority: Act of Apr. 25, 1951, ch. 39, sec. 621 (b), 65 Stat. 33, 37; 38 U. S. C. 822 (b).

The act provides in pertinent part:

"The Administrator [of Veterans' Affairs] is authorized to invest, and the Secretary of the Treasury is authorized to sell and retire, special interest-bearing obligations of the United States * * *: *provided*, That *the rate of interest on such obligations shall be fixed by the Secretary of the Treasury at a rate not exceeding the average interest rate on all marketable obligations of the United States Treasury outstanding as of the end of the month preceding the date of issue of this special obligation.*"

Total special issues subject to interest-rate limitation	179,122,327,264.23
Total interest-bearing debt subject to interest-rate limitation	179,122,327,264.23

Interest rates not subject to limitation:

Public issues:

Marketable obligations:

Treasury bills	25,875,673,000.00

Statutory authority: 2d Liberty Bond Act, Sept. 24, 1917, ch. 56, sec. 5 (a), amended June 17, 1929, ch. 26, 46 Stat. 19; 31 U. S. C. 754 (a).

The act provides in pertinent part:

" * * * the Secretary of the Treasury is authorized * * * to issue * * * (1) certificates of indebtedness of the United States * * * *at such rate or rates of interest * * * as he may prescribe;* or (2) Treasury bills *on a discount basis and payable at maturity without interest* * * * Certificates of indebtedness and Treasury bills * * * shall be in such form or forms * * * and be payable at such time not exceeding one year from the date of issue, and may be re-

[3] See p. 53.

Public debt outstanding Feb. 28, 1957; interest-bearing debt—Continued

Interest rates subject to limitation—Continued
Public issues—Continued
Marketable obligations—Continued
Treasury bills—Continued
deemable before maturity upon such terms and conditions as the Secretary * * * may prescribe."

	Amount
Certificates of indebtedness	$20, 215, 674, 000. 00
Statutory authority: See "Treasury bills," above.	
Treasury notes	33, 939, 806, 000. 00
Statutory authority: 2d Liberty Bond Act, Sept. 24, 1917, ch. 56, sec. 18, as added Mar. 3, 1919, ch. 100, sec. 1, 40 Stat. 1309, as amended; 31 U. S. C. 753 (a).	

The act provides in pertinent part:

"The Secretary of the Treasury, with the approval of the President, is authorized, * * * to issue * * * notes of the United States * * * in such form or forms * * * *at such rate or rates of interest as the Secretary of the Treasury may prescribe*, and each series of notes * * * shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe * * *."

Total public issues (all marketable) not subject to interest-rate limitation	80, 031, 153, 000. 00

Special issues:

NOTE.—The laws under which funds of the following-described trust or other Government investment accounts have been deposited in the Treasury and invested in interest-bearing securities of the United States do not set any limitation as to the rate of interest which shall be paid on such funds.

All securities (certificates and notes) listed below which have been issued to the various trust or other funds were issued under authority of the 2d Liberty Bond Act, Sept. 24, 1917, ch. 56, 40 Stat. 288, as amended; 31 U. S. C. 753, 754. (See p. 6.)

Canal Zone, Postal Savings System:	
Series 1957, 1960 and 1961 (notes)	900, 000. 00
Statutory authority: Act of June 13, 1940, ch. 358, 54 Stat. 389; Canal Zone Code, title 2, sec. 279.	
Civil-service retirement fund:	
Series 1957 (certificates [3])	6, 727, 861, 000. 00
Series 1957 (notes [4])	415, 984, 000. 00
Statutory authority: Act of May 22, 1920, ch. 195, sec. 8, 41 Stat. 614, 618, as amended, 5 U. S. C. 720 (now covered by 5 U. S. C. 2267 (c)).	
Federal Deposit Insurance Corporation:	
Series 1957 to 1961 (notes [3])	720, 500, 000. 00
Statutory authority: Act of Sept. 21, 1950, ch. 967, sec. 2, 64 Stat. 873, 888, as amended; 12 U. S. C. 1823 (a).	

For footnotes 3 and 4 see pp. 53, 54.

Public debt outstanding Feb. 28, 1957; interest-bearing debt—Continued

	Amount
Interest rates not subject to limitation—Continued	
Special issues—Continued	
Federal home-loan banks:	
Series 1957 to 1959 (notes [4])	$50,000,000.00
Statutory authority: Act of July 22, 1932, ch. 522, sec. 11 (j), 47 Stat. 725, 734, as amended; 12 U. S. C. 1431 (h).	
Armed services housing mortgage insurance fund:	
Series 1960 and 1961 (notes [4])	3,200,000.00
Statutory authority: Act of Aug. 11, 1955, ch. 783, sec. 801, 69 Stat. 635, 646.	
Housing insurance fund:	
Series 1960 and 1961 (notes [4])	2,300,000.00
Statutory authority: Act of Feb. 3, 1938, ch. 13, sec. 3, 52 Stat. 8, 16, as amended; 12 U. S. C. 1713 (p).	
Mutual mortgage insurance fund:	
Series 1958 and 1960 (notes [4])	26,421,000.00
Statutory authority: Act of Aug. 10, 1948, ch. 832, sec. 710, 62 Stat. 1268, as amended; 12 U. S. C. 1747i.	
National defense housing insurance fund:	
Series 1959–61 (notes [4])	2,370,000.00
Statutory authority: Act of Sept. 1, 1951, ch. 378, sec. 905 (a), 65 Stat. 293, 300; 12 U. S. C. 1750d (a).	
Sec. 220, housing insurance fund:	
Series 1959 (notes [4])	550,000.00
Statutory authority: Act of Aug. 2, 1954, ch. 649, sec. 220 (g), 68 Stat. 590, 599; 12 U. S. C., Supp. III, 1715k (g).	
Sec. 221, housing insurance fund:	
Series 1959 (notes [4])	750,000.00
Statutory authority: Act of Aug. 2, 1954, ch. 649, sec. 221 (h), 68 Stat. 590, 603; 12 U. S. C., Supp. III, 1715l (h).	
Servicemen's mortgage insurance fund:	
Series 1959–61 (notes [4])	1,800,000.00
Statutory authority: Act of Aug. 2, 1954, ch. 649, sec. 222 (f), 68 Stat. 590, 604; 12 U. S. C., Supp. III, 1715m (f).	
Title I, housing insurance fund:	
Series 1958 to 1961 (notes [3])	1,950,000.00
Statutory authority: Act of Apr. 20, 1950, ch. 94, sec. 102, 64 Stat. 48, 50, as amended; 12 U. S. C. 1706c (i).	
Title I, insurance fund:	
Series 1959 and 1960 (notes [4])	43,400,000.00
Statutory authority: Act of June 3, 1939, ch. 175, sec. 2 (f), 53 Stat. 804, 805, as amended; 12 U. S. C. 1703 (f).	
War housing insurance fund:	
Series 1960 and 1961 (notes [3])	18,950,000.00
Statutory authority: Act of Mar. 28, 1941, ch. 31, sec. 605 (a), 55 Stat. 55, 61, as amended; 12 U. S. C. 1740 (a).	
Federal Savings and Loan Insurance Corporation:	
Series 1958 to 1961 (notes [2])	100,190,000.00
Stautory authority: Act of June 27, 1934, ch. 847, sec. 402, 48 Stat. 1256, as amended; 12 U. S. C. 1725 (d).	

For footnotes 3 and 4 see pp. 53, 54.

Public debt outstanding Feb. 28, 1957; interest-bearing debt—Continued

	Amount
Interest rates subject to limitation—Continued	
Special issues—Continued	
Foreign Service retirement fund.	
Series 1957 (certificates [2])	$19,528.000.00
Series 1957 (notes [4])	1,907,400.00
Statutory authority: Act of Aug. 13, 1946, ch. 957, sec. 863, 60 Stat. 999, 1024; 22 U. S. C. 1103.	
Government life-insurance fund:	
Series 1957 (certificates [3])	1,183,833,000.00
Statutory authority: Act of June 7, 1924, ch. 320, sec. 17, 43 Stat. 607, 612, as amended; 38 U. S. C. 443.	
National service life-insurance fund:	
Series 1957 to 1961 (notes [4])	5,438,068,000.00
Statutory authority: Act of Oct. 8, 1940, ch. 757, sec. 605 (b), 54 Stat. 974, 1012; 38 U. S. C. 805.	
Postal Savings System:	
Series 1960 (notes [3])	4,800,000.00
Statutory authority: Act of May 18, 1916, ch. 126, sec. 2, 39 Stat. 159, 160; 39 U. S. C. 759.	
Total special issues not subject to interest-rate limitation	14,765,262,400.00
Total interest-bearing debt not subject to interest-rate limitation	94,796,415,400.00
Total interest-bearing debt	273,918,742,664.23
Total matured debt on which interest has ceased	640,711,233.14
Total debt bearing no interest	1,709,707,101.98
Total gross public debt	276,269,160,999.35

For footnotes 3 and 4 see pp. 53, 54.

Senator WILLIAMS. Do you have the figure readily available there which would show the amount of the $277 billion debt which is held by Government trust funds?

Mr. BURGESS. It is approximately $54 billion.

Senator WILLIAMS. And to that extent, a change in interest rates would not be too effective, except as it would reduce appropriations in one way or the other.

Mr. BURGESS. That is correct.

Senator WILLIAMS. Do you have figures in your department which would show the total assessed valuations of all property in this country?

Mr. BURGESS. I'm afraid we do not.

The CHAIRMAN. I think the Secretary of Commerce has that figure.

Senator WILLIAMS. I wonder if we could have those figures furnished for the committee record.

Mr. BURGESS. The assessed value for tax purposes?

Senator WILLIAMS. The assessed value of all the property in the country. And if you have any breakdown on that——

Mr. BURGESS. We will make a note of that and see if anybody has had a stab at it.

(The material requested is as follows:)

There are no current figures available as to the total assessed value of property in the United States. The last decennial census in which such figures were compiled was the 1942 census which showed assessed values as of 1940. The census of 1957 which is now in process is collecting figures on total assessed values as of the year 1956. The Division of Governments, Bureau of the Census, estimates that these figures will be available for release in July or August 1957.

Assessed value of property in the United States, 1940, as reported in Bureau of the Census, Financial Statistics of States, 1940

Real property	$108,823,000,000
Personal property	26,839,000,000
Mixed property	7,620,000,000
Total	143,282,000,000

The CHAIRMAN. I think the Secretary of Commerce has it for real estate and land and buildings. I don't know whether they have it for stocks and bonds.

Senator WILLIAMS. I have no further questions.

Senator LONG. Mr. Secretary, does the administration have any policy with regard to high or low interest rates, as far as the Administration is concerned?

Mr. BURGESS. No, sir.

Senator LONG. It has no policy with regard to high or low interest rates?

Mr. BURGESS. No, sir.

Senator LONG. Doesn't the level of interest rates affect a great number of people in this Nation?

Mr. BURGESS. Well, we have a special agency to watch interest rates and exercise the governmental powers on it. We have the Federal Reserve System——

Senator LONG. Do I understand correctly that if the Federal Reserve System raises the interest rates to the extent that it adversely affects 100 million people in this country, that the administration feels it is privileged to be totally oblivious of that?

Mr. BURGESS. I wouldn't say that. We are in contact with the Federal Reserve right along. We give them our opinion. But a distinguished Senator once said that good fences make good neighbors, and we try to follow that definition.

Senator DOUGLAS. Well, since I was the author of that phrase, may I say that the fences were designed to compel the Treasury to determine what the interest rate which it pays should be and to let the Federal Reserve determine the total quantity of bank credit. So it is the responsibility of the Treasury to determine the interest rate, or try to find out what the interst rate is.

Now, I have this page before me to which the Secretary refers. It is the minority report of the Patman committee. Since the Under Secretary stated this, I would like to have it made a part of the record and I will comment on it in a few minutes.

Senator LONG. You made the statement that you felt that the Board had a right to look to the Full Employment Act to give it power to exercise stability over the economy. Did it occur to you that perhaps when Congress passed a law that the veterans should have mortgage money available at 4½ percent, that that might also have been a directive to the Federal Reserve Board?

Mr. BURGESS. No; I don't think so.

Senator LONG. You do not feel that the Federal Reserve Board has any basis upon which to take a look at that law when it was passed?

Mr. BURGESS. I do not understand that that was a mandate that that should be the rate. That would be a pretty futile sort of thing for the Congress to declare that an interest rate is at a given point, because that may or may not be one that can be maintained.

Senator LONG. You do not know of any express mandate with regard to the Employment Security Act either; do you?

Mr. BURGESS. Well, I think it is pretty clear. I am speaking of the——

Senator LONG. Does that act make any reference to the Federal Reserve Board?

Mr. BURGESS. I think by implication it applies to all Government agencies.

Senator LONG. You said it applies to all Government agencies. It would also apply to the Treasury, then; would it not?

Mr. BURGESS. Yes. And we use what powers we have for economic stability.

Senator LONG. Mr. Secretary, it seems to me that it is important to the people of this country how much money they have to pay in interest to buy a home. My impression was that when this administration came in a man could buy a home on a long-term mortgage and pay about $7,000 interest.

Senator KERR. On a $10,000 loan.

Senator LONG. My impression now is that he pays more than $11,000 on that house. Is that a matter of some concern to the administration?

Mr. BURGESS. There are two questions there to be concerned about. One is the interest he pays, and the other is the price he pays for the house. That is, if you follow policies that are inflationary, so that you have increased the price of the house, it does just as much damage as increasing the interest rate.

Senator LONG. Now, just a moment. I'm afraid you made a mistake in that respect. If currency is inflated, the man winds up finding it easier to pay off the house. I am not advocating an inflation of currency for that purpose. But he is not hurt in either respect as far as paying for his house. If the currency is inflated, it makes it easier.

Mr. BURGESS. No; he has to pay a higher price for the house then.

Senator LONG. If he had a $10,000 mortgage outstanding and the currency is inflated, it is much easier to pay for the house. What he has to worry about is the currency being deflated as far as the mortgage on the house.

Mr. BURGESS. I am talking about a man buying a house.

Senator LONG. Assuming there is an outstanding mortgage, he is not injured by inflation, insofar as the mortgage.

Mr. BURGESS. No; he tends to benefit from inflation.

Senator LONG. Now, as far as raising the interest rate is concerned, however, he is injured to the extent that that interest rate was increased, and I understand on a 25-year mortgage he would be paying about an extra $4,000 if you increased the rate from 4½ to 6 percent.

Mr. BURGESS. That may be right, but rates haven't gone up to 6 percent generally.

Senator LONG. Now, from what I understand, you are taking no position. You say the administration does not approve or disapprove of the interest rate increases. It just accepts no responsibility for them. Or did I misunderstand your statement?

Mr. BURGESS. Well, we like to see people get their money at as low an interest rate as they can. As a person managing the national debt, I would like to. But if you have got an increase in interest rates due to a supply and demand situation, as you have, you certainly do not want to advocate pumping a lot more money in. You yourself said you did not advocate that—in order to keep the rates down. Because that is directly inflationary and would increase the prices of these houses that the veterans have to pay.

Senator LONG. Well, as I understand, you are making an argument for these high interest rates. But I want to know whether the administration approves of them or not. The administration certainly appoints some members on that Board. And I was under the impression that if they were not acting in the national interest, they should take it up with the Board.

Mr. BURGESS. The great majority of the Board was appointed by the previous administration.

Senator LONG. And they also have to be reappointed from time to time; do they not? From time to time their terms expire.

Mr. BURGESS. Every 14 years.

Senator LONG. Furthermore, if that Board is not exercising its authority consistent with the national interest and the national welfare, the administration could even propose to Congress that there be some modification of the powers of that Board, or even some new appointments.

Mr. BURGESS. Our judgment is they have been doing a pretty good job.

Senator LONG. If I understand you, this administration approves of the way the Board is exercising its responsibilities.

Mr. BURGESS. In a general way; yes. We do not pretend to make a decision on every movement.

Senator DOUGLAS. I do not want to interfere with you, Senator, but since the Under Secretary made a reference to a point of mine which he implies corroborates a view of his own, I wonder if I might read it into the record.

The Secretary said that the interest rate was a function of the Federal Reserve Board, and he quoted an anonymous Senator, namely, myself, who had approved of that, in the sense that good fences make good neighbors.

Page 75 of the document entitled "Monetary Policy and the Management of the Public Debt," which was a report of the Subcommittee on General Credit Control of the Joint Economic Committee, 82d Congress, 2d session, Document 163, reads in part as follows:

> The Secretary of the Treasury has a very great responsibility in advising the Congress with regard to problems in the fields of taxation and borrowing. He had a profound responsibility in arranging the maturities of the public debt, the terms and conditions of debt instruments, the coupons that he will offer to the market, and related matters.

Obviously this refers to the rate of interest which has to be set.

The Secretary of the Treasury should be (as I believe he is) solely and exclusively accountable in these fields, and he should not be admonished, cajoled, or heckled with volunteered advice by the Federal Reserve System.

On the other hand, the problem of the Federal Reserve System is to regulate the quantity of reserve money that it creates, either through its own investment account or lending activities, and to do so, is I believe necessary, in accordance with principles established in law. It, in turn, should not be admonished, cajoled, or heckled by volunteered advice from the Treasury.

Three paragraphs later I use the sentence "Good fences make good neighbors" in reference to this distinction between the responsibilities of the Treasury and the Federal Reserve Board.

I think the Secretary is confusing the issue and making the Federal Reserve Board the sole group responsible, or even the primary group responsible, for the fixation of interest rates. And while I do not wish to anticipate the questioning of my colleagues, I want to say I think one will find that the Treasury not merely follows the market rate of interest, as is the contention of the Under Secretary and, I believe, of the Secretary, but that since Government obligations involve approximately one-third of the total volume of public and private debt, that the terms upon which this one-third are reinvested from time to time has a very real effect in determining the market rate.

Senator LONG. I have here this document on monetary policy, hearings before the Subcommittee on Economic Stabilization of the Joint Economic Committee conducted December 10 and 11, 1956, printed in 1957. In it Mr. Martin says on page 78 [reading]:

Our discount rate has tended to follow the market, not to lead the market, in my judgment. We have attempted minimum interference in the market, not trying to make the rates.

Then I find a quotation on page 79, from a press report on President Eisenhower:

President Eisenhower yesterday disclaimed responsibility for the Federal Reserve Board credit-tightening moves, declaring that the agency is independent—

and goes on to state:

President Eisenhower said the Federal Reserve Board is not under my control, and I think it is partly that Congress did set it up as an independent agency.

Well, the President disclaims any responsibility. The Federal Reserve Board disclaims any responsibility. And you, on behalf of the Treasury, disclaim any responsibility. Do you mind straightening me out on that, as to just who does have some responsibility? Because it does affect 170 million people.

Mr. BURGESS. Mr. Martin did not say he had no responsibility, Senator. He said the Federal Reserve discount rate tended to follow the market. But the Federal Reserve Open Market Committee also has the power of changing the volume of money through open-market operations and through discount policy other than rate policy. So that I think he would not deny that the action of the Federal Reserve System has a substantial effect on the market.

Senator LONG. My impression has been that the number of people who really control the interest situation, the money market, in this country, is very small in number, if the Federal Reserve Board does not care to exercise its responsibilities. Perhaps I am incorrect in that, but I got that impression at one time or another. Let's see what it has accomplished as far as holding down the cost of living.

Senator GORE. Would the Senator yield? I think the record should show, if the Senator would permit, that the bellwether in the higher interest rate, tight money policy was the 3¼-percent, billion-dollar bond issue that shocked the whole monetary system, and within a few days was $7 or $8 above par. No one can claim that the Treasury of the United States, with a weekly maturity of public debt in excess of the total national debt at the time the Federal Reserve Act was passed, can disclaim responsibility or can act irresponsibly in this field. It is the responsibility of this administration. It is the responsibility of the Secretary of the Treasury. And he has exercised that responsibility and has deliberately pushed interest rates up by issuing securities of the Government at a rate higher than is necessary to market the securities.

When the law of supply and demand is depended upon, and the Federal Reserve arbitrarily limits supply and the Treasury creates demand, there is but one course for interest rates to follow, and that is upward.

Senator LONG. Would you care to comment on that, Mr. Secretary?

Mr. BURGESS. No; I don't think so, except to point out that the 3¼'s were below par on their issue date and stayed below for quite some time.

Senator LONG. Well, now, if I understand correctly, this high-rate policy which has been urged on us is a way of discouraging people from borrowing money, is that correct, on the theory that borrowing money is inflationary?

Mr. BURGESS. No, sir; that does not represent my opinion at all. I think that, when supply and demand forces these interest rates up, that has its natural effect of tending to limit borrowing a little bit, tending to encourage saving, and tending to correct itself.

The Federal Reserve at times intervenes in a modest way. But, in the main, we believe in this country in private enterprise and in free markets, and they have been operating that way.

Senator LONG. If I understand correctly, it has been urged that these increases in interest rates are good for our economy. I understand that has been argued. And I would like to get that straight for the record. Is that the contention of the administration or isn't it?

Mr. BURGESS. Well, I can say that if we had intervened and tried to keep them artificially low, I could not conceive anything worse for our economy, because it would have led us right into inflation.

Senator GORE. Isn't the converse true?

Mr. BURGESS. I think, when the law of supply and demand is working and tends to force these rates up, that is a natural force that tends to correct the difficulties of the situation.

Senator LONG. Well, of course, the Government does have the power to keep down interest rates.

Mr. BURGESS. No, sir.

Senator LONG. Speaking of the Government as a whole.

Mr. BURGESS. No, sir.

Senator LONG. The Federal Reserve Board has power in that respect. The Federal Reserve Board has power to rediscount rates, it has power on Government bonds, and the Treasury has power to state the price at which it will issue obligations of this Government. Those are all powers that reside in the Government, in one agency or another.

Mr. BURGESS. Now, let's take that apart a little bit. The Federal Reserve has power to influence rates, and that is a limited power, because if they do it by pushing out a lot more money, they do it at the risk of inflation. And as far as the Treasury is concerned, you refer to fixing the rates at which we sell new securities. We have to sell them at rates where the buyer will take them. And we always put out our securities at the lowest rate at which we think they can be bought.

Senator LONG. Tell me how interest rates kept stable during World War II and during the Korean war.

Mr. BURGESS. By pegging the market and by bringing about inflation.

Senator LONG. You say that that is what caused inflation?

Mr. BURGESS. I don't say it alone. A lot of other people have also said it.

Senator LONG. Did it ever occur to you that when the Government is devoting its productive capacity, when this Nation is directing its capacity into producing for war and materials of war and denying the civilian economy, that those civilian economy needs and wants and demands are the inflationary pressures with which you have to contend?

Mr. BURGESS. Well, sir, I would like to ——

Senator LONG. Is not this much more important than the interest rate with which you have to contend?

Mr. BURGESS. I would like to put into the record a statement made by the distinguished Senator from Illinois.

Senator GORE. Is that your sole defense?

Mr. BURGESS. Well, it is a pretty good one.

Senator GORE. I have not heard you use another.

Mr. BURGESS. He refers to this pegging of the interest rate. This is from the Congressional Record of February 22, 1951.

Senator LONG. That was during the war, was it not?

Mr. BURGESS. No, sir, that was after the war.

Senator LONG. 1951?

Mr. BURGESS. Yes.

Senator LONG. I was under the impression that some people called that Korean fight a war.

Mr. BURGESS. Yes; this is during that war. My mind went back to the Second World War. [Reading:]

The cost to the Government and to the people—

that is, of pegging interest rates—

have been far greater than the gains which we have made from a lower interest rate. The increase in prices since Korea are probably already adding to the Federal Government costs at the approximate rate of $6 billion a year.

Senator LONG. Do you feel that it is desirable to discourage people from borrowing money at this time by raising interest rates?

Mr. BURGESS. By allowing the market rates to rise, and not interfering with them, so that the rate takes its natural position—and some people are discouraged from borrowing, I think it is probably a very good thing. I think we tend to borrow too much and save a little too little in this country. That is one reason why interest rates are high. And if by higher rates you induce people to save a little more and borrow a little less, I think it is a good thing.

Senator LONG. While all these interest rates have been increased—for example, since 1953 the discount rate has increased 100 percent, from 1.5 up to 3—I notice that consumer debt has advanced from $31.243 billion up to $41.863 billion. That has not discouraged consumers from going deeper into debt, has it? It has not prevented it.

Mr. BURGESS. Well, it has not prevented it. We have gone on. We have had a pretty prosperous economy. People have borrowed most of the money they have needed, and maybe a little more.

Senator LONG. Consumer debt has increased by one-third while the interest rates have increased by 100 percent at the rediscount level.

Mr. BURGESS. That is right.

Senator LONG. Let's look at the cost of living and see the extent to which it has helped the cost of living. Just looking at the economic indicators—which is the most convenient thing I have available for that purpose—I notice that consumer prices in 1953 were based on an average of 113.5, as of December.

Mr. BURGESS. What year was that?

Senator LONG. 1952. I was using 1952.

Mr. BURGESS. 113.5.

Senator LONG. Now, as of December, last year, which is the last I have—and it is higher since then—the price was then at 118, and continued to go up. So the cost of living is up 5 points.

Mr. BURGESS. Most of it in the past 6 months.

Senator LONG. Well, it is up 5 points since 1952. And it has continued to advance the last 2 months, I understand.

Mr. BURGESS. The fact is these figures make a practically flat line in 1953, 1954, and 1955. To 1939 they were 59. They were practically doubled in 1952. Since then the figures are, 1952, 113.5; 1953, 114.4; 1954, 114.8; 1955, 114.5; 1956, 116.2. This is the flattest the cost of living has been for a great many years in this country. In other words, these policies have, to the extent they have been effective, helped to stabilize the cost of living. Just in the past few months it has gone up.

Senator LONG. From 1952, that is 4 percent, going at the rate of 1 percent a year.

Mr. BURGESS. That is all in the past year.

Senator LONG. Four percent in 4 years.

Mr. BURGESS. For 3½ years it was practically flat. That is the best record on stabilizing the cost of living that has been made for a long time.

Senator LONG. Well, now, there has been a 4 percent increase from 1952 to the end of 1956, has there not? It is a straight line, going up.

Mr. BURGESS. That is a 4 percent increase in the past year.

Senator LONG. Now, on looking at the items that have gone up, Mr. Secretary, I see that one of the items leading the way on the increase is the cost of housing. That has gone up from 114 to 123, which is a 9 percent increase, as of December. Now, one of the prinicpal costs of housing is the interest that one must pay on the mortagage. Is that not correct?

Mr. BURGESS. No, that is a very small part of the cost of housing. As a matter of fact, there has been an inflation in the cost of building. I think we overbuilt in 1955. We tried to build a few more houses than we had the labor and the materials to build, and the prices went up.

Senator LONG. Well, when you increase the cost of paying off the mortgage by 50 percent, that increases the cost of housing, does it not?

Mr. BURGESS. We did not increase the cost of the mortgage. That was the demand.

Senator LONG. That has been done.

Mr. BURGESS. Do you know how many mortgages were written in the last year? Total mortgaged debt owed by individuals went up by $14 billion, and gross mortgages written were double that.

Senator LONG. People are buying new houses every day. And every time they buy a new house, they have to refinance.

Mr. BURGESS. Not every time.

Senator LONG. Now, here is the cost of rent. That is up from 117 to 134 percent. That is an increase of 17 points, or 16½ points, to be more exact. Isn't the cost of interest one of the major items going into the cost of rent?

Mr. BURGESS. I would not say it was necessarily that. What happened to rent I think pretty clearly is that that is one of those things that moves rather slowly. In a great many places you have had rent control, and we have gradually been removing that, and the cost has gradually gone up. The present cost of servicing apartment houses has gone up, the cost of labor and so on.

Senator GORE. Will the Senator yield? Did I correctly understand the statement by the Secretary to imply that an increased interest rate, which makes the total cost of a house $17,000 instead of $12,000 does not represent inflation in the total cost of the house?

Mr. BURGESS. Of course, it is inflation of the price, yes. I don't think I said it was not inflation.

The CHAIRMAN. Will the Senator yield. I would like to ask the pleasure of the committee as to how we shall proceed.

Senator ANDERSON. We certainly should not ask the witness to go on any longer.

The CHAIRMAN. Is it the pleasure of the committee to meet this afternoon or not?

Senator GORE. Mr. Chairman, I have no objection to the committee meeting. I happen to have another committee meeting and it is doubtful that I can atend. But I have no objection.

Senator DOUGLAS. Mr. Chairman, I want to comment on the insertion which was made in my absence by Mr. Burgess in the form of a speech I delivered in the Senate on February 22, 1955. I think the quotation the Secretary gave was accurate. But I would like to point out that the speech was made at a time when the Korean war was on, when there was a 10-percent increase in prices. I was then asking that we restrain the total increase in credit in order to stabilize our prices. I still feel that such action was proper.

This, however, does not mean today that to the degree that the Treasury has increased the interest rate by leading rather than following the market that it has been following a correct policy. And while this is too big a subject to go into at this time, I hope that when we reconvene I may have an opportunity to ask some questions. I think it is clear that the 1953 increase of the interest rate from 2¾ to 3¼ percent, when the new administration came into power not only led the market, but resulted in a general increase in interest rates. Now, the problems since then are more subtle. But

I think that it can be demonstrated that the Treasury has not merely followed the competitive market, but has influenced it upward.

So I want to say I am very happy that I had not got out of the building when Mr. Burgess made his statement. I think he thought I was walking faster than I actually was. But I was still in the building, I was caught on the telephone, and I am glad to set the record straight. I am not a hit-and-run witness.

The CHAIRMAN. The Chair would like to hear from the Senators who have not had an opportunity to question Mr. Burgess, whether they desire him to come back this afternoon, or whether we should proceed with the other witnesses.

Senator SMATHERS. It makes no difference to me, Mr. Chairman. I will be here either this afternoon or tomorrow.

The CHAIRMAN. The question is whether you desire Mr. Burgess to return and testify.

Senator SMATHERS. What is Mr. Burgess's convenience. Would he rather complete his testimony today?

Mr. BURGESS. I would rather come back in the morning, if it is agreeable. I have several important things this afternoon that I am supposed to do.

Senator LONG. I have a few more questions to ask, but tomorrow morning would be satisfactory to me.

The CHAIRMAN. Senator Douglas, is that satisfactory to you, to have Mr. Burgess come back tomorrow?

Senator DOUGLAS. Yes, sir.

Senator ANDERSON. That is satisfactory to me also, Mr. Chairman.

Senator DOUGLAS. I would like to make one final remark for the record—that the Treasury seems to try to use me when it is to their interest and then tries to misuse me when it is to their interest.

The CHAIRMAN. The committee will recess until 2:30 this afternoon, when we will hear the other witnesses scheduled for today.

(Whereupon, at 12:50 p. m., the committee was recessed to reconvene at 2:30 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

The first witness is Dr. Seymour E. Harris, of Harvard University.

Dr. Harris, will you take a chair, sir, and proceed in your own way. The other Senators will be in shortly.

STATEMENT BY SEYMOUR E. HARRIS, CHAIRMAN OF THE NEW ENGLAND GOVERNORS' TEXTILE COMMITTEE AND CHAIRMAN OF THE DEPARTMENT OF ECONOMICS OF HARVARD UNIVERSITY

Mr. HARRIS. Senator Byrd and gentlemen, may I start off by saying that though I am chairman of the New England Governors' Textile Committee and chairman of the department of economics of Harvard University, I am not representing either of these institutions. The New England Governors' Textile Committee did come out with a statement on the effects of the high rates on the local government, and this is a statement I helped to prepare, and in that sense you might say I represent their position.

But I would not want them to take the responsibility for some of the things I say.

Senator Byrd, I got word about these hearings rather late, and so all I could do is present a rather short statement; but I have been thinking about it a great deal since and have since had the bill and the hearings.

I might say, Senator, you do not know how uneasy an economist gets when he hears hearings of this kind and cannot say anything.

And I jotted down a few things which I hope you will allow me to say about Mr. Burgess' testimony this morning. I think it might help you a little in interrogating him tomorrow.

The CHAIRMAN. Any statement you please, sir.

Mr. HARRIS. Now, Senator, I would like to begin by reading a statement which appears in the House report on maximum interest rates, because I think this, to some extent, suggests what the problem really is.

If you have that report, it is on page 3, at the bottom.

It is a report; it is a statement attributed to the Secretary of the Treasury Humphrey, and this is a statement that bothered me a great deal when I read it; and I would like to suggest that there is a case for higher rates of interest for these E-bonds, though generally I am taking the position that the high rate money policy has not been effective and has probably been costly.

But if you are going to have a high money rate policy, then there is something to be said for increasing the rate on these E-bonds.

Now, let me read and perhaps comment on this statement of Secretary Humphrey's, which was made before the Joint Economic Committee.

Now, I understand that, generally, if you issue a statement trying to sell securities, you give a full statement, and you do not keep out any relevant information. This is the criteria upon which the SEC operates, and I think any private corporation which issues a security must tell not only part of the truth but the whole truth.

This is what Secretary Humphrey says [reading]:

> Right now it—

that is the E savings bonds—

> is the finest security in the world. There is no security as good as it is.

Now, in one sense that is true, because if you buy a Government bond, you get your money back; there is no question about that; there never has been any question about that.

But is it the "finest security in the world?" Well, there is a question. Because, after all, since, for example, 1944, the price level has gone up so much that if anybody bought an E bond in 1944, he has lost about 35 to 40 percent of the value, that is the purchasing power of this security.

Now, in the same period, the price of common stocks rose to 219. So that if you bought a Government bond of this kind, your value is down to 67; if you bought a common stock, it is up to 319.

Now, this means relative to buying common stock you have lost about 80 percent.

Now—it is true of a chap who does not know very much and wants to invest some money and wants to be sure of getting back his dollars, there is nothing better than buying an E bond.

But that is not the same thing as saying that it is the best security in the world; because it really is not; because if you buy a bond in the period when you have inflation and certainly Secretary Humphrey is very much aware of the inflationary dangers—he has been one of the principal people fighting against inflation—it certainly is not true that in that sense buying a savings bond is the best security anybody could possibly buy.

Now, then, he goes on to say [reading]:

There is no security that you can go up and lay on the counter any time you are ready and get your dollars back for it; there is no depreciation in it, no market fluctuation.

Now, that, of course, is not true, because, as was said this morning, everybody knows if you redeem this security inside of a year or 2 you lose some cash, because your rate of interest immediately is cut from, say, 3 to 1 percent or something of that sort.

Then he says:

This is designed for people who do not want to follow the newspapers, who do not want to try to beat an eighth or a sixteenth or two points on the market.

Well, this may very well be true. They want to get their money and they want a fair rate of interest and they want their money now when they need it. They do get their money, the question of whether they get a fair rate of interest is another question.

I would like to come back to it in a minute.

And the question of whether they get their money, of course they get their money, but it is entirely a different kind of dollar they get from the one they put in. This bond, for instance—

has some very excellent provisions in it. It is a very excellent instrument; in fact, it is the finest instrument there is to serve its purpose.

Now, Senator Byrd, I think there is every reason why people should buy E bonds. I think the real issue here is that this is a free market system; as the Under Secretary said this morning, if it is a free market system, then I think under a free market system the people who were asked to buy this commodity ought to be given all the facts, and on this basis, the price of the Government security should be given and the price should reflect the general situation, both as regards the rate of interest, prices and everything else.

And now, as you probably know, one point that was not made this morning is why are people deserting the Government savings bond market?

Now, Secretary Burgess just made a number of comments on this provision. But 1 or 2 things he did not say, and one is, of course, as we all know, one reason they are moving away from the Government savings bond market is they are buying something else, and one of the things they are buying are common stock.

Now, gradually as people buy common stock and desert the bond market—the price of common stocks rises, and the yield on bonds rises to a point until it is a matter of indifference which of these two you buy.

So that, in a sense, this failure to buy these bonds does reflect to some extent a consideration of the market situation. And to some extent the average American becomes aware of the inflationary process. And as he becomes aware of it, he tends to move away from any security that yields a fixed return.

And I think this thing ought to be brought out. And I am sure that if a large corporation like A. T. & T. produced a statement like this to sell a bond, that this would not be accepted by the SEC.

Now, if I may, Senator Byrd, let me also point out something else that is relevant to what was said this morning, and very relevant to this problem.

It is these people that have these small bonds who are fairly ignorant of the market, they have been late in getting an increase in the return on their bonds and, on the whole, have deserted the market of late.

Compare what, for example, has been done by commercial banks in—for example, you take a commercial bank. Take the bonds that they held, Government bonds. In 1945 they held $91 billion. In 1952, $64 billion. Today, $59 billion. In relation to all their assets, their earning assets, they have gone down from 73 to 45 to 28 percent.

Now, they are pretty well aware of what the situation is, and they have moved on to better yielding assets.

And this is also true of insurance companies. And it is true of most private investors except the holders of these E bonds.

Now, the issues of E bonds have gone up from 64 billions in 1945 to 65 in 1952 to 67 the end of 1956. But that is, of course, a relative decline in relation to total dollar income available, although not necessarily in relation to total savings.

Now, so much for that aspect of the problem.

Now let me just suggest a few other things that were said this morning which were not exactly accurate.

I will say, frankly, Senator Byrd, I have not been worried so much about the national debt as you have, and you may know that, and I want to be perfectly frank and honest about it.

But one statement was made this morning that was inaccurate. I think you asked this question:

> Does the social-security indebtedness, is that included as part of the Government debt?

Well, as a matter of fact, the obligation of the old-age insurance program where you have paid out much more than is actuarially earned and where you are accumulating considerable debt, that part of the national debt is not included in our national debt figure, though this in fact is a real debt, and will have to be met by taxation later on. Hence, in a sense, if you want an accurate picture of a debt, it is a larger amount than was suggested by the Under Secretary of the Treasury.

The CHAIRMAN. I did not ask that question. I think it was Senator Williams.

Mr. HARRIS. I had forgotten whether you or Senator Williams asked it.

The CHAIRMAN. This list given us by the Under Secretary indicates they have invested in the trust funds $19 billion.

Mr. HARRIS. That is correct.

The CHAIRMAN. Federal old-age and survivors' insurance fund.

Mr. HARRIS. Yes.

The CHAIRMAN. And of course that is included in the public debt.

Mr. HARRIS. Yes; but that is not the total obligation under those funds, you see. For example, Senator, I am insured under the old-age insurance program, and I pay in—because the university got into this rather late, I pay in a thousand dollars during my working life, and I get back an annuity that would cost me $21,000 from a private insurance company.

Now, that means, in a sense, you see, the Government is paying me $20,000 more than I paid in. The Government has done that to most of the older people. That means the Government has contracted a debt, you see. They have taken out $21,000 of this fund and given it to me.

Now, this is a debt in the amount of a considerable number of billions of dollars.

The CHAIRMAN. The laws have already been enacted to increase the social-security taxes, going up to 1975.

Mr. HARRIS. Exactly.

The CHAIRMAN. That is supposed to take care of the point that you have made. Furthermore, they get interest on this Federal old-age and survivors fund.

Of course, we know that the social security is not actuarially sound like an insurance company. We understand that.

Mr. HARRIS. Yes.

The CHAIRMAN. But I do not think we can say that there would necessarily be an obligation of the Government providing that we continued to increase the rates.

Mr. HARRIS. Well, Senator, on the same basis, you can say you do not have to worry about any public debt, because you are going to increase the taxes later on.

The CHAIRMAN. But I do not think that is quite a debt until it becomes a debt, as they think because we sufficiently increased the rates of payroll taxes throughout the years, to pay for these people who go on the rolls at age 65.

But that has been discussed here by the Wage and Hour Committee, and it is not, in a sense, pertinent to this bill.

But I cannot agree entirely, although I am anxious to safeguard the Treasury as much as I can, that the social-security program is any immediate hazard to the banking of the United States. Someday it may be, especially if it continues to be liberalized.

Mr. HARRIS. Senator, I agree they have paid out more than they earned. In this sense, it is an increase in the debt.

The CHAIRMAN. It depends on what you mean by "earned." They have a balance of $19 billion.

Mr. HARRIS. I know it. But they have paid out relatively more than that. These $19 billion belong to the present young people who are going to get a large part of this, or much more, later on.

The CHAIRMAN. It is a little different from ordinary insurance; but that is a very deep subject, and maybe we better not——

Mr. HARRIS. I just wanted to correct the statement made this morning. That was my only object.

The CHAIRMAN. In other words, your contention is that there is a liability on the general fund of the Treasury; is that right?

Mr. HARRIS. That is right. Certainly, Senator, I am trying to build up your case against my own case; that is what I am doing.

The CHAIRMAN. I will accept your thesis. I do not want people to think they can continue to squander this money around here.

Mr. HARRIS. Yes. Another issue raised this morning was on the guaranty. I think Senator Williams raised this issue, if I recall; I am not sure. I am going through a degenerative process and cannot remember as much as I would like to.

But, of course, as you probably know, the total value of guaranties has gone up at a very rapid rate. And we have in the budget for 1958 a total amount of guaranties and of investments by the Federal Government—that is, Government credit—of $85 billion.

If you look at the history from 1952 to 1956, you will observe that the largest increases from $28 to $56 billion have been in guaranties, in loans, and investments only from $16 to $19 billion for the Federal Government.

Now, this is a way of preventing an increase in Government expenditures from showing on the budget. But it does represent an obligation of the Government, and this obligation is not in any sense reflected in the national debt or in the budget.

The CHAIRMAN. That is right. That is a contingent liability; it has not yet become a liability.

Mr. HARRIS. That is right. In that sense when, for example, Secretary Burgess says, well, this increase of mortgages, and so forth, all this represents the workings of the free market; that seems to me to be an untenable position, because it represents the activities of the Government in providing these guaranties, $44 billions in the mortgage field alone, which accounts, to a considerable extent, for this great expansion of mortgage credit and other forms of credit.

Now, on one other aspect of this question, Senator Byrd, I will probably be sorry for having told you all this, because you will probably use it someday.

The CHAIRMAN. Give us an evaluation of all you have.

Mr. HARRIS. Another point I would like to make is that in the budget there is a good deal said about the Post Office, and I think quite rightly; and I think the figures bandied around were wrong. The amount the President has put in the budget for increased rate is $580 million. And if he does not get it, the expenditures are up $580 million.

Now, there are a great many other issues of this kind. For example, in the case of roads, you have in a special trust fund to be spent in fiscal year 1958 over $1,700 million, but the budget itself shows a decline in expenditures for roads from about $750 million in fiscal '56 to about $50 million in '58.

In other words, here you have an expenditure increase of something like a billion dollars, and that does not show on the budget at all because $1,700 million have been taken out of the budget and put into a special trust fund.

The CHAIRMAN. You understand, Doctor, that this trust fund provides that they can spend only the money that comes in from the gasoline tax?

Mr. HARRIS. And it should be listed as an expenditure.

The CHAIRMAN. If there is one thing on which the Treasury is protected, it is the highway trust fund, because we specifically passed a law whereby no money can be spent to defray the roads unless it is already collected from these taxes and actually in the trust fund. So there is no possibility of that being a liability to the general public.

Is that what you contend, or what?

Mr. HARRIS. No, what I contend is that the expenditures are larger than they seem to be.

Now, you are interested in the size of the budget, are you not?

The CHAIRMAN. I say the expenditures are not included in this budget at all.

Mr. HARRIS. And they should be.

The CHAIRMAN. Well, on a comparative basis they should be.

Mr. HARRIS. That is right.

The CHAIRMAN. I agree with you on that, and I have been using the figure that there is $1.8 billion supposed to be spent on the roads, and this budget is actually 73 plus rather than 71 plus.

Mr. HARRIS. That is right.

The CHAIRMAN. On a comparative basis. But this part of it does not come out of the general fund, as you know, this trust fund.

Mr. HARRIS. I agree with that. The only point I am making, Senator, is these expenditures are larger than they seem to be.

Nevertheless, the point is the budget is larger for all of '56 than it seems to be.

The CHAIRMAN. That is correct.

Mr. HARRIS. Well, we are in agreement on that, then.

I could give you half a dozen items of the same kind where what has happened is that the Federal Government has sold assets like mortgages and therefore improved its current budget position, and that is the same as a store selling its machinery and pretending to show a better statement.

So in a sense the balancing of the budget and improvement in the budget does not reflect an equal improvement in the general situation but in part an attempt to get rid of assets as a means of showing a better budget.

In other words, this is what I would call not balancing the budget but balancing the budget account. And I think this is something that ought to be looked into. I am not sure it is the most accurate form of accounting.

Now, about the rate of interest, Senator Long and Senator Douglas raised some issues here this morning, and I find it very difficult to know what the administration's position is. I did hear the Under Secretary say this morning that they take no responsibility for the rate of interest.

This was a most surprising statement for me, because almost everybody agrees that the rate of interest has a terrific importance both for the price level, the amount of investment, the amount of housing and everything else.

That the administration should acknowledge here that they take no responsibility for the rate of interest is an amazing statement.

Now, the question was also raised, I think by Senator Kerr, why was it that in 1913 the Federal Reserve was given certain objectives but they did not realize them until 1956 when the Full Employment Act was passed by Congress.

I may say, Senator Kerr, I have written an 800-page book on the system and I know something about it, and I watched the origin of the system.

I want to say this. According to my conception of the system and what it was created for was to help stabilize the economy. The economy had been singed by the 1907 depression. Obviously you have to deal with the rate of interest and supply of money. It was not the 1946 act that provided this; the 1946 act merely said all agencies should cooperate in this objective.

And now on the question of who is responsible for the rise in the rate of interest, I think the administration speaks out of both sides of its mouth. When they stabilize prices, as in the recession in 1953–54, they took credit for it.

But I think Senator Long quoted a similar passage to one in the budget for 1958 by the President where he talked about the rise in the interest rate:

> This results from the heavy demand for credit and capital throughout our prosperous economy.

Now, in that statement the administration takes no responsibility—this is a result of the increase in demand. But anybody who looks at the economic situation of the last 4 years, and at what happened in 1953 with the Treasury leading in the increase in the rate of interest; will agree the administration is partly responsible. Senator Douglas said:

> With the large proportion of Government financing during these years, it is absurd to assume that the administration has no responsibility for either rising rates or falling rates.

And therefore the increase in the rate of interest, it is crystal clear to me, is the responsibility of the administration in part.

You could put up a case for higher rates, and I have myself done so, but my main objection to the rising rates is simply that it is inequitable as it has been working. It may contribute to containing inflation.

The Under Secretary talked a good deal about the effects on inflation.

But let me point out to you, Senator, that in the last year we have had a larger rise in the cost of living, 6 times as large as we have had from 1932 to 1952, eliminating war and demobilization years—a major expansion, as Senator Long implied.

The CHAIRMAN. May I ask you a question there?

Mr. HARRIS. Yes, sir.

The CHAIRMAN. Your statement refers to the inflation that has occurred in the last year.

Mr. HARRIS. Yes.

The CHAIRMAN. What do you figure the percentage has been?

Mr. HARRIS. Roughly 3 percent. Three percent in the last year in the cost of living.

The CHAIRMAN. The Library of Congress says 2 percent.

Mr. HARRIS. No, I think it is 3 percent; I checked on it.

The CHAIRMAN. Three percent in 1956?

Mr. HARRIS. I think as I remember, it was 1956 through February; it was 1 year, a recent year.

Senator KERR. February 1956 to February 1957.

Mr. HARRIS. That is about it.

The CHAIRMAN. The Library of Congress says there is a 2-cent loss on the dollar; that would be around 4 percent; would it not?

Mr. HARRIS. No, 2 cents would be 2 percent.

The CHAIRMAN. Well, the dollar is only worth 50 cents now.

Mr. HARRIS. You mean a 50-cent dollar. That would be 4 percent. That is a little higher than I get. On my estimate it is 3 percent. I do not think that is very far off. I have checked it a number of times.

Senator LONG. You mean 3 percent in 1 year?

Mr. HARRIS. Three percent in 1 year.

The CHAIRMAN. Three percent of what?

Mr. HARRIS. Three percent as compared to what the price level was in, say, in February 1956; in other words if the price was 100 in early 1956, it is 103 today.

The CHAIRMAN. The price of the dollar?

Mr. HARRIS. As compared to the dollar in 1939 when the dollar was worth 50 cents.

The CHAIRMAN. Fifty cents?

Mr. HARRIS. Yes.

The CHAIRMAN. That is the dollar was worth a dollar, I mean in 1939?

Mr. HARRIS. That is right, and it is worth 50 cents now. And——

The CHAIRMAN. If you figure it has lost 3 cents, you figure it has lost 3 percent of 50 or 3 percent of a dollar?

Mr. HARRIS. Three percent of a dollar.

Senator KERR. Three cents is what it is.

Mr. HARRIS. Three percent of the price level in 1956.

Senator KERR. No, that percent is figured on the price level of another period.

Mr. HARRIS. Let me tell you, Senator Kerr, I know you are a most unremitting questioner. Assume your base begins in 1939; you call that 1939 a hundred. Actually, the BLS uses 1947–49 as 100. Assume it is 100 in 1939. Now, in 1956 the price level is up to 200. Now, all I am saying, in February 1957 the price level was 206—3 percent up from 200, you see.

Senator LONG. He is taking a different base from the one you are taking; but the percentage would be the same.

Mr. HARRIS. It is 3 percent, however you look at it.

Senator LONG. Let us take the actual figures that I have here.

I notice in February 1956 the price level based on 1947 and 1949 was 14.6; December of the same year, 1956, it was 118. So that would include the 3.4 and it has been going up since that time.

Mr. HARRIS. Three point 4 is very close to 3 percent.

The CHAIRMAN. Would you think we are in for another inflation period now?

Mr. HARRIS. That is a tough question to answer, Senator, and I think it depends to a considerable degree on policy. I would say that the institutional factors in the situation tend to make for inflation much more than was ever true before. And I think that means partly wage inflation. I think that is one reason that monetary policy has been unsuccessful in stopping inflation, because you are up against a good many more factors in the situation.

The CHAIRMAN. In the 1939 period of the 100-cent dollar, we lost 48 cents of that dollar up to 1952?

Mr. HARRIS. That is right.

The CHAIRMAN. In 1 year we lost 10 cents, in 1 year. Do you anticipate a repetition of that or not? If you lost half of the present dollar, this country would be in very serious straits.

Mr. HARRIS. Yes. Well, I think it would be very unfortunate if we had that kind of a further increase in the price level. I think if you are expanding your economy and you are at full employment or even over full employment, you are going to have inflation. Now, how much you will have will depend on how effectively you use monetary policy, fiscal policy, and what success you have in preventing excessive wage demands and excessive prices by large corporations. All those factors are relevant.

And if you could tell me how these various people will behave, including Secretary Burgess, then I will tell you whether there will be inflation in the next few years.

The CHAIRMAN. But you think there is inflation right now?

Mr. HARRIS. Oh, yes, I think the inflation is substantial right now.

Senator KERR. And increasing?

Mr. HARRIS. There is a tendency in that direction. And when the $100 billion road program gets going, there is no saying what is going to happen to the price level.

Now, the road people came in and sold the Congress a bill of goods on how they could do a $100 billion program—well, it was cut down considerably—without inflation. But I never believed that.

And the cost of construction has gone up 50 percent more since before the war than the general cost of living, and building construction costs have gone up about 80 percent since 1946, which is about twice as much as the general average. And if you suddenly superimposed on that this construction program, there is going to be another increase.

The CHAIRMAN. Do you think the fact that we are collecting those taxes to pay for the road program, does that reduce inflation or not?

Mr. HARRIS. That certainly makes a contribution, no doubt about it. It would be more serious without that.

But where the inflation comes in, I think as Senator Long says, it is the pressure on resources. This pressure induces rises in the price of labor, and all that sort of thing.

Senator CARLSON. Doctor, may I ask a question there?

Mr. HARRIS. Yes, sir.

Senator CARLSON. Assuming that we should reduce the interest rates and assuming again that the Federal Reserve can, by discounts, reduce these interest rates very substantially would that add or decrease inflation?

Mr. HARRIS. Well, that is a tough question, Senator, and I would be inclined to say this, that if you reduce interest rates, you tend to bring about inflation, if that is all you do. Because at lower rates of interest you tend to induce more housing, more building, more investment, and so forth.

On the other hand, the Federal Reserve has raised interest rates on the thought they would cut down on investment and monetary supplies, and, as has been revealed here this morning, they have not succeeded in cutting down the supply of money.

Therefore, if your objective is to stop inflation and you raise the rate of interest and try to cut down on the supply of money and do not succeed—and do not succeed partly because the Government itself increases its guaranties at a rapid rate, you see, then if this happens, you can say the high-rate money policy was a failure, or if you have to have a high-rate money policy to keep down the supply of money, then you have to implement it by all kinds of devices to get a fair distribution of these supplies of money.

I would agree with your fundamental premise, namely, that all things being equal, this does tend to bring on inflation; because people obviously borrow more at low rates of interest than they do at high rates of interest.

Senator WILLIAMS. I was just going to comment that was an excellent answer to his question, but I wonder if you approved raising the interest rates. Tell me whether you endorsed this proposal of the Secretary to raise interest rates at this time or whether you are opposed to it?

Mr. HARRIS. Well, Senator Williams, I wish I could get out of that question; but, now, there were times this year when I took a position, and my position was as follows. That in general I am fearful of a rise in interest because of what it does to various groups. On the other hand, I was worried about the inflationary pressures.

Now, what I said was that at least at this time the Treasury and the Federal Reserve were not using a sledge hammer as they did in 1953, and their policy in 1953 had very serious effects. They were being cautious in 1955–56. But in the meanwhile, see what has happened. And at that time—1955—I was concerned as to who would suffer as a result of this increase in the rate of interest, you see.

And my general position is that an increase in the rate of interest might well have been justified in terms of the inflationary situation but that it resulted in such a distortion, and clearly was not achieving its objectives, that I think the policy has not been an effective one.

Senator WILLIAMS. To still get back so I can understand it, are you endorsing H. R. 5520 of the Treasury's or not?

Mr. HARRIS. I am endorsing it with reservations. I am endorsing it on the grounds that these people who are, on the whole, badly informed investors, have taken a beating relative to other investors, and that if you are going to have a high rate of interest, then I think we ought to get an increased rate of interest.

On the other hand, my present position on the "dear money" policy is that it has not been as effective as we wanted it to be, and that it has resulted in inequities. For example, when a corporation goes out and borrows money at a higher rate, they can pass half the price on to the Federal Government, in reduced taxes and pass the rest of it on to their consumers.

But the poor State and local government have nobody to whom they can pass the higher rates on, so they are squeezed out of the market.

One figure that was not presented this morning was that in the last 5 years the rate of interest on municipal securities—the yield, I mean, on municipal securities—that is what reflects the present borrowing—has gone up by 70 percent as compared to a rise of only 30 percent for Federal Government and the AAA bonds.

Senator WILLIAMS. To put the question this way, If you were sitting in the position of Mr. Martin as the Governor of the Federal Reserve Board, would you reverse the present interest policies and start lowering them under the existing conditions as they are today?

Mr. HARRIS. I would do one of two things. I would either ease up on the "dear money" policy and therefore perhaps to that extent contribute to a rise of output or a failure of output to decline, or I would continue the present policy with certain additional policies which I would be very glad to point out for you.

Senator WILLIAMS. It is obvious he is going to continue his policy or reverse it; which would you recommend that he do?

Mr. HARRIS. Well, Senator, what I am trying to say is that it is a Government that operates through about 15 different credit agencies. And certainly it is not a good policy for the Federal Reserve to do one thing and the Treasury to do another and the Housing Administration, the Veterans' Administration to do still another, since they all affect the total supply of money.

And what I am trying to say is that if you do have to have—I think Mr. Martin ought to have a discussion with Mr. Cole and Mr. Burgess and all these other people involved and say, Well, now, let us see, what are we going to do about the total supply of money? I am still worried about inflation. Then in that case, if you are going to keep the supply of money down more than otherwise would have been kept down, you have got to decide who is going to get this money.

In other words, do not allow the corporations to squeeze out the school districts that cannot raise this money now.

Senator LONG. You said $40 million.

Mr. HARRIS. $40 billion in 10 years, for all the improvements they need. And they are getting less than half of that now.

Senator KERR. Will the Senator yield there?

Senator WILLIAMS. Surely.

Senator KERR. Is it not a further fact that while big Government is more or less squeezing the State and local governments, is not big business squeezing little business in that it is usurping the available money and making it just proportionately more difficult for smaller business to finance?

Mr. HARRIS. Well, Senator, that is my view, and I think that that was what Senator Gore was saying this morning; and obviously the large corporation depends to a considerable extent on its own cash and does not need—even if the banks in general did not discriminate among borrowers of different size, it would still be true that the large corporation would have the greater advantage of having internal funds, and therefore would not be nearly so restricted by this kind of policy as the small-business unit is.

Senator KERR. The Government, therefore, as you mentioned a while ago, not only believes in 52 percent of the increased interest rates that these corporations pay, but also Government is having the additional penalty to pay of the amount of interest that they brought about in the form of increases that they are paying themselves.

Mr. HARRIS. Oh, yes, a billion since, I think, 1952. They have paid about a billion dollars.

Senator KERR. The information received this morning from Mr. Burgess was about a billion——

Mr. HARRIS. I checked it this morning, here is the budget.

Senator KERR. I have the figures from this morning.

Mr. HARRIS. Here they are in his own budget.

Senator KERR. A billion two hundred million dollars.

Mr. HARRIS. Let me give you the figures.

Senator KERR. I have the figures I was interested in from this morning, and his testimony was that he has now got $76 billion, that there are outstanding $76 billion of Treasury bills, three 5-year notes and regular certificates.

Mr. HARRIS. Yes.

Senator KERR. And that the interest rate on those is about 1.6 percent greater than it was in the middle of 1952 and 1.6 higher interest rate on the $76 billion is $1,200,000 penalty being paid on that particular $76 billion of Government debt.

Mr. HARRIS. Yes. Well, Senator, of course, there may be some errors in that arithmetic. I think on page 1150 of the current budget for 1958, there are the figures of the interest payments of the Federal Government, 6.5 billions in fiscal year 1953—that's half of 1952 and half of 1953—6.4 billions in 1954; 6.4 billions in 1955; 6.8 billions in 1956; 7.2 billions in 1957; 7.3 billions in 1958.

That makes roughly a billion dollars increase from fiscal year 1954.

Senator KERR. I was talking about fiscal year 1952.

Mr. HARRIS. Yes; it is larger, it is a billion and a half. What was the figure you quoted?

Senator KERR. A billion two hundred million was the figure.

Mr. HARRIS. A billion four hundred fifty million for the fiscal year 1952 to 1958.

Senator KERR. Of more interest.

Mr. HARRIS. That is right.

Senator KERR. What was it in 1953?

Mr. HARRIS. In 1952, it was 5.8; and 1953, 6.5; 1953 was the Treasury high-rate money period when they brought the rates up drastically. That was the first half.

Senator KERR. 1952?

Mr. HARRIS. That's they began the dear money policy——

Senator KERR. In 1952?

Mr. HARRIS. Five and eight-tenths billions. It is roughly a billion and a half more now.

Perhaps I have just 3 or 4 other points that I would like to make. One is that as you probably know the situation of the State and local governments is very serious. I think Secretary Burgess brought that out very effectively this morning.

In 10 years that debt is up from 16 to 49 billions. Their projected outlays—by the Taxpayer's Association—is estimated at $60 billion in 10 years. In 10 years the State and local governments will be spending $60 billion as compared to $16 billion 10 years ago. And that assumption allows for no inflation. The capital market is in bad shape. The Federal Government has cut its new construction by one quarter since 1952, and the State and local governments have increased theirs by two-thirds; in other words, State and local governments are doing twice as much as the Federal Government on new construction. This leaves out of account the Federal contribution as compared to 1952.

So that more and more the Federal Government, which has allocated to itself the most lucrative revenues, puts increasing responsibilities on the State and local governments.

I don't think people realize what happens in the local and State governments. Fifty years ago State governments were contributing one-fifth as much as the local governments in taxes, and today the amount is roughly equal and the State governments have increasingly taken over. Under the circumstances, the city and local State governments are confronted with very serious situations in the capital market, where they are losing access to the capital market as a result of the rise in the rate of interest in the rate of 70 percent in 5 years.

I am sure all the Senators have talked to the governors about this, I have talked not only to the New England governors but to Governor Leader about it, and I know they are terribly concerned about it.

I think any monetary policy ought to take that fact into account.

I would also suggest a few other things that could help the State and local governments. You know the tax-exempt feature doesn't help them very much any more, Senator. One reason for that is, as Mr. Burgess said this morning, they have issued more securities. It isn't only a matter of supply and demand that causes it. Another relevant fact is the policy of the Government in raising the rate, and then when you do increase the total supply of securities by $3 billion a year net, as the State and local governments have done, these people who use the securities for tax-exempt purposes become saturated with them, and they don't need them any longer. Besides that, there are more ways of avoiding taxes than there used to be.

The CHAIRMAN. What are those other ways?

Mr. HARRIS. You probably know them, Senator, as well as I do. Some changes in 1954 tax revision increased depreciation of various kinds. The lawyers learned new tricks for getting taxes down. There was a very interesting study made by the Howard Business School which showed that even though at a high income when the tax was supposed to be 66 percent actually the rate paid was only 40 percent.

The CHAIRMAN. Increased depreciation doesn't help the individual not in business.

Mr. HARRIS. It helps the individual in business, though.

The CHAIRMAN. But the individuals not in business are the ones who have been buying tax-exempt securities.

Mr. HARRIS. That is perfectly true; yes.

The CHAIRMAN. I just wondered what these other tax reductions were for tax evasion, if you wish to call.

Mr. HARRIS. There are all kinds of ways of building up tax estates, as you know. And of course the lawyers are getting smarter and smarter. I am sure you have seen some of these also, for in fact they appeared before your committee, of the amount of special——

The CHAIRMAN. Suppose you had removed this tax exemption on State and local bonds. What would they sell for then? What interest would they pay?

Mr. HARRIS. They would sell at a higher rate of interest. The point I was trying to make was as compared to the past, for example, it is now true that local governments have to pay a higher price than the Federal Government has to pay.

That was not true some time ago. It is getting to be true that most State governments will have to pay a higher rate than the Federal Government, and in view of that, and here is what I would suggest, I wish you would think about this, I think it may pay the Federal Government to get some cash, gather it by borrowing, pay it out to the State and local governments as loans, and since it is Federal Government money, it is not tax exempt; that is, the interest on the bond. You would save the money from the tax exemption and if the Federal Government can borrow at a sufficiently low rate, this would give the Federal Government——

The CHAIRMAN. You say a good municipal bond; and what is the difference between the interest rate on that and the Federal Government?

Mr. HARRIS. Well, it depends on what you mean by good municipal bond. I don't have the figures here. I know they use municipal bonds tremendously.

The CHAIRMAN. I mean one not heavily in debt and no questions about its financial status.

Mr. HARRIS. I have some here, average returns on municipal bonds, which will give you some idea of the situation.

High-grade municipal bonds. At the end of 1955, beginning of 1955, rather, they were yielding 2.39 percent. Now they are yielding 3.44 percent. That is a tremendous increase in less than 2 years.

Senator LONG. Give me those figures again?

Mr. HARRIS. 2.39 and 3.44 percent in less than 2 years.

Senator LONG. They were 2.39 in 1955?

Mr. HARRIS. Yes; 2.39 in 1955. In that same period, the taxable bonds to the Federal Government (20 years), only rose from 2.77 to 3.37. This is the official report of the President I have here.

The CHAIRMAN. That is in 1 year?

Mr. HARRIS. No; from January 1955 to December 1956, almost 2 years.

The CHAIRMAN. And what do you attribute that to?

Mr. HARRIS. Partly to the increase of debt of the local government. I attribute it partly, as I said, to the saturation of this market, so that with the rise of tax-exempt issues the supply becomes excessive relative to the demand of those who gain from these tax exemptions.

The CHAIRMAN. You figure your big investors are afraid of the security on municipal bonds?

Mr. HARRIS. No; I think they may put their money in something else to get that tax avoidance in some other way.

Senator LONG. Let me see if I understand that point. If we can go back, I would like to compare January 1953 with January 1957. Back at that time you had $25,800 million of state and municipal bonds outstanding. Now, those were tax-exempt bonds insofar as Federal revenue taxes are concerned, Federal income tax. And, being tax exempt, that was a choice investment at that time?

Mr. HARRIS. That's right.

Senator LONG. It was a choice investment for persons in the high-income bracket, particularly the people who wanted the investments that were not subject to the income tax; is that correct?

Mr. HARRIS. That is right.

Senator LONG. If I understand what you are saying here, you are saying that now the amount has increased to $50 billion and, while that is a huge amount of money, there just aren't that many people that have money available for that type of investment, so that, although it yields a much better rate of return, it is still not sufficiently attractive to bring in the additional capital, based on the tax-exempt features, because there just aren't that many people with that much money trying to find tax exemptions.

Mr. HARRIS. If you get 3 percent on one of these bonds, and you are paying a 50-percent rate on taxes, this means actually you only pay 1½ rather than 3. You save 1½ percent. It is a 1½-percent differential, you see.

And, most of the people who pay 50-percent tax have been pretty well taken care of. People who bid for tax exempts and pay only 30 percent of their income in taxes obviously will not be as attracted by those securities as much as those paying 50 percent.

Senator LONG. If I understand further, I would like to get some comparison as to what the income available to investors on these bonds today is; what the tax-exemption income is on State and municipal bonds today compared with what the income available on those bonds was in 1953. Can you tell me what the average rate on State and municipal bonds was in 1953?

Mr. HARRIS. Well, I don't think we have those figures here, and all I can tell you is there was a 70-percent increase, you see, in 5 years. That would be 1952, say, 1951 to 1956, the end of 1956. In the end of 1956, the yield was 3.44. So this would mean roughly about 2 percent in 1951 to 1952.

Senator LONG. Let's just try to see what the difference is, I would be curious to know it.

Mr. HARRIS. Two percent roughtly would be the rate then at the end of 1951.

Senator LONG. Would there be $1,720 million in tax-exempt income available in 1956, if you say that the average rate was 3.44?

Mr. HARRIS. That is right; at the end of 1956.

Senator LONG. Would you mind telling me your best estimate, as to what, in January 1953, the income would have been?

Mr. HARRIS. Because in 1956, you see, you had $49 billion of debt——

Senator LONG. On that $25.8 billion of tax-exempt bonds?

Mr. HARRIS. Well, you see, you have $49 billion of—wasn't that the figure?

Senator LONG. 50.

Mr. HARRIS. $50 billion at the end of 1956, and they were rising roughly at the rate of $3 billion a year, so that at the end of—do you want it at the end of 1953?

Senator LONG. January 1953.

Mr. HARRIS. I don't have the rate of yield here. I can give you the estimate of yield at the end of 1951 was roughly 2 percent, and roughly $34 billion outstanding, so it would be $34 billion times 2 percent which would be $680 million, and now you have $49 billion, say, roughly $50 billion out at the end of 1956; times 3.44, and this would be about $1.7 billion roughly.

Senator LONG. The point is that there is now, if I get your estimate right, almost three times as much tax-exempt income available and there is twice as much volume in tax-exempt bonds available and, if I understand your position, there is so much tax-exempt security available now that the tax-exemption feature has now ceased to make it a particularly attractive investment?

Mr. HARRIS. Quite right, quite right. Senator, I would like to get the support of your committee and all Senators, for that matter, because it is a strange thing that the State and local governments are subsidizing the Federal Government in this area. They hold around $15 billion of Federal securities in the unemployment reserves which really belong to the States. These funds are put exclusively in the Federal securities, you see.

If you could, for example, induce the State and local governments to gradually get rid of the Federal securities and buy their own (they hold some $16 billion of Federal issues), and if you could have the law changed so that the Federal Government would allow unemployment reserves to be put into State and local issues, as they ought to, because the money belongs to the worker and the employees in the State, that would improve the market for State and local government securities, and ease this situation to some extent for the State and local governments.

Senator LONG. The point I had in mind, personally, is that I question the validity of this whole high-interest-rate policy. In many respects, I contend that it actually has increased the cost of government. I know it has slowed down the construction of housing; it certainly has in the area that I come from.

Down there, it has slowed it down almost to a standstill; people paying high mortgage payments are reluctant to buy housing. As a matter of fact, I am trying to buy a somewhat larger house for my family and, as a matter of fact, the increased rate charge makes me almost sorry I signed the contract. Higher interest rates discourage the people from buying homes.

Now, do you believe that we should have a policy to discourage the construction of housing at this time?

Mr. HARRIS. I agree with you, Senator Long. That is one of the inequities of the whole situation, and the strange thing is that the Federal Government certainly is partly responsible for dear money, though sometimes they say they are not, sometimes they are. I personally believe they are.

But they are very careful, despite what Under Secretary Burgess stated this morning, they are careful in not issuing long-term securities. If you buy a house, you have to buy for a long period of time and you are not in a position as is the Federal Government to avoid the full effects of the Federal Government monetary policy. Therefore, the burden is put on you as a house buyer and the Government avoids it for the time being and ignores it and they hope they will be ultimately confronted with lower rates.

Senator LONG. Do you think that high interest rates are helping the sale of automobiles? Do you want to discourage the man who wants to buy one and make it more difficult for the man making the payments?

Mr. HARRIS. No; I don't.

Senator LONG. We do not presently have full production on automobiles. Would not the additional products we could get from increased production of automobiles, house appliances, and so forth decrease the rate?

Mr. HARRIS. Yes; as I said in reply to Senator Williams, as a man who has worked in the field, taught in the field and has been interested in it, I think something could be said about using monetary policy in a flexible way so if you have too much money searching out a limited supply of goods and therefore tend to bring about inflation, you tend to keep down the supply of money. But I think in this kind of economy where you have all kinds of people of different capacities and power, that in that kind of a situation if you have to have that kind of policy, then you must do something to protect these people being squeezed out.

Senator WILLIAMS. Isn't one of the effects if you increased the rates, whereby you increased production and distribution of these goods, you at the same time put a greater strain on the raw materials and have a price increase in that respect, and is it not true that it would be a question of whether or not the price increase overall would offset the cost of interest?

Mr. HARRIS. Yes, sir. Well, Senator, on that I would just simply say that if you do, for example, supposing you have a generally high money rate policy and this would tend to discourage the total supply of money or total amount of lending, then you get worried about what it does to housing and automobiles and local government, and then you reverse yourself or stop this decline in the supply of money. Now, the point that bothers you, as I understand your question, is that actually what you are saying is that the automobile people and the housing people, well, now can go out and get these scarce supplies of building materials and that sort of thing, and you are going to have an inflation in that area. But there is no doubt but what that is true.

What I am arguing is simply that you have a limited supply of goods and the question is who gets access to this limited supply of goods, and the point I think that the Senator was making and that I am inclined to agree with is that under that general rise in the rate of interest applied without implementation, you tend to favor the large corporations against the small business or the large corporations against the school district.

And, therefore, what we hope to achieve by a more selective rise in a rate of interest, if this is necessary, is to make sure that those who want to build homes perhaps will have a somewhat greater claim to the limited resources, get some fair access. They are all going to get squeezed some.

Senator LONG. Is it necessary to have an increase in interest rates? Why isn't it possible to reduce interest rates?

Mr. HARRIS. Well, of course, remember, Senator, Secretary Burgess this morning got into that and the argument that is generally used there is, for example, if he said in the debate, or argument with you, or discussion with you, I should say, he said actually what really happens is you cut down the rate of interest there, as, for example, was done in the thirties and forties, and how do you get the rate of interest down? Well, you get it down by pumping more money into the economy and buying up Government securities, and this increase in the prices of these assets, and that is the same thing, a rise of rate of interest.

So you tend to have an increased supply of money and this tends to bring about a rise of prices. I think there is truth in that, but I also think as you imply that that is partly a matter of the war situation where you have a very great shortage and therefore where actually what was done during the war was that supplies were carefully regulated so they were used in the most effective way.

I was going to say the rise in the total supply of money didn't do any great harm.

Senator LONG. Here is the point. Instead of building just 900,000 housing units, suppose we made money more available and we built a 1,400,000 and therefore made housing more available both for purchase and for rental.

Wouldn't that tend to make it more of a buyer's market and not a seller's market by having more houses available for the public and therefore tend to bring down the price of rents and cause more purchasing of housing if you had more available?

Mr. HARRIS. Well, I suppose it really would both ways. It used to be said during the war when everybody was fed up with controls, if you could only get rid of controls and let the businessman take over and produce as much as he possibly could, prices would fall; well, there is something in that. If you have more supplies, of course the price tends to fall. But in the process of getting more supplies if you start a full employment economy, there is going to be pressure put on the supplies and it tends to bring prices up. I think it is true therefore that if you have a full employment or overemployment economy you must somehow or other ration the supplies. You can ration them through a general increase in the rate of interest which cuts down the demand for these things because there is less money available.

Senator LONG. While you were doing it, you may make a shift of income?

Mr. HARRIS. Sure.

Senator LONG. It has been estimated that it could result in a shift of $5 billion a year and at the expense of those paying the additional interest charges. Is that confirmed by your guess?

Mr. HARRIS. I would say in a general way it is probably true that the increase in the rate of interest does help those people who lend money, because this is a commodity that they sell, and, on the whole, the net effect of this is, if you look at the profits of the banks, for example, you would find they are doing better as a result of the rise in the rate of interest.

I wouldn't be too much concerned about that. I think that probably a good many people are critical of the banks earning large profits, but on the whole banking is not in the same sense that General Motors is a terribly profitable enterprise. I think it is true that in a general way people who lend money on the whole are higher income people than the people who borrow money.

Although that isn't necessarily true, because I mean large corporations also borrow money, it does mean some general distribution favor of the rich. But it isn't all that.

I am not so much worried about that. Lord Keynes, one of the great economists, always used to talk about that, and he was one of the people who introduced the general idea that you want lower rates; and he said the rentier class, they are not the doers, and, therefore, whereas he believed if you got the rates of interest down, he believed you could increase investment and employment.

In a sense he was talking about a depressed economy. I am not sure he was talking as much about the kind of econmy we have had in recent years.

Senator LONG. Our unemployment level now is 4 million. Does that seem like a particularly tight labor market to you?

Mr. HARRIS. Is it about 4 million right now?

Senator LONG. That is considering part-time employment.

Mr. HARRIS. It is a little high. I have never been able to quite understand why the British with a full-employment economy, can get this unemployment down to about half of ours in relation to population. Maybe they move around more easily in England than they do here; perhaps it is because the standard of living is so much lower, they don't hesitate so much in seeking jobs. I think if we had a better organized market, we could cut that down some, I think probably to 2½ million; I don't think you can do much better than that. If it is above that, it is excessive.

Of course, we have these pockets of unemployment, depressed areas in New England and West Virginia and Pennsylvania, and in a number of these other States, and this is a serious matter—not so much the total amount as it is the way it is distributed. This is one of the problems.

Senator LONG. Do you think it is a good idea to continue to refinance this national debt at this new high interest rate?

Mr. HARRIS. I think it was Senator Kerr who brought out this morning—of course, if you got the rate of interest up, say 1½ percent on the total debt, roughly $300 million, it is going to cost you $4.5 million annually ultimately.

The average duration of our national debt is something less than 10 years. If this present rate continued, inside of 10 years, you would have a very large part of it refunded at this higher rate. Then, assuming no change in the total amount, it would cost around $4 billion or $5 billion a year more.

In spite of all the comments in Mr. Burgess' early statements, that he was going to change the national debt maturity structure and make it a more long term debt than the short term coming due every week, he hasn't succeeded. I think Senator Kerr pointed out actually the structure of the debt hasn't changed much since 1952.

The reason for that is that in this kind of market you don't want to get into long-term debt, if you can help it, because you hope that the high rate will be a short period affair. Meanwhile, the government floats short-term stuff at very high rates.

Senator WILLIAMS. When Mr. Burgess first came in he floated a rather sizable 30-year bond issue at 3¼ percent. Do you think that was an advisable step?

Mr. HARRIS. I think it was a great mistake. I think Mr. Burgess has learned a lot since that episode.

Although he has been chairman of a bank in New York, in a sense he was a theorist, just as I am. He had written a book on the Federal Reserve, and he believed in a free market system. And he thought the Government ought to let the market alone and not interfere. And without giving himself a chance to study this whole situation, he issued this long-period, 3¼ percent bond rate at the going rate of interest, which was something like 2½. This resulted in a demoralization of the Government security market. You know the price of long term issue dropped to about 90. There was almost a panic in New York City.

Fortunately, I would say to Mr. Burgess' credit, he reversed himself when he discovered what the situation was. I think he has operated much more carefully in the market since.

And, of course, since that time, and of course, then having reversed himself, he helped bring the rate of interest down during the recession period in the latter part of 1953 and 1954. And then he began trying to get into longer term securities, and then this great prosperity came and the rate began to go up again and he had to stop changing the maturity of the debt and he is back now largely to the 1952 maturity structure.

It shows how difficult it is to change the whole structure of the national debt.

Senator LONG. Do you feel that in an expanding economy it is necessary to expand the amount of currency and credit in the Nation as a whole?

Mr. HARRIS. Indeed I do. If you go back to 1790, and go right up to the present, one of the shocking things is that you will find the total supply of money during this period of 150 years or so has gone up about 12 times as much as the total national income, and during that period up until at least the thirties, there is very little net change to the price. We have had booms and declines, and tremendous forced declines during some of these periods.

Therefore, one must not say, for example, if our output rises by 3 percent a year, which is the general average, we must therefore increase the supply of money by 3 percent, because actually we have to increase money supplies much more than that.

Senator LONG. You say since 1952?

Mr. HARRIS. Yes. Despite all the protestations and all the attempts to restrict the supply of money, the administration hasn't succeeded in doing it. The reason for that is that as your income rises—and this has been true throughout our history, people tend to hold a larger proportion of their income in cash or bank deposits, and in order to meet this need or demand or sitting on money, you have to expand your monetary supplies much more than output rises. If you don't you get falling prices, which is actually what happened in the last part of the 19th century when you had all these crank movements to increase the supply of money, and prices dropped 40 percent.

Senator LONG. When your prices start falling, that always starts——

Mr. HARRIS. There is one disease capitalism cannot endure, and that is falling prices. A businessman always buys a product with the thought that he will sell it at a higher price. If he has to sell it at a lower price, this kills his business.

Senator LONG. And there is a tendency for buyers to postpone their buying, feeling they can buy later on at a more favorable price?

Mr. HARRIS. That is right. Of course, the businessman puts people out of jobs because he is losing money, and the people spend less money and the situation deteriorates. This is what happened in 1929 to 1932.

Senator LONG. A period of falling prices continuing over a period of time can take you into a recession, or a full-scale depression, is that correct?

Mr. HARRIS. That is correct. And therefore if you are going to have an advancing economy, rising at the rate of 3 percent a year, you have to be a genius—and we have never had one in Washington so far—to stabilize prices; so you are going to take some risk, and so if we could increase our output by 3 percent a year and have an increase in prices of 1 percent, I think that would be a pretty good solution, or doubling the price level in 75 years, compounded, you see.

If you are going to increase prices 10 percent, and get a rise of 1 percent output, that is very bad because that brings about all kinds of injustices and demoralization of the economy. If you don't want to take too great a risk in price inflation, you may have to bet on a little deflation or inflation.

Senator LONG. I would like to ask this question on something I don't quite understand.

You said in 1952 you had a rapid increase in the amount of money. I notice in Economic Indicators on page 26, currency credit and security market, total demand deposits in currency in 1952 was $200.4 billion. In January 1957, it was $222 billion. During that same period of time we had an increase in the price level of about 4 percent, which would account for 8 billion, so the increase in deposits of currency, based on that, would be about 14 billion, or no more than 7 percent over a period of 4 years.

Mr. HARRIS. Senator, I seem to have some different figures here. This is the President's report.

I have total deposits in currency; in 1952 we have $200 billions, or we will say 1956 we have $226, that is a $26 billion increase or 13 percent for 4 years. That is roughly about the increase of output.

I say that may be a little inadequate.

Senator LONG. If you include in your calculation then the inflation of the currency, which took away 8 percent of it, that leaves you 4 percent.

Mr. HARRIS. I mean if you allow for the fact that people sat on their money from 1952 to 1956, that that is inadequate. I don't think the administration has had a look at this kind of figure.

Senator LONG. The point is, from 1952 to 1956, during that 4-year period, there had been an expansion in the economy which we should all welcome and want, and I think it should have been more than it is. About what would your estimate be of the amount the economy has expanded from 1952 to 1957?

Mr. HARRIS. I could give you that in just 1 second, if you will just wait a second. Senator, I think you should never be without the President's Economic Report, because any time you want anything you can always find it in here.

Senator WILLIAMS. The administration puts out a lot of good information.

Mr. HARRIS. You have an increase of gross national product in stable prices, 1952 to 1956, from 366 to 412. That is, roughly, 13 percent rise in gross. Adjusting for price change, roughly, 3 percent a year. That is not bad.

Senator LONG. I would like to see it expanding more rapidly than it has.

Mr. HARRIS. If we could keep on going for at least 10 years like this——

Senator WILLIAMS. The economy in the last 5 years has been the best in the history of this country.

Mr. HARRIS. You can examine the figures for 1952 and you will find a rate there of improvement that is at least as good.

Senator WILLIAMS. Well, we had a couple of wars, of course, but for this peacetime prosperity——

Mr. HARRIS. Well, Senator, you have to admit the Democrats taught you how to do it.

Senator LONG. The point I had in mind, Doctor Harris, is that it is allowing for the increase in prices. You have an increase in deposits in currency. If you look into the overall increase of $22 billion and include in your calculation the increased cost of living then you have only $8 billion.

Mr. HARRIS. I don't agree with that logic, if you don't mind, Senator, because the increase in $22 billion brought about part of this increase in the cost of living. What we are saying is, Can you increase your total supply of money by $22 billion without bringing about an inflation or deflation? If you say, for example, that we could have done a little better than this and if we had increased by 30 billions we would have had a somewhat greater output, I would say, fine.

But what you are really saying is that you have a $22 billion increase in the total supply of money and what you are really doing is employing a little too much, because you haven't increased the cost of living, you see.

Senator LONG. What I am particularly concerned about is the increase to a man buying a home when the interest charges are increased 50 percent.

Mr. HARRIS. That is serious.

Senator LONG. It makes a lot of difference to me. It may be that some of these overall economic factors might be favored by it. I would like to see it go down.

Mr. HARRIS. I agree with you in general on that. I think the homeowner and, particularly the State and local governments, the small businessman, too, have taken a licking on this high interest rate policy. I am perfectly willing to say to Mr. Martin, "o. k., in view of your objectives, you might try to get the supply of money down." I would say, "see what you can do about the guy who wants to build a home or buy an automobile." Or the people who do not have access to the money market that the large businessman does.

Senator LONG. If we are worried about inflation, and think it is getting out of hand, it would be very easy to require a man buying an automobile to make a downpayment and require a veteran to make a downpayment, and require people to make a downpayment on household appliances.

We are not going to do so. That is because we are way below our productivity capacity right now. We could produce 2 million more automobiles and a lot more homes and everything, and we know it is not a good idea to cut down on our productivity capacity any more than we have already. If we are going to try to keep people from spending money, we realize that direct controls would not be a good idea because we want more production.

Now, if the same thing is true, why do we increase the interest costs to a man buying a home by 50 percent on the theory we want to cut production, when we don't really want to cut production? I don't think we want to; it is not good for the country.

Mr. HARRIS. I will take your word for the unemployment figure you gave, and I am sure you are right, there are already 4 million unemployed. Possibly by good management, we might get that down by 1 million, as that might increase our output by about 1½ percent. We have 70,000,000 workers now, you see. That is desirable to increase our output by 1½ percent but I think there are some limits in the resources. I think this is one reason why the Federal Reserve is worried.

I am not always sure about their worries. You see in 1953 they talked about the great danger of inflation and together with the Treasury, did bring about a recession and yet we experienced a considerable period of price stability before this, so I couldn't notice any great danger of the inflation. I was one of the first to write a letter to the New York Times saying there was no danger.

I think people are too worried about inflation, that at the first signs they get a little panicky and have got to do something about it.

It may be, if I were guessing, I would think they were a little too concerned about this danger. I think what you have to do is take some calculated risk on these matters. I would not like to see any substantial inflation.

I think Mr. Burgess once said if they hadn't done what they had done, we would have an inflation greater than the Chinese inflation.

The Hungarian inflation was the worst the world ever had, it was a rise in price of 10^{17}—that is 10 followed by 16 zeros—a 10^{17} rise in prices. That is the world's record.

Our inflation has been a modest one, considering what we have done—raised our output from a hundred billion dollars in the '20's to over 400 billion, and the average American has a hundred percent more in goods and servies than he had 25 years ago.

This is a tremendous achievement. And we wouldn't have had as large a rise as that without the war. I think the inflation has been serious, but given the whole picture, it is a darn good record.

I am including the Republican as well as the Democratic Party periods during these years. So you can be a little too much worried about inflation. I think I, myself, wouldn't worry too much if we had a 1 percent rise a year; if it got up to 2 percent I would be worried.

A large inflation has adverse affects on the output, is demoralizing to the system and is unfair in its effects.

I think you can compare our record with any other country in the world and it has been a remarkable record. With these two major wars, nobody could have done much better.

I compared the increase in the cost of living in the Civil War with World War II, the Civil War being the last war won under the Republicans, you see, and I found in relation to the resources put into the war, that there was an inflation 14 times as great in the Civil War as in World War II.

This is, in a way, an unfair comparison, because as you know, in the Civil War, we didn't have the techniques to deal with inflation that we do have now. But if a good Republican says to me, "What a lousy job you did in the war," I can say, "Look at what you did in the Civil War."

Senator LONG. Are there any further questions?

Senator WILLIAMS. No, just a comment. Let's hope it will be another hundred years before we can make another comparison.

Mr. HARRIS. I hope so, too. I am sorry to be so long-winded, but that is a professor's disease, as we well know.

The CHAIRMAN. Thank you, Mr. Harris. Your prepared statement will be inserted in the record at this point.

(The statement referred to follows:)

MONEY RATE POLICY: SUMMARY

STATEMENT BY SEYMOUR E. HARRIS, CHAIRMAN OF THE NEW ENGLAND GOVERNORS' TEXTILE COMMITTEE AND CHAIRMAN OF THE DEPARTMENT OF ECONOMICS, HARVARD UNIVERSITY

1. The effects of high rates

It is not inappropriate to use high money rates to stop inflation, especially if not used to demoralize the bond market and help bring on a recession, as in 1953.

Yet some questions may be raised concerning policies of 1955–56.

For inflation has not been stopped—in fact, inflation in the last year was 5–6 times that of average in 1932–52, exclusive of war and demobilization years.

The incidence of the high money rate policy has been uneven.

Municipal issues now yield 70 percent in excess of 5 years ago, though yield on Federal and gilt-edge corporation bonds are up now by only 30 percent.

The higher rates have primarily profited big investors. The holders of E bonds since their original issue have had a rise of yield of but one-tenth of 1 percent. But the goods value of their investment has dropped by 37 percent since 1944. The rate should reflect market conditions. Thus, since 1954 Treasury bill rates are up from 0.953 to 3.230 percent in December 1956 (a rise of about 250 percent); 20-year taxable Treasury bonds, from 2.71 to 3.37 percent (a rise of 0.66 percent, or 24 percent); corporate Aaa bonds, from 2.90 to 3.37 percent (or 16 percent). The proposed 16 percent rise for E bonds is modest.

2. Is the dear money policy to be continued?

This policy has not had the hoped-for results of stopping the inflation.

It has introduced great inequities. State and local governments need $200 billion for capital in the next 10 years. But they are having the greatest difficulties in finding the necessary money.

The New England governors and others have made known their concern (memo to President, February 25, 1957). These governments cannot pass on the higher costs to the Federal Government or to consumers as the large corporations can. Potential home builders are also deterred. The small-business man is squeezed out first, also, as are industries in difficulties like textiles.

The cost of financing the national debt has risen by $1 billion from fiscal year 1953 to fiscal year 1958.

Hence a dear-money policy can be justified only if:

(*a*) It is implemented by fair distribution of available funds.

(*b*) If the $85 billion of Federal Government credit is allocated to a greater extent to State and local governments (see memo by New England governors).

But we should stress the point that monetary policy will be effective only if it is well integrated with fiscal policy, and even then there is much uncertainty—for wage policy puts a great strain on monetary and fiscal policy. Can wages go up and prices set by monopolistic or semimonopolistic corporations rise in excess of limits set by wage rises and productivity and monetary policy be successful?

3. The condition of State and local governments

I am particularly concerned by the condition of State and local government finance. Debt up from $16 to $49 billion in 10 years; expenditures up $3 billion yearly since 1950; projected outlays $60 billion in 10 years; the capital market in bad shape; the Federal Government cutting its new construction by one-quarter, even as State and local governments since 1952 increase theirs by two-thirds.

In conclusion, dear-money policy can be supported only if it is administered equitably—the E bond holder should share with others, and all with claims should share equitably in the reduced supplies of money.

The CHAIRMAN. Mr. Heilprin?

You have a prepared statement, Mr. Heilprin?

Mr. HEILPRIN. Yes, sir. Will I be permitted to read it?

The CHAIRMAN. Yes.

STATEMENT OF WILLIAM A. HEILPRIN, ARLINGTON, VA.

Mr. Heilprin. The legislation now proposed—to increase interest rates on United States savings bonds—is a clear recognition of the necessity for making these bonds more attractive to purchasers and less likely to be prematurely turned in for redemption. The old law of supply and demand is still at work and under new conditions of inflationary tendencies, higher interest rates, money scarcity in relation to the expanding demands of our economy.

To raise the interest rates is one obvious way to meet the critical situation, but much too simple if other means can be found to make savings bonds more attractive. Expensive too—in these times when we are confronted with vast budget requirements which can only be met by the starry hope that our tax receipts will not falter.

Now I do not presume to say that my proposal or any other will entirely obviate the necessity of at least some minor increase in interest rates—and to that extent I do not oppose the present proposal, except to stress a limit to the Treasury authority to go into higher rates at its discretion and fasten the burden for years to come when perhaps such a rate may seem outrageously costly.

The savings bonds—quite apart from interest rates—seem to me to be something of an anachronism, hedged around as they are with restrictions which are unnecessarily burdensome and detractive from their sales appeal. But here again I do not presume to ask this Congress to reconsider their fundamental nature.

I am here to propose a new way of meeting the dilemma—or, to put it more modestly—of partially meeting it; at least to make it less costly and to further insure that the new proposals, if adopted, will really produce desired results.

My plan is concerned with making the savings bonds far more attractive to a greatly enlarged number of people, at no cost whatever to the Government, in the shape of increased interest returns.

Briefly, it is to make up and sell packages of savings bonds, a package to consist of a series of bonds, 1 of which matures in 1 year, 1 in 2 years, 1 in 3 years, et cetera. Say a package of 10 or 14 or 18, constituting an annuity for its owner.

An annuity series such as this is an ideal estate setup as any investment counselor will agree. A very large percentage of our population does not enjoy the luxury of employing investment counselors. But here is a combined savings investment plan ready made for all of these people.

The Treasury Department has for years promoted the idea of systematic purchases of savings bonds so that after 10 years a regular purchaser of E-bonds, for example, would have acquired exactly the setup which I propose for him to own at once by buying a savings annuity package.

To create such an estate, until now a person must have a great deal of foresight and even more determination. He must also have the good fortune never to miss buying a bond on schedule. He could never fill in a bond which he had missed buying at the proper time. He must also look forward to living out the 10 years, in order to make the purchases.

Few indeed are qualified to start such a program, and even fewer can accomplish it. The savings annuity bond package will put millions of people into the enviable position of these last few.

A savings annuity package can, for example, be sold at say about \$850 for 10–\$100 maturity E–bonds. Of course, a package may be a single instrument with coupons to represent the constituent bonds, and any bonds or coupons which are not turned in at maturity would continue to earn interest as is now provided with series E–bonds. The interim redemption values would have to be altered to avoid a loophole such as might be created if a purchaser of a package bond would immediately dispose of the later maturing bonds at cost and keep only that or those which mature first. Or if redemption values were kept as at present or somewhat altered—as I understand the Treasury Department has under consideration—then the instrument should provide that the constituent bonds if cashed before maturity must be presented in the order of their earliest maturity.

The annuity savings bond is not only a way out for the Government to rescue its savings bond program. It will be a new force sociologically of immense importance to our people. It took 150 years, or as I say here, one and one-half centuries to put Benjamin Franklin's ideas of thrift into the form of really secure savings with Government participation. During the past 2 or 3 decades many ideas have been put into effect to make our people more secure—in disability, in sickness, in old age. The tremendous attainments along these lines would have been thought impossible to accomplish 40 or 50 years ago, and would have probably been labeled dangerous socialism. Now these prodigious advances providing for social welfare are taken for granted and they are a measure of our national attainment.

It should require but little argument to add the annuity feature to our savings-bond program. There is the real value of the annuity savings; there is the educational value of estate planning. When these sociological values are combined with strengthening our Government's fiscal position—and at no extra cost to the Government—it would appear to me that this plan merits your strong consideration.

I have been advised that it is within the present authority of the Secretary of Treasury to issue bonds of the type herein proposed. If this be the case, the Congress may specifically approve the plan or specifically authorize the issue of an annuity savings bond in addition to its present type of E and H bonds. A critical situation such as now, may not arise again—for many years it is to be hoped; but a situation such as now is the opportune time for giving effect to the important forward movement which this plan envisages.

Senator LONG. Thank you very much. It is a very interesting statement. I had not considered that before.

Are there any questions?

Senator WILLIAMS. No questions.

The CHAIRMAN. Thank you very much, Mr. Heilprin.

That concludes the witnesses for today. We will adjourn at this time and reconvene at 10 o'clock tomorrow morning.

(Whereupon, at 4:25 p. m., the meeting was adjourned to reconvene Thursday, April 4, 1957, at 10 a. m.)

SAVINGS BOND INTEREST RATE INCREASE

THURSDAY, APRIL 4, 1957

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Harry F. Byrd (chairman), presiding.

Present: Senators Byrd (chairman), Kerr, Frear, Long, Smathers, Anderson, Douglas, Gore, Williams, Flanders, Carlson, and Jenner.

The CHAIRMAN. The committee will come to order.

Our first witness this morning is Mr. Leon Keyserling, Washington, D. C. Mr. Keyserling, we are very glad to have you, sir. Have a seat and proceed.

STATEMENT OF LEON H. KEYSERLING, CONSULTING ECONOMIST AND ATTORNEY, FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT, WASHINGTON, D. C.

Mr. KEYSERLING. Good morning. Mr. Chairman and members of the committee, I want to proceed in the way most convenient to the committee.

I have a summary of a prepared statement, but I think it would be easier for you if I sort of summarized the summary as I go along.

I have some charts to illustrate some of the points.

The CHAIRMAN. That is entirely satisfactory. You may proceed as you see fit.

Mr. KEYSERLING. I will be very glad to have questions as I go along. If it happens that a question relates to something I am going to cover shortly, I will mention it.

Mr. Chairman and members of the committee, I appear, as an independent individual, at the invitation of the committee, in opposition to the proposal to authorize the Secretary of the Treasury to increase the interest rates on United States savings bonds. There is a superficial appeal in this proposal, on grounds of equity, because it would enable many American families holding small amounts of savings bonds to get a small share of the higher interest rate handouts which others already are enjoying through the higher interest rate hard-money policy to date. But every increase in interest rates surely breeds other increases, as this very proposal shows.

The Treasury now is asking for an interest rate responsive to the fact that when some interest rates go up, other rates have to go up, also.

The average American family has already been hurt far more by the hard-money policy, and will be hurt far more by this policy if it continues, than the family could possibly be helped by a tiny additional interest handout on the small amount of bonds that such family is likely to hold. Therefore, it is in the interest of the average American family, and of the whole economy, to consider interest-rate policies in terms of their full impact, instead of looking at the problem piecemeal.

I maintain that thus far the hard-money, higher interest rate policy has imposed billions of dollars in additional and unnecessary costs upon Federal, State, and local governments. It has imposed even more billions of dollars of additional and unnecessary costs upon business enterprises, small and large, and upon countless millions of individuals—farmers, homeowners, veterans, and the people in general. These additional costs, both public and private, have been used to swell the incomes of recipients of income in the form of interest, and this latter form of income has been growing far more rapidly than the incomes of those adversely affected by the hard-money policy. Thus, in terms of equity, the hard-money policy has been and is in my judgment entirely unconscionable and indefensible.

In terms of its avowed purpose of combating inflation, the hard-money policy has been and still is an unmitigated flop. It has done practically nothing to subdue the excesses of business investment in producer equipment relative to the much slower and deficient growth in consumption. It has done practically nothing to abate the excessive growth of consumer debts relative to deficient consumer incomes. If anything, it has encouraged both these excesses and these deficiencies, and thus has poured fuel on the flames of selective inflation, while it has poured water on the embers of the selective deflation being suffered by the farmer, the small-business man, the low-income consumer of durables, and many other groups. Thus, as an economic stabilizer, the hard-money policy is an upside-down policy.

Senator LONG. May I interrupt you there?

The CHAIRMAN. Certainly.

Senator LONG. I notice that during the period of time that these interest rates have been increased, consumer debt has increased by one-third. It has increased from about $31 billion to $41 billion, and so as far as discouraging people from going more deeply into debt, it has failed, but it has made them pay more as interest.

Mr. KEYSERLING. I think you are right. I have some charts and more details on that point.

Senator LONG. Very well.

Mr. KEYSERLING. Furthermore, the hard-money policy has seriously repressed the rate of economic growth, during the past year or so, to a rate far less than half the requirements for healthy economic development. Correspondingly, it has been largely responsible for an increase in true unemployment in the first quarter of 1957 to a level more than 40 percent higher than in 1953. Unless the hard-money policy is promptly reversed, the general economic outlook for the year ahead may be even more somber than that now being portrayed by an increasing number of sober business analysts.

I want to say at that point that I am in agreement completely with the commentaries made by some members of the committee yesterday as to the general character of the economic outlook for the months ahead.

In short, the hard-money policy is breeding recession instead of fostering economic growth.

The proposal now before the committee, therefore, has tremendous significance, far beyond the magnitudes of the additional interest cost which it would immediately place upon the Government. Through this proposal, the Congress is being asked to give explicit endorsement to the hard-money policy, thus leaving the Treasury and the Federal Reserve Board even more at liberty than they have been to inject the hard-money philosophy into a great range of public and private programs which, unfortunately, have not been subject to close or continuous congressional scrutiny or control.

The extent to which the monetary policy, which so enormously affects the national well-being, has been allowed to drift away from congressional control is in itself a great evil; by approving or disapproving the current proposal, the Congress can either accentuate this evil or begin to put a stop to it. I recommend the latter course.

I shall now submit the facts which I believe support the general statements and conclusions which I have set forth above:

Now, this first chart that I have here, is, I think, very responsive to the bulk of the questions raised yesterday by the committee, although it was prepared prior to yesterday.

My factual statement breaks down into three parts. First, a factual examination of what has been happening to interest rates. That factual statement, of course, is drawn from Government statistics.

Second, my own appraisal in part, although it is also based on facts, of the cost of this hard-money policy to Federal, State, and local governments, and to business and the general public.

Third and more important still, an appraisal of the effects of the hard-money policy on the American economy generally.

Now, turning to this chart 1, I will read some of the figures. The upper left sector shows the trends in interest rates since 1950, and through 1956, on the national debt, on 3- to 5-year United States Government obligations and on State and local government bonds.

Senator LONG. I would like to ask that this chart be made a part of the hearing. In fact, all these charts, in the order that the witness uses them, should be included in the record so that we can understand them.

The CHAIRMAN. I think so.

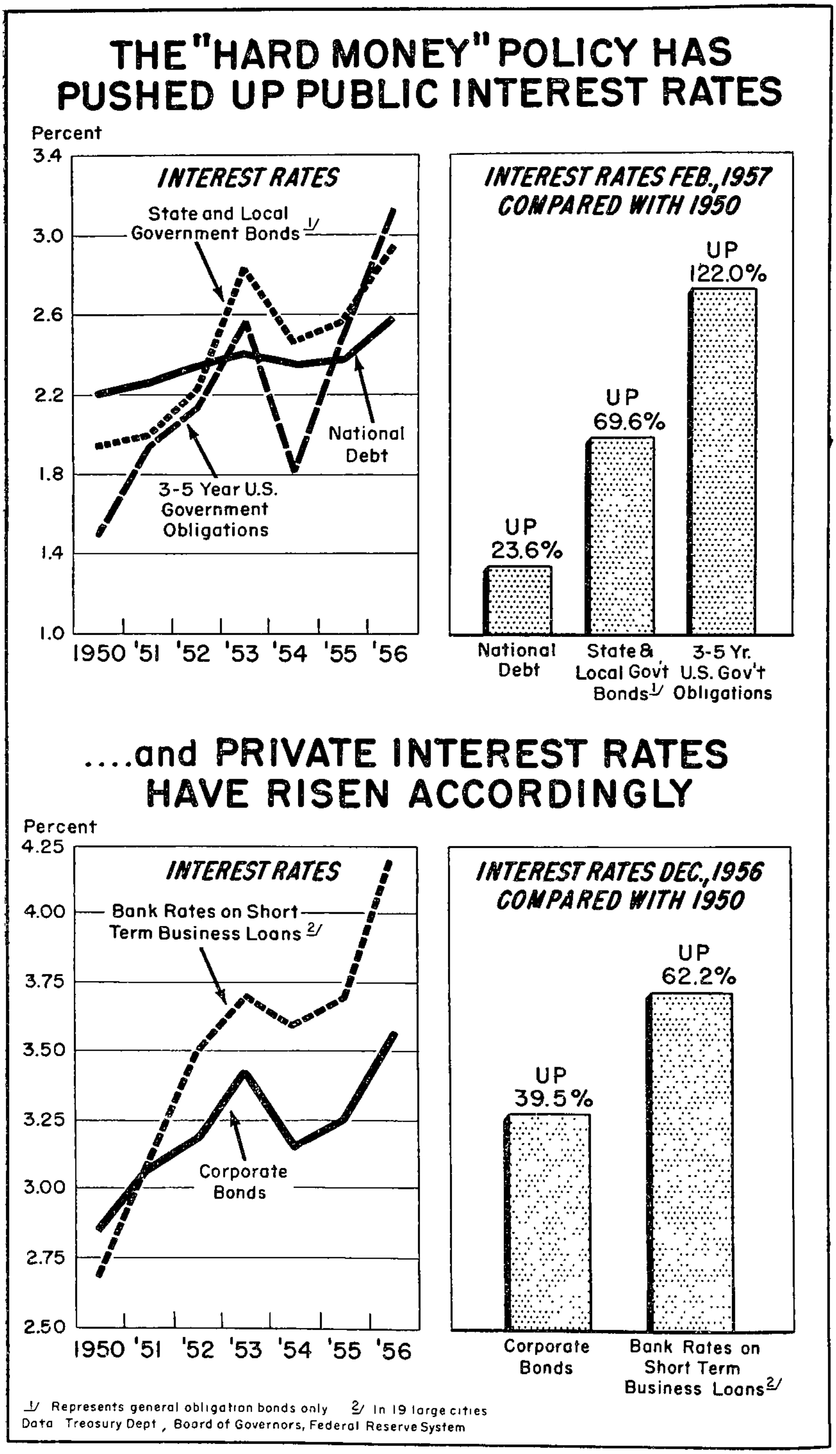
Senator LONG. I think they should be printed, Mr. Chairman, not in color, but they could be printed by using dotted lines and solid lines, in the same manner that they are used in the economic report.

The CHAIRMAN. Very well.

Mr. KEYSERLING. In the interest of economy, the Printing Office has some objections to charts that have been printed in other hearings. This chart was prepared since Monday, when I got invited here. My other charts are also new ones.

The CHAIRMAN. Without objection, it will be printed.

(The chart referred to is as follows:)


THE "HARD MONEY" POLICY HAS PUSHED UP PUBLIC INTEREST RATES
Percent
3.4
3.0
2.6
2.2
1.8
1.4
1.0
INTEREST RATES
State and Local Government Bonds 1/
National Debt
3-5 Year U.S. Government Obligations
1950 '51 '52 '53 '54 '55 '56
INTEREST RATES FEB., 1957 COMPARED WITH 1950
UP 23.6%
UP 69.6%
UP 122.0%
National Debt
State & Local Gov't Bonds 1/
3-5 Yr. U.S. Gov't Obligations
....and PRIVATE INTEREST RATES HAVE RISEN ACCORDINGLY
Percent
4.25
4.00
3.75
3.50
3.25
3.00
2.75
2.50
INTEREST RATES
Bank Rates on Short Term Business Loans 2/
Corporate Bonds
1950 '51 '52 '53 '54 '55 '56
INTEREST RATES DEC., 1956 COMPARED WITH 1950
UP 39.5%
UP 62.2%
Corporate Bonds
Bank Rates on Short Term Business Loans 2/
1/ Represents general obligation bonds only 2/ In 19 large cities
Data Treasury Dept., Board of Governors, Federal Reserve System

Mr. KEYSERLING. With respect to the interest rate on the public debt in general, it is increased from 2.200 percent—that is the average interest rate on the public debt—to 2.719 percent in February of 1957, which is an increase of 23.6 percent.

Senator DOUGLAS. Isn't that due primarily to the long-term Government bonds which have not been refunded?

Mr. KEYSERLING. That is correct. As I point out later on, the increased cost will be much greater as more refunding takes place.

With respect to 3- to 5-year Federal Government obligations, the interest rate has increased from 1.50 percent to 3.33 percent, or 122 percent.

With respect to State and local general obligations, which have gone up from 1.94 percent to 3.29 percent, the increase has been 69.6 percent.

Now, there is one other thing that I have which is extremely important, which I didn't have time to get on the chart——

Senator LONG. What percentage was that first one? That is, 3- to 5-year Government obligations.

Mr. KEYSERLING. Oh, on 3- to 5-year Government obligations, the rate increased 122 percent from 1950 to February 1957.

One other figure that is very interesting and which I didn't put on the chart is on 9- to 12-month Federal issues, which are very important because I have always believed that the capacity of the Government in its discretion to do short-term financing could, within proper limits, result in substantial economy.

The interest rate on those has gone up from 1.26 percent in 1950 to 3.23 percent in February 1957, an increase of 156 percent.

The question was raised yesterday as to whether or not increases in Federal interest costs had an effect upon interest-rate levels elsewhere.

Of course, with respect to State and local obligations, I have already reviewed the figures. Now, I want to turn to private borrowings, which are shown on the same chart. Then I will comment on whether this is an accidental correlation or not.

With respect to corporate bonds, the interest rate has risen from 2.86 percent in 1950 to 3.99 percent in December 1956, an increase of 23.6 percent.

Senator LONG. On what?

Mr. KEYSERLING. On corporate bonds, from 2.86 percent to 3.99 percent in December 1956, an increase of 23.6 percent.

Now, it is very interesting to note that the increase in interest rates on the national debt expressed in percentages is exactly the same, even including the decimal, to the increase in interest rate on corporate bonds.

Senator DOUGLAS. Would you recheck that division? You say that is an increase of 23.6 percent. That is an increase of 1.13 or almost 40 percent.

Mr. KEYSERLING. Oh, no, I must have read it wrong. What is your question? Corporate bonds?

Senator DOUGLAS. Yes.

Mr. KEYSERLING. No, I said the increase on corporate bonds was from 2.86—let me see what I have here in my testimony.

Senator DOUGLAS. You have in your testimony from 2.86 to 3.99.

Mr. KEYSERLING. And you say that is an increase of how much?

Senator DOUGLAS. Of approximately 40 percent, if the figures of 2.86 to 3.99 are correct.

Mr. KEYSERLING. Well, the Senator seems to be correct; it is 39.5 percent.

Senator FREAR. That doesn't show that on the chart, does it, on corporate bonds.

I can't quite determine the figures.

Senator BENNETT. 23.6 on the chart.

Mr. KEYSERLING. May I come back to that?

Senator DOUGLAS. Yes. I wanted to correct the record on the apparent discrepancies between the figures.

Mr. KEYSERLING. When I check them out, they will come out right. The correct figure is 39.5 percent.

The CHAIRMAN. I want to ask this question: Do you differ with Mr. Burgess on the figures that he presented to the committee yesterday?

Mr. KEYSERLING. As I recall his figures, which I don't remember in full detail, I don't believe there was any figure that he presented which I differ with, in this particular phrase. I differ greatly with his interpretation.

The CHAIRMAN. I know that, but I want to know if there was any actual difference in the figures presented by you and Mr. Burgess.

Mr. KEYSERLING. Not so far as I know, in this phase. In fact, Treasury Department and Federal Reserve Board figures are shown on that chart.

Then, moving over to short-term bank rates, the short-term bank rates have gone up from 2.7 percent in 1950 to 4.38 percent in February 1957, an increase of 62.2 percent.

Unfortunately, I have not been able to gather, particularly in this short time, what has been happening in detail to other private borrowings than the two indicated there. I don't believe that such figures are readily available, or available at all, in current Government statistics; and it does seem a little surprising to me, in view of the enormous interest rate changes and their effect upon the national economy over the past few years, that material of that kind, which is so tremendously relevant to the validity or invalidity of the policy itself, is not at the fingertips of those who are charged with the responsibility for the policy.

TABLE 1.—*Various interest charges, 1950–57*

[Averages for listed periods in percent per annum]

Period	Money market rates—U.S. Government securities (taxable): 9- to 12-month issues	Money market rates—U.S. Government securities (taxable): 3- to 5-year issues	Bond and stock yields: State and local government bonds: General obligations	Bond and stock yields: State and local government bonds: Revenue bonds	Bond and stock yields: Corporate bonds	Computed annual interest rate on public debt	Bank rates on short-term business loans, 19 large cities (all size loans)
1950	1.26	1.50	1.94	2.34	2.86	[1] 2.200	2.7
1951	1.73	1.93	1.99	2.29	3.08	[1] 2.270	3.1
1952	1.81	2.13	2.22	2.45	3.19	2.330	3.5
1953	2.07	2.57	2.82	3.02	3.43	2.414	3.7
1954	.92	1.82	2.46	2.81	3.16	2.342	3.6
1955	1.89	2.50	2.57	2.85	3.25	2.370	3.7
1956	2.83	3.12	2.94	3.26	3.57	2.580	4.2
1955—March	1.49	2.30	2.49	2.80	3.20	2.334	3.54
June	1.71	2.42	2.49	2.80	3.23	2.351	3.56
September	2.14	2.72	2.70	2.92	3.31	2.402	3.77
December	2.56	2.83	2.70	2.97	3.33	2.490	3.93
1956—March	2.43	2.83	2.67	2.95	3.30	2.533	3.93
June	2.69	2.87	2.71	3.02	3.46	2.576	4.14
September	3.17	3.43	3.06	3.50	3.75	2.614	4.35
December	3.33	3.65	3.57	3.95	3.99	2.671	4.38
1957—January	3.17	3.40	3.51	3.92	4.04	2.683	(2)
February	3.23	3.33	3.29	3.75	3.99	2.719	(2)

[1] June figures (not yearly averages).
[2] Not available.

Source: Federal Reserve Bulletins and Treasury Bulletins.

TABLE 2.—*Change in various interest rates between 1950 and 1956*

[1950=100]

Period	Money market rates—U.S. Government securities (taxable): 9- to 12-month issues	Money market rates—U.S. Government securities (taxable): 3- to 5-year issues	Bond and stock yields: State and local government bonds: General obligations	Bond and stock yields: State and local government bonds: Revenue bonds	Bond and stock yields: Corporate bonds	Computed annual interest rate on public debt	Bank rates on short-term business loans, 19 large cities (all size loans)
1950	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1951	137.3	128.7	102.6	97.9	107.7	103.2	114.8
1952	143.7	142.0	114.4	104.7	111.5	105.9	129.6
1953	164.3	171.3	145.4	129.1	119.9	109.7	137.0
1954	73.0	121.3	126.8	120.1	110.5	106.6	133.3
1955	150.0	166.7	132.5	121.8	113.6	107.7	137.0
1956	224.6	208.0	151.5	139.3	124.8	117.3	155.6
1955—March	118.3	153.3	128.4	119.7	111.9	106.1	131.1
June	135.7	161.3	128.4	119.7	112.9	106.9	131.9
September	169.8	181.3	139.2	124.8	115.7	109.2	139.6
December	203.2	188.7	139.2	126.9	116.4	113.2	145.6
1956—March	192.9	188.7	137.6	126.1	115.4	115.1	145.6
June	213.5	191.3	139.7	129.1	121.0	117.1	153.3
September	251.6	228.7	157.7	149.6	131.1	118.8	161.1
December	264.3	243.3	184.0	168.8	139.5	121.4	162.2
1957—January	251.6	226.7	180.9	167.5	141.3	122.0	(1)
February	256.3	222.0	169.6	160.3	139.5	123.6	(1)

[1] Not available.

Source: Table 1.

Now, second, I come to the question of the initial cost of the tremendous upsurge in interest rates.

What have these manipulated increases in interest rates cost the Government and the American people, which was a question very properly asked yesterday by the committee.

I have computed these increased costs from the start of 1953 through the end of 1956, a period of 4 years.

This is a reasonable period, because interest rates in 1952 were very little higher than in 1950, and it is arguable that this may have been desirable. I do not believe it was desirable. But this method makes my estimates of the increased costs very conservative, because, if I started from 1950, I would obviously get higher figures.

On the Federal public debt alone for the years 1953 through 1956, interest payments were about $1 billion higher than they would have been if interest rates had remained at the 1952 level, allowing for the increasing size of the national debt.

Now I have a table on that in detail, which I would like to insert in the record. The method used is very simple, One column shows the national debt. Another column shows the actual interest rates paid, and still another column shows what the payments would have been if the interest rates had not changed since 1952.

The CHAIRMAN. Without objection, it will be done.

(The table referred to is as follows:)

TABLE 3.—*Interest charges on the public debt, 1950–57*

	Interest-bearing public debt	Computed annual interest rate	Annual rate: Computed annual interest charge	Annual rate: 1952 interest rate applied to debt level	Annual rate: Excess due to increased interest rate
At end of fiscal year:	*Millions*	*Percent*	*Millions*	*Millions*	*Millions*
1950	255, 209	2. 200	5, 613	5, 944	−331
1951	252, 852	2. 270	5, 740	5, 889	−149
1952	256, 863	2 329	5, 981	5, 981	----------
1953	263, 946	2. 438	6, 431	6, 147	284
1954	268, 910	2. 342	6, 298	6, 263	35
1955	271, 741	2 351	6, 387	6, 329	58
1956	269, 883	2. 576	6, 950	6, 286	664
1953–56 total	----------	----------	----------	----------	1, 041
Average for calendar year:					
1952	259, 843	2. 330	6, 053	6, 053	----------
1953	267, 827	2 414	6, 462	6, 240	222
1954	272, 041	2 342	6, 371	6, 339	32
1955	275, 098	2. 370	6, 518	6, 410	108
1956	273, 407	2. 580	7, 048	6, 370	678
1953–56 total	----------	----------	----------	----------	1, 040
At end of given month:					
1955—March	271, 200	2. 334	6, 328	6, 316	12
June	271, 741	2 351	6, 387	6, 329	58
September	274, 879	2. 402	6, 601	6, 402	199
December	277, 799	2. 490	6, 913	6, 470	443
1956—March	273, 481	2 533	6, 925	6, 369	556
June	269, 883	2. 576	6, 950	6, 286	664
September	271, 660	2 614	7, 098	6, 327	771
December	274, 219	2 671	7, 318	6, 387	931
1957—January	273, 698	2. 683	7, 343	6, 374	969
February	273, 919	2. 719	7, 448	6, 380	1, 068

Source: Same as Table 1.

Mr. KEYSERLING. Now that is over a 4-year period. But that is not the most important thing. More important is the accumulating, gathering momentum of this policy. Although the increased cost to the Federal Government was only about a billion dollars over the last 4 years——

Senator DOUGLAS. Wait a minute. Is this accumulated over 4 years?

Mr. KEYSERLING. Cumulative over the 4 years.

Senator DOUGLAS. Or is this a billion dollars a year?

Mr. KEYSERLING. No, sir; a billion dollars for 4 years.

Now, I come to the more important point. By February 1957, the annual rate of interest payments on the national debt was more than $1 billion higher than it would have been if the 1952 rate of interest had been maintained.

In other words, the average increased cost was about $250 million during the past 4 years, but by February 1957, the interest rates had risen so high above the 1952 level that the increased interest cost was more than $1 billion in February 1957, alone at an annual rate.

This is one of the most significant things I am saying, and even it does not fully reflect what will happen, as through a constant process of refinancing more obligations are brought under higher interest rates. I want to repeat that one sentence, because Senator Kerr is so interested in this point.

In February 1957 alone, at an annular rate, the interest cost borne by the Federal Government and reflected in the Federal budget was more than $1 billion higher than it would have been if the 1952 interest rates had been maintained.

Now, I think that this is the worst way of spending that money. There are many Federal expenditure purposes which would be preferable to making this interest payment bounty to various groups, as I will develop later in my testimony.

As between the two, reduction in the national debt or reduction in some forms of taxes would be preferable to this $1 billion a year additional interest cost, in my opinion, and my analysis will give you my reasons.

Senator LONG. If I might ask you that. People keep talking about inflationary things. If you would save the billion dollars, and reduce the national debt, that would have been anti-inflationary, would it not?

Mr. KEYSERLING. I am coming to that point shortly.

Senator KERR. May I ask a question at this point?

The CHAIRMAN. Certainly.

Senator KERR. Mr. Burgess yesterday told us, I believe it was yesterday, that on the $76 billion now outstanding of treasury bills, notes from 3 to 5 years duration, and regular certificates, that the interest is approximately $1,200 million per year more than it would have been on the same amount of similar forms of indebtedness, had they been issued at the rates in effect as of June 1952.

Mr. KEYSERLING. Well, I don't offhand see any inconsistencies between his figures and mine, Senator.

Senator KERR. Well, you have said a billion as I understood your statement, and I am aware that I got here late, and I was trying to rationalize it.

I though you indicated that your figures showed that the interest being paid now on the public debt was a billion dollars more than it had been as of 1952.

Mr. KEYSERLING. I am talking about the average interest rate on the entire national debt. As I understand what you said——

Senator KERR. The Assistant Secretary told us yesterday that aside from this $76 billion, and about $3½ billion of 40-year, 3 percent bonds, that the rest of the $277 billion outstanding obligations were those that were outstanding at the beginning of 1953; and that, therefore, their not having been matured and been refunded, the interest rate on them continues to be the same as it was in 1952.

So that, according to his testimony—and I am sure that he gave it to us as he read his own record—we are actually paying over a billion two hundred million dollars on the public debt for the same amount of indebtedness than we were paying as of June 1952, and I thought that the reminding you of that evidence or that testimony here at this point would be of some interest to you.

Mr. KEYSERLING. I appreciate that, Senator, and I have here a table which I am inserting in the record, and I am sure—at least I am reasonably sure, although I don't like to argue about figures because we want the right figures—that my figures will be found consistent with his.

My figures relate to an end period in February 1957, and the figures change a little bit from time to time. Possibly Secretary Burgess figure was for the end of 1956.

Senator KERR. No, his figures related to the detailed tabulation that he gave us of outstanding obligations in the form of Treasury bills, short-term notes, and regular certificates: And in comparing the interest which we are now paying on those particular items, as compared to the same amount of indebtedness in the same form, as of June 1952.

Mr. KEYSERLING. Well, I say it is somewhat more than a billion dollars, and Mr. Burgess says a billion two hundred million. But my starting period is the average for 1952 as a whole, and Mr. Burgess' starting period is June 1952, which was lower than the year as a whole. Allowing for this my figures and his are in fact precisely consistent.

Senator LONG. The main discrepancy is that the witness is testifying with regard to the average interest rate in 1952. Senator Kerr is referring to those issues which have been refunded since 1952 and the interest rate that those particular issues were bearing in 1952.

Mr. KEYSERLING. Senator Kerr made the statement that my figure ought not be lower than that of Mr. Burgess. My statement of more than a billion and the Treasury statement of a billion two hundred million will be found to be exactly consistent because we start from a slightly different base period.

But this does not represent the whole cost of rising interest rates throughout the whole economy. To appraise these total costs, we must look at all private and public debts, and also allow for the fact that interest rates on private debts seem to have been rising much more rapidly than the interest rate on the national debt.

At the end of 1956, the Federal debt was about $277 billion, State and local debts about 50 billion, corporate debts about 253 billion, and individual debts about 213 billion, coming to a total of about 793 billion.

Now then, it is impossible to figure precisely and exactly the increase throughout the whole economy, taking into account revealed and unrevealed interest rates. Therefore I have made a rough, but I think fair, approximation. Perhaps if I had at my disposal the resources of the Treasury, I would be appearing before you with more comprehensive data than the Treasury has made available.

Looking at these ratios, and allowing for some faster increase in private interest rates than in the interest rate on the national debt, it appears that by February 1957, with the Federal Government paying interest at an annual rate about $1 billion higher than if 1952 interest rates had been maintained, State and local governments were paying interest at an annual rate perhaps $250 million higher, and individuals paying interest at an annual rate about $1 billion higher, than if the 1952 interest rates had been maintained. Thus, the annual rate of total interest payments in February 1957 seemed to have been, very conservatively estimated, about $3¼ billion higher than if 1952 interest rates had been maintained. Using the same method of estimating, it appears that governments at all levels, businesses, and individuals, between 1953 and 1956, paid out about $3¼ billion more in interest than if the 1952 interest rates had been maintained.

Now, I will tell you how I got these particular estimates. As you see, the State and local debt is somewhat less than a fifth of the national debt. However, it is clear from the figures that I presented that State and local interest rates have risen faster. Therefore, I have made some adjustment for that. Even if I am off a bit, these figures are clear in their general import. Frankly, I can't give you every possible detail on this.

Senator KERR. Let me interrupt you. The Assistant Secretary yesterday testified that there was at least a 1½ percent increase in the interest being paid on corporate debts.

Now, if the corporate debt is $253 billion, as both you and he tell us, then the increased interest rate being paid by corporations is $3,750 million a year.

Senator DOUGLAS. You are being taxed with extreme conservatism.

Mr. KEYSERLING. Yes, it seems so, and Iappreciate that. I said that the Treasury had certain facilities for getting more details than I have. I have made a rough conservative approximation. I don't doubt, as it appears clear from my text, that mine are very conservative estimates. However, Senator Kerr's $3.7 billion figure is derived from the entire corporate debt, while the higher interest charges thus far apply only to the part of this debt refinanced since 1952.

Senator KERR. The only correction to which my statement just made would be subject would be with reference to outstanding corporate debt that was outstanding prior to the initiation or effectiveness of the differential existing today.

In other words, there is no question but what the interest rate being paid by triple A corporations has increased 1½ percent since the middle of 1952, so that with reference to new financing they are paying that much penalty as between now and what they paid on what they borrowed in the middle of 1952.

Now, of course all of the outstanding obligations, as of 1952, had not been retired, and all of those now outstanding which were not outstanding in 1952 have not been issued since the differential has increased to where it is.

But, I am fairly certain in my own mind, Mr. Keyserling, that your estimate there of how much excess being paid by corporations——

Mr. KEYSERLING. About a billion.

Senator KERR. By corporations?

Mr. KEYSERLING. Yes.

Senator KERR. Is very conservative, and as time goes on and the present differential becomes defective, to say nothing of a further widening, the penalty reaches the astronomical figure of $3¾ billion annually.

Mr. KEYSERLING. Well, I am sure that my statements are very conservative.

Senator KERR. Go ahead, I want to see your estimate on the private debt.

Mr. KEYSERLING. Yes. Distinguishing between official figures, which I take at their face value, and estimates made with my limited resources and staff and time, I cannot make a complete survey of corporate indebtedness in all its ramifications. Neither has the Treasury. But I am sure that mine are extremely conservative figures, and I am sure that the increased costs are rising rapidly through refinancing and new issues.

Senator LONG. You discuss further on the loss to the Government as the result of the increase in interest rates on the corporations?

Mr. KEYSERLING. Well, that gets into the whole question of the impact on the economy. I come to that later on.

Senator LONG. The point I have in mind is that a great portion of these corporate bonds are held by insurance companies. As we know, the insurance companies only pay taxes on about 6 percent of their income.

Mr. KEYSERLING. That is correct.

Senator LONG. Somewhere the corporation would have paid a 52-percent tax, then the money would have gone to an individual who, in turn, would have paid an income tax again, in this instance the Government could not.

Senator BENNETT. Isn't it true the insurance companies do pay 52 percent on their income from bonds? The thing on which they escape taxes is their income from underwriting. I don't think the point the Senator makes is valid with respect to their income from their investment.

Senator KERR. The question was not addressed to me, Mr. Chairman.

Senator BENNETT. I will be happy to make it to you.

Senator KERR. I would much rather the Senator would make a statement if he knows. My impression is that they pay a certain amount on their investment income. But I frankly, do not think it is before the committee.

Senator BENNETT. No, that is right.

Senator KERR. As to whether or not they do pay the corporate rate of taxes on the returns they receive from this kind of investment. If the Senator knows, I would be glad to have him state for the record.

Senator BENNETT. The Senator's memory is that the special tax treatment the insurance companies receive is based on the fact that it is necessary for them to set up very substantial reserves out of their underwriting income, and that the tax program under which we are now operating, which we have been trying to correct and finalize for years, is based on the theory that they do pay the corporate rate on their income from their insurance.

Senator KERR. On what?

Senator BENNETT. On bonds and stocks?

Senator KERR. Well, but most of the money that they have loaned to corporations is in the form of notes, neither stocks nor bonds.

Senator BENNETT. I think they pay their income on their investment. We will leave it at that point.

Senator KERR. Well, I don't think that they do.

Senator BENNETT. Their tax benefit comes from our inability to handle their underwriting problem.

Senator KERR. I would say it is our unwillingness. If the distinguished Senator wants to plead guilty to being incapable of the ramifications of that physical fiscal setup, I am not going to. I don't want you to level the accusation at me, because I can explain it to you in the remotest detail at any time you want to bring it up.

Senator BENNETT. We are off that subject, and I apologize for interrupting. But I could not let the record stand that the insurance companies are only paying 6 percent on their income on bonds and indebtedness.

Senator LONG. The point I want to make—if I am in error I want to be corrected—the statement I made was derived from information that I heard verbally here before this committee, I believe on the executive session, on occasions.

Now what is the effect of these increased interest rates to corporations? What is the impact on the Federal budget? I think we ought to know.

In other words, if, by increasing corporate payments $4 billion, by the time they reissue, we are going to lose a billion dollars in taxes, I would like to know it.

Mr. KEYSERLING. I will come to that point a little later, because it involves the question of the whole impact of the hard-money problem on the whole economy. In other words, If the hard-money policy has reduced the level of national income below what it otherwise would have been, that has an effect upon Federal revenues even greater than the application to a——

Senator DOUGLAS. Mr. Keyserling and Mr. Chairman. Before Mr. Keyserling resumes his testimony, may I make a request of the chairman that the staff be invited to clear up this question of the taxation of life-insurance companies? And I would like to inquire if they would address themselves, as well to the statement of the Senator from Oklahoma and the Senator from Utah. My understanding is that the life-insurance companies deduct 85 percent of their investment income, and the taxes which they pay are 52 percent of the balance, which is in my reckoning, equivalent to a 7½ percent of the net investment income.

Now, that is my understanding. If it is not correct, I would like to have the facts verified by the staff, and I would like to request of the chairman that the staff prepare an explanatory statement to clear up this point in the record.

Senator WILLIAMS. I think the Senator from Illinois is right.

You will find it applicable to corporations in America, 85 percent is exempt. They pay the 52 percent on the remainder, and it is applicable not only to life-insurance companies and underwriters but to all corporations in America. Is that not right, Mr. Keyserling?

Mr. KEYSERLING. I would trust your knowledge on that more than mine.

Senator LONG. You are speaking of dividends and I am speaking of interest on bonds.

The CHAIRMAN. As I understand the inquiry, the Senator from Illinois related to insurance taxation.

Senator DOUGLAS. That is right.

The CHAIRMAN. The staff is requested to submit that inquiry to Mr. Stam, and ask him to prepare it for insertion in the record.

(The material referred to is as follows:)

A BRIEF SUMMARY OF THE FEDERAL TAXATION OF LIFE INSURANCE COMPANIES

In general, life-insurance companies are taxable at ordinary corporate income tax rates with respect to only a portion of their investment income. Such income as the companies earn from the underwriting aspects of their operations is not included in taxable income at all.

With respect to the portion of the life insurance and annuity business of the companies a deduction of 85 percent of net investment income is allowed in determining taxable income. This deduction is actually 87½ percent of the first $1 million of net investment income for any company. After deducting this percentage of net investment income the companies are subject to the regular corporate income tax rates of 30 percent on the first $25,000 and 52 percent on the balance. The overwhelming portion of the net investment income of life-insurance companies receives the 85-percent deduction and is taxable at 52 percent of the remainder. This is equivalent to a flat tax of 7.8 percent on net investment income.

This treatment is not analogous to the intercorporate dividends received credit as was suggested at one point in the hearings. Corporations receiving dividends are permitted an 85-percent deduction because these dividends have already been taxed in the hands of a previous corporation. For ordinary corporations this credit is not available with respect to interest payments received from another corporation or from Federal Government bonds. The deduction in the case of life-insurance companies is applied to interest which constitutes their principal source of investment income.

In general, the 85 percent deduction allowed life-insurance companies is a recognition of their commitment to add interest to insurance reserves at rates specified in their various life insurance and annuity contracts. Ultimately the bulk of this interest is paid out in insurance benefits. In most cases the interest paid out will not be subject to individual income taxes although a portion of the interest added to reserves for annuities and endowments may ultimately be subject to individual taxes. A very small portion of interest earned may also be paid out as dividends on shares in stock life-insurance companies.

A relatively small portion of the interest received by life-insurance companies accrues on reserves held for accident and health insurance business. This interest is fully taxable in the hands of the life-insurance company at the regular corporate income tax rate without the 85-percent deduction.

Mr. KEYSERLING. Mr. Chairman and members of the committee, I am trying to follow a lesson that I learned from the Senator from Illinois, when he advised me to take one step at a time at a previous hearing.

Senator DOUGLAS. We had a very stormy session. It is novel that our friendship survived it.

Mr. KEYSERLING. The Washington Post said, the day afterward, that it was the most educational and illuminating discussion they had heard up here in many a day.

Senator KERR. Did they spell that "illuminating" beginning with an "a" or an "e"?

Senator DOUGLAS. You mean eliminated?

Mr. KEYSERLING. In addition to taking one step at a time, I think we have to speculate to a degree in all these matters, but we ought to place more emphasis upon what we know than upon what we think.

Now, we certainly do know, whatever may be the complicated indirect effects on the economy and revenues, we do know without interpretation and qualification that the Federal Government is paying more than a billion dollars more on the national debt—and I will accept Senator Kerr's amendment—that it would be paying if the 1952 rates prevailed.

That we know without deductions or inductions.

Senator LONG. Mr. Keyserling, to get that 1.2 billion figure straight—that is from the Treasury, itself. On the bond issue that the Treasury has financed, the increase has been 1.2 billion.

Mr. KEYSERLING. Senator, I think, if we look at my table when we get through, we will find the two figures are entirely consistent. They involve slightly different base periods.

Senator LONG. Yes, sir.

Senator KERR. Do you in this statement now address yourself to the increased interest rate being paid on private debt?

Mr. KEYSERLING. Yes, sir; I have some of it here. I have the part here on short-term business loans.

I said to the committee that I did not have the facilities to make a detailed estimate with respect to all other kinds of private debts, and I hoped the Treasury will furnish that.

Senator KERR. I would say that certainly with regard to private debt, which is ordinarily a very great percentage is short term—that is, in terms of months or years, limited number—that the increased interest rates implemented by this administration would have already become effective with respect to most of the $213 billion of individual debts.

Mr. KEYSERLING. Yes, sir; and the interest rate on the private debt has gone up much more than the interest rate on the public debt. I cannot give you the exact figure. I give you my rough estimate.

Senator KERR. What is it?

Mr. KEYSERLING. I have added another billion dollars for that.

Senator KERR. It is 213 billion. If the overall average on corporations has gone up 1½, on individuals, it has gone up a good deal more.

I would say that statement is conservative even to the point of inaccuracy, because certainly if the average rate of corporations is applied, then the increase on individual debt would be a minimum of $3 billion.

Mr. KEYSERLING. I appreciate the Senator's comment, although his corporate estimate was applied to the whole corporate debt, rather than to new issues since 1952. But I agree that my estimates are very conservative. I have no way of getting the detailed interest rates with respect to all of these items.

The CHAIRMAN. The chairman is supposed to leave to attend another important committee meeting, and I will return as soon as I can.

I will ask Senator Kerr to take the chair in my absence.

Mr. KEYSERLING. Due to the questioning, I am going to reread the previous sentence.

Using these ratios, and allowing for some faster increase in private interest rates than in the interest rate on the national debt, it appears that by February 1957, with the Federal Government paying interest at an annual rate about $1 billion higher than if 1952 interest rates had been maintained, State and local governments were paying interest at an annual rate perhaps $250 million higher, corporations were paying interest an an annual rate about $1 billion higher, and individuals paying interest at an annual rate about $1 billion higher, than if the 1952 interest rates had been maintained.

Now, it is very important to acknowledge that the higher interest payments in February 1957, may have been at an annual rate maybe $5 billion higher, rather than $3¼ billion higher, than in 1952. But it is even more important to recognize that this spiral is a continuing process. Whatever the figure may be at the moment, the annual figure now is at least as high as the cumulative figure for the past 4 years, and as more refunding takes place in both public and private borrowing, in 2 or 3 years there will be several billion dollars of additional increase in interest burdens being borne throughout the economy.

If the interest rate on savings bonds should now be raised from approximately 3 percent to approximately 3½ percent, it will follow with the certainty that the river finds the sea that other interest rates will rise throughout the economy, unless economic conditions become such as not to absorb such higher interest rates, in which event there would be a substantial economic recession.

Now, let me at that point make some comments on some things the Under Secretary of the Treasury said yesterday.

He said, if I state him correctly, that he did not believe that this increase in interest rates would result in increases in other interest rates.

Now that defies every empirical observation. The most fundamental and elementary law—if there is any law of financing—is that in the American economy there are certain categorical distinctions between various assumed degrees of safety, and so forth and so on; and that, if you have an increase in the interest rate at the base point of what is regarded as the prime security, namely, a United States Government bond, differentials will appear between that and other interest rates.

This is one thing that is not theory. This has happened. And the best proof that the Treasury realizes that it is happening is that the Treasury is coming in and asking for legislation, to adjust certain interest rates upward so they will be compatible with other interest rates.

Senator WILLIAMS. Was not the Secretary referring only to those series E bonds, not to bonds in general?

Mr. KEYSERLING. My impression was that he volunteered the opinion that increases in other interest rates would not result.

Senator WILLIAMS. That is embodied in H. R. 5520.

Senator KERR (presiding). Where that came up was this: I asked the Secretary, myself, if it was not a fact that in the event their legislation were enacted and the Treasury started paying a higher interest rate on E bonds and H bonds, then wouldn't it necessarily follow that the building and loan associations——

Mr. KEYSERLING. Yes?

Senator KERR. Would actually increase their interest rates they were paying on deposits——

Mr. KEYSERLING. Yes?

Senator KERR. And that wouldn't then the effect of that be reflected throughout the entire interest rate structure throughout the country.

The Secretary said positively no, that it would not, that no such result would obtain.

Isn't that the way you remember it?

Mr. KEYSERLING. May I say this? That is my recollection, but I am more interested in making an affirmative presentation that it will result in higher interest rates than in pinning a particular statement upon the Secretary.

My recollection is that he said that. I think he said it. But, anyway, I think it would happen, and I think all experience shows it would happen.

The only way it would not happen is if the economy could not absorb higher interest rates in other parts of the economy following upon this.

In other words, if the interest rate on the Government obligations is raised to three and a half and some other interest rates which is now three and a half would not go higher, it would not go higher only because they have been pushed past the absorption rate.

Consequently, the only two alternatives are either that the other interest rates would go higher, or that you will force investment capital and business activity out of operation and therefore reach the ultimate conclusion, namely, a general recession rising from a scale of interest rates moving above the level that the economy can take at high employment and production.

Senator WILLIAMS. I think the Secretary had in mind that this would not, in itself, constitute such a drastic change. It would have some effect, certainly, but he was trying to point out this would not touch—during the past 5 years with no change upwards, and it has not held interest rates down. They do not represent enough of the overall debt of the country, both Government and interest and capital combined, that you can control interest rates solely on E bonds. I think they do have some effect both ways.

Mr. KEYSERLING. I think that the Senator would be correct on that. I am not making the argument that this one change alone would be of tremendous importance taken by itself.

But as the old Latin poet said, "The descent into hell is by slow degrees and easy, but it is awful hard to get out."

I am saying that every further step forward increasing basic interest rates will have ramifying and large effects on the whole economy, and that the very fact that the Government during the last year has in various ways been trying to raise one interest rate after the other to catch up with those they have already raised, proves the point. This isn't the only example. They want to raise interest rates on housing. I am coming to that later—then they will have to raise some other interest rate a little more to preserve the margins. That is the basic point I am making.

Senator WILLIAMS. Each one does affect the other and they do have accumulative effects.

Mr. KEYSERLING. They certainly do.

Senator WILLIAMS. But you could not control it, just one segment alone, as I understood him.

Mr. KEYSERLING. I believe that the amount of wind you need to blow into a balloon to make it burst becomes less as the balloon becomes strained.

Senator WILLIAMS. I am not expert on balloons.

Senator DOUGLAS. When you refer to the balloons, that is no reference to any other witness is it? [Laughter.]

Senator KERR. Not even to any member of the committee?

Mr. KEYSERLING. No, sir. I think I will point out that we are near crossing the threshold of tolerance with respect to the gradual lifting of interest rates.

Now, if I may again revert to what the Secretary of the Treasury said, I found this hard to follow:

He said that the Government by all of these things that were being done was not determining the rate of interest at all; that supply and demand were fixing the rate of interest, and that the Government was just recognizing an established fact.

Senator DOUGLAS. I am glad you touched on that. I would like to have you elaborate on that.

Mr. KEYSERLING. Well, in the first place, I want to point out why the statement seems to me inconsistent, and, second, seems to me to be wrong.

It seems inconsistent because we know that in the reports of the economic advisers and other statements put out by the Government in recent years, they have categorically said that inflation has been stopped, that the main weapon in stopping inflation has been the monetary policy and the credit policy and the interest rate policy, which have the advantage, so they say, over certain other policies, of being generalized and not getting the Government into business.

I find it hard to reconcile when I hear any authority spending half of his time saying that these policies are the things that have stopped inflation, and then when he is challenged because the policy seems to be going too far, then to say these policies are not doing it at all, but that supply and demand is doing it.

First, it is inconsistent and second, I say it is wrong.

Senator KERR. Let me see if I understand you now. You are saying that they cannot be accurate in these two statements.

No. 1, that they have implemented fiscal policies which have stabilized the economy and halted inflation:

No. 2, that supply and demand alone have fixed these interest rates and they have no responsibility whatever in having done so?

Mr. KEYSERLING. That they merely recognized an actuality.

Senator KERR. And that they cannot be correct in both statements?

Mr. KEYSERLING. Yes.

Senator KERR. I think that is the understatement of the year.

Mr. KEYSERLING. Now my second point is that, as practical people, we know that supply and demand in a pure sense does not fix the interest rate on Government bonds. There is no one buyer of Government bonds, there is no collective force. There is nothing in the changing size of Government financial operations that would, on a supply and demand basis alone, drive up the interest rate on 3 to 5 year obligations by 122 percent in 4 years.

This is affected by the articulate policy decisions of the Treasury when they decide to put out new issues. It is determined in part by the method of financing; and determined in part by the interest rate at which they decide to offer the obligation.

I just cannot comprehend a statement that this change in interest rate is solely or mainly the automatic response to the laws of supply and demand.

Senator DOUGLAS. Let's do them justice. What they say is that they merely followed the movement of the interest rate in the private sectors of the economy.

Of course they fix the terms of loans. But what they say is they are watching private interest rates move up and are merely following them.

Mr. KEYSERLING. Well, Senator, may I say, without being accused of being flippant, because this is serious, that I am following a car when I am pushing it.

Senator DOUGLAS. Now, let me ask you a specific question. I have been an exponent of flexible interest rates, as I still am.

Senator KERR. Well, now, Senator, if you are now expressing any doubt as to the soundness of any conclusion you have previously reached, now if that is the interpretation of the observation, please make it clear.

Senator DOUGLAS. I will stand on what I said before. I think that was correct as of the time that I said it. I believe in flexible interest rates. But I have found my difficulty at the very point that you are touching on now. What startled me was the initial move of the Treasury in 1953 when they raised the interest rates on the refunded loan from 2¾ to 3¼ percent.

Now, I thought possibly with market interest rates moving up slightly some small increase in the interest rate was necessary to float the issue, an increase to 2⅞, possibly to even 3, might have been justified. But the increase to 3¼, or one-half of 1 percent, which on a proportionate basis was almost an increase of one-fifth of the interest rate, did not seem to me to correspond to movements in the private capital market and in fact constituted a forcible driving up of the interest rate. Now this to my mind is the most conspicuous case of the Treasury leading the market that I know of.

Will you comment on that?

Mr. KEYSERLING. May I say to the Senator and to the committee that nothing I am saying here should be taken as an argument against any flexibility in interest rates.

As a matter of fact, in my conservative statements at the beginning of my testimony, I said I was starting with 1952, although the interest rates had gone up from '50 to '52, on the ground that some increase may have been justified, though maybe such increases could have been spread over a longer period of years.

I am saying, however, that this process has gone too far already, and the accumulating pace of interest increases seems to have moved beyond the tolerance of the economy during the past year. This I shall develop when I come to my general economic discussion.

Senator DOUGLAS. Would you comment on the Treasury raising the interest from 2¾ to 3¼ percent? Do you regard it as moving the private market upward?

Mr. KEYSERLING. I regard it as just that.

Senator DOUGLAS. Do you think Treasury has led the market and forced the market, because Government financing is such an important and large part of the total?

Mr. KEYSERLING. I would not undertake, without further analysis, to point out all of the specific instances. But I would stand by the generality that, with the national debt as big as it is, with Treasury financing as important as it is in the whole economic picture, that of course you have an interaction of cause and effect. There is an interaction of private and public policies. I would certainly say that the commitment of the Government to a very rapidly increasing rate on public obligations, has pushed as well as followed, and done a lot of pushing.

I would also say that public policy can deal only with the sector of the economy that it can deal with; if we say 40 percent of it was the responsibility of the Government and 60 percent of it private, you gentlemen here, if I may say so, properly can deal only in your decisions with the public part of it.

Senator DOUGLAS. I understand. But it is also true the Treasury has to be able to float its issues. If they arê not able to float their issues on the terms which they lay down, then they have not very serious problems.

Mr. KEYSERLING. Certainly. I don't think these big increases have been necessary to float the issues. To get into a related subject, I think it could be shown with a great deal of cogency, that the rapid changes which come with speculation and gambling in changing interest rates have done more to demoralize and hurt the Treasury financing than to help it. There have been many instances which, rather than being an inducement, have been a demoralizing factor.

Senator CARLSON. Dr. Keyserling, before we leave this subject of the year of 1953, where interest rates were increased rather substantially and at rates that were, you might say, rather a shock on the economy, isn't it true that during the last 18 years, beginning back in 1939, this Government has had two policies on interest rates—and I think probably both by design. The previous administration, I think by design kept interest rates very low.

Now, may I ask you as to what effect the change of the interest rates in 1953 had on inflation.

Mr. KEYSERLING. That is the next subject that I am coming to here. Let me cover that, and if I do not cover it fully, I will be glad to amplify it.

Senator CARLSON. I surely hope you will——

Senator DOUGLAS. I do not want to interrupt the witness, but I will say to my good friend from Kansas, we should differentiate between the policy up to March 1951 and the policy of the 21 months following that date under which the Federal Reserve did not commit itself to pegging the market for Government bonds. Yet there was substantial stability in the price level, if you take the wholesale price level and the cost of living into consideration. So I take it, the experience from March 1951 to December 1952 in which we had substantial full employment, substantial stability of price level, and interest rates rising only slightly was a good one. I think there is a real question as to whether the policy from 1951 and 1952 needed to have been departed from and whether the new administration should have departed from the 1951–52 policy. I say this since I have become something of a whipping boy.

Senator CARLSON. You are not the whipping boy as far as I am concerned. I just want to bring out some facts here. I have a very high regard for him and he is not the——

Mr. KEYSERLING. I have a very high regard for Senator Carlson, and I would like to answer his question fully.

Senator KERR. You may proceed.

Mr. KEYSERLING. I happen—as the record will show—to have been very substantially opposed to the higher interest rate policy when they started it, and it did not get started in this administration. That is one of the very reasons why I have carried my charts back to 1950. I am not trying to pin a tag on any administration. However, I believe we have to concentrate on more recent developments, regardless of what happened in 1929.

Some of the earlier record is very relevant, and I will try to discuss that in the course of what I have to say.

Senator CARLSON. I want him to proceed the way he wants to, but I was interested because I was a little shocked at one sentence you read here.

I am quoting now.

> It is one of the major reasons for the slowdown in our overall rate of real economic growth, during the past year or so, to a rate far less than half the requirements for healthy economic development.

Now, if I read that statement alone and you did not elaborate, I would think that we were in a major depression.

Mr. KEYSERLING. No, we are not in a major depression. But I think other business commentators share my view. That is what I am coming to.

Senator CARLSON. You will admit we have high-level production.

Mr. KEYSERLING. We certainly do.

Senator KERR. You may proceed.

For the benefit of the chairman, if you are not beginning at the last of the paragraph on page 4, I would like to have you now tell me where you are, if you are now taking up your statement.

Mr. KEYSERLING. You want me to begin on the middle of page 4.

Senator KERR. No, no, that is where I had followed you to. If that is not where you take up, I would like you to advise me.

Senator LONG. It is in the last paragraph, the middle of it.

Mr. KEYSERLING. Thus the effect of the current proposal might be to raise the total interest burden throughout the whole economy to an annual rate of about $4 billion higher than if the 1952 rates had been maintained, and about three-quarter billion dollars higher than if the current proposal is rejected by the Congress.

This would be the immediate effect within 1 year; the spiraling and cumulative effect over several years is staggering, indeed.

The rising interest rates, which transfer income from those who need it more, to those who need it less, and thus are unconscionable from the viewpoint of equity, are also damaging to the whole economy from the viewpoint of economic stability and growth.

Now, so far I have dealt with what has happened to interest rates, and what has been the cost of these higher income payments. This area is less speculative than what I have to say subsequently—and I think it very important, looking at the easiest things first, that interest burden costs have gone up very greatly, and most particularly that the costs to the Federal Government have gone up quickly and will go up much more quickly if the policy is implemented. This is strange indeed, at a time when we are having such an awful time balancing the budget, such an awful difficult time in running a surplus, such real need for tax reduction in some areas, and some real need to pay off part of the national debt if we can. It seems to me that, as a matter of choice, these other approaches would be far more desirable than paying out a billion or two billion more dollars a year to those who receive higher interest payments.

Now, I am coming to the more important part of my testimony, namely, the impact on the whole economy.

After all, interest payments, and the taxing of the consuming public to make those interest payments, whether through private or through public interest rates, are what we economists call transfer payments. You are taking a certain amount of money from one source and directing it to another place. Now this does not, itself, consume resources in the sense you consume resources when you build armaments, or when you build a factory. Therefore, the real problem is whether this transfer of money, to put it simply, from one part of the economy to another, is conducive to economic growth and equity as well, or whether it operates in the opposite direction.

The basic argument really made by the proponents of the high-interest-rate policy is that the transfer of money from one part of the economy to the other, from interest payers to interest receivers, has been good for our whole economy. They claim it has worked against inflation. They claim it has brought about a better balance within the national economy.

The next part of my testimony gets to an analysis of whether this is in fact so. I now come to the part of my testimony called Adverse impact of the hard-money policy upon the whole economy.

The rising interest rates which transfer income from those who need it more to those who need it less, and thus are unconscionable from the viewpoint of equity, are also damaging to the whole economy from the viewpoint of economic stability and growth.

In other words, if we looked at it from the point of equity, if we look at those who are paying these higher rates, and look at the income trends among the people who are receiving the higher interest rates, I think we would agree that, on grounds of equity, it is unconscionable.

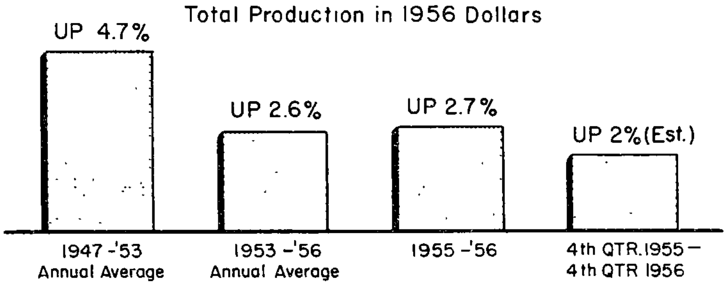
But now I come to the point of the damaging effects upon the whole economy.

I now call attention to another chart which I have prepared.

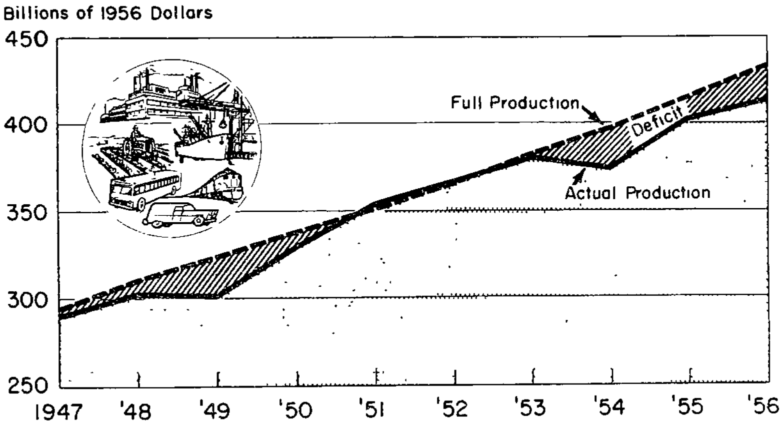
Now, please, I want to make a few comments, which I think are responsive to Senator Carlson's question: The basic assumption underlying the hard-money policy is that we are trying to stop inflation. But we must distinguish between two situations. Let's take first the period at the start of World War II.

At the start of World War II, the total demand for goods and services was far above our productive power, due to the fact that the war multiplied defense spending five times. You had shortages of everything. Even farm products were in short supply, and we were working down such farm stocks as there were. The labor force and industry was under strain. That was a general inflationary situation, responsive to which not only was everything under strain, but in addition, racing to catch up to with that strain, the economy was expanding its real product by up to 7 percent per year, or twice the normal rate of growth.

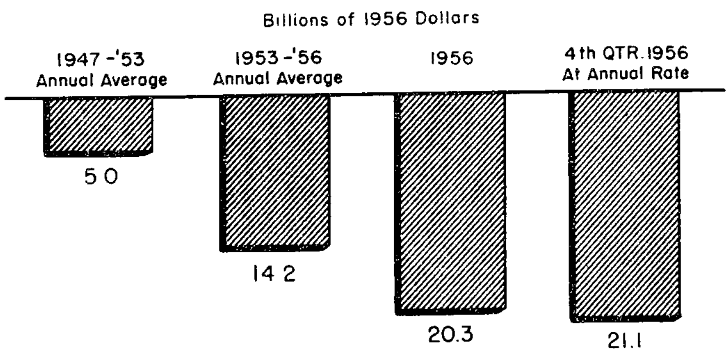
OUR PRODUCTION GROWTH RATE IS SLOWING DOWN



THIS IS WIDENING THE GAP BETWEEN ACTUAL AND FULL PRODUCTION



...AND HAS LED TO MUCH LARGER PRODUCTION DEFICIENCIES



Data Actual, Dept of Commerce, estimates, Conference on Economic Progress

Now, in consequence of that, practically all prices and incomes were moving upward. Farm income was spiraling upward. Big business income, wage income, every kind of income, was racing upward at an inflationary rate. That is what I call a true overall inflationary period. It called for tight credit, high taxes, postponement of highways and schools and roads, and many other things.

Senator KERR. And price control.

Mr. KEYSERLING. I think so in that period, though I do not advocate it now.

Senator KERR. I understand.

Mr. KEYSERLING. Now, the current situation is entirely different. In the current situation we have what I call selective inflation and selective deflation.

What does this mean? It means that the economy as a whole isn't overstrained. It is not growing too fast, but growing too slowly. In consequence, we have excess productive capacities in most areas, in agriculture, automobiles, textiles. You can find very few areas in the economy where the productive capacity is being more than matched by the total demands of buyers of goods. Yet, because we have not yet reached a recessionary stage, there are some prices that are still rising.

Senator DOUGLAS. Those are for durable capital goods?

Mr. KEYSERLING. Yes, sir; and I am coming to that very question, and I am going to review that in detail here. The first point I am making is that, so far as the overall economy is concerned, we are not expanding at an excessive, normal, or even satisfactory rate. This is reflected in the statements of many business commentators who talk about the outlook for the rest of this year.

Now, we have not yet reached a recessionary stage. But suppose the labor force increases by more than a million, while 200,000 more get jobs and 800,000 more are unemployed. Obviously, while employment is higher, we nonetheless are accruing disutilization of our productive capacity.

Let's say that, during the past year, the economy has expanded by about 2 percent, which I will indicate is about the actual figure.. But if the increasing productivity potential is 3 percent or 4, there again you are accruing an economic slack. This does not mean you are already in a depression; but you are faced with the need to recognize the situation in time to avoid more serious trouble.

My position is that the hard-money policy is applying a general economic slowdown—and moreover is applying it at the wrong parts of the economy, having the worst effect upon the parts that are relatively deflated, and having the least effect on the parts that are relatively inflated.

Senator KERR. If I might interrupt, Secretary Burgess was asked to come here at 11:30. He is here. If there are questions which members of the committee now present want to ask him, with Mr. Keyserling's permission we shall interrupt his testimony at this point and let them do so. If there are not, then we will excuse Secretary Burgess.

Senator DOUGLAS. I think there are a few simple questions I would like to ask.

Senator LONG. I would like to ask some.

Senator KERR. Mr. Keyserling, we shall ask you to take the stand and resume your statement after the committee members have questioned Secretary Burgess.

Senator LONG. I can reduce my questions after a night's meditation.

Senator KERR. I want to thank Secretary Burgess for coming back this morning. I want to thank him for his patience on yesterday. I asked him a lot of questions and I want to make it clear that any evidence of disagreement I might have with him on policy does not indicate any lack of respect for both his ability and integrity, and I want to say that I have a very friendly feeling for you and I hope that we might develop it to where it could even be mutually beneficial.

FURTHER STATEMENT OF HON. W. RANDOLPH BURGESS, UNDER SECRETARY OF THE TREASURY

Mr. BURGESS. Thank you, sir, I reciprocate.

Senator KERR. Are there questions?

Mr. BURGESS. Mr. Chairman, I wonder if I might have the privilege of having a word first.

I was shocked to read the morning papers and discover that the President and I are in disagreement on the budget, which is not the case.

Senator DOUGLAS. Perhaps he was shocked.

Mr. BURGESS. I do not think he was shocked.

Senator KERR. Well, could it be possible that the situation he said prevailed in that car which was reported to have been traveling at 70 miles an hour might even yet be prevailing as far as he is concerned with reference to your testimony?

Mr. BURGESS. Well, Senator, we both gave same figures. When you pull them out of the air, you can do most anything. You are dealing with a $72 billion budget. Until we get the figures actually, it is a guessing game. But I do want to say there is complete agreement between the Treasury and the President on policy. We are going to try to suggest every economy we can, we both want to cut the budget and reduce spending, and we both want taxes reduced as soon as they can possibly be reduced.

Thank you very much.

Senator LONG. I do have the highest admiration for you, Mr. Burgess. I have the same respect and admiration for you as a public servant, as I have for you as an individual.

Mr. BURGESS. Thank you.

Senator LONG. This argument that has been made about inflation, do you feel that the public is buying too much housing at the present time?

Mr. BURGESS. I would not say so at the present time, Senator. I think the program is under rather than over a normal figure.

Senator LONG. That is the point I had in mind. As of this moment, it would not be desirable for us to adopt a policy that would further discourage construction of additional housing, would it?

Mr. BURGESS. I think that is correct.

Senator LONG. In fact, then, it would be better to take the other approach.

Mr. BURGESS. You may notice that the administration has taken 1 or 2 actions in that direction lately.

Senator LONG. Yes.

Mr. BURGESS. The reduction of the downpayments on FHA mortgages.

Senator LONG. Do you think it would be desirable for us to adopt any policy that would discourage the production of additional automobiles at a time when there are almost 2 million cars per year unused capacity, which I understand is the present situation.

Mr. BURGESS. Well, I do not know as I quite get the point.

Senator LONG. Well, the point I had in mind, of course, is if by raising interest rate or requiring a downpayment or some other measure we could slow down the purchase of automobiles, would that be desirable at the present time when we have a large amount of unused production capacity in the automobile industry?

Mr. BURGESS. Well, if you are asking whether any administration decision should now be directed specifically to reducing production of automobiles, I would say no.

Senator LONG. Now, if raising interest rates would slow down the purchase of new automobiles, that particular segment of industry would not be benefited and it would not be a desirable decision?

Mr. BURGESS. Of course the monetary policies which are matters largely of the Federal Reserve, are directed to the whole program, the whole broad economic scene rather than specifically to this pinpointing industries.

Senator LONG. The point I have in mind is that in terms of consumer goods, we have unused capacities in almost all of them. That being the situation, is it then desirable to adopt a policy that would slow down consumer buying of any of those commodities?

Mr. BURGESS. No, I do not think that at the present time, that would be desirable.

Senator LONG. That is all.

Senator WILLIAMS. No questions.

Senator DOUGLAS. Dr. Burgess, the line of questioning that I should like to follow is directed to the point of whether, in the Treasury financing, you follow a competitive interest rate which is established in the private sector, or whether you go out and influence and determine interest rates? I will have you state your case, then I might like the privilege of asking some questions.

Mr. BURGESS. I am very glad you asked that question because I think there has been some misunderstanding about that.

Our policy in the Treasury is to borrow our money at the lowest rates for which we think we can get the money in the market, having regard to the maturity. Our program has been to try to stretch out the maturitites as we had opportunity and could do it reasonably, because we have a very large floating debt.

With anyone who has a large floating debt, whether it is a business corporation, or what-have-you——

Senator DOUGLAS. I do not want to be unfair, but as I remember the figures the short-term issues have increased more than the long-term issues.

Mr. BURGESS. No, sir.

Senator DOUGLAS. The short term, rather than the long term, is that true?

Mr. BURGESS. The debt maturing within a year has been decreased?

Senator DOUGLAS. That is not what I mean. I mean those for less than 5 years. I think the figures which you gave——

Mr. BURGESS. I will be glad to put some figures on that in the record.

(The material referred to is as follows:)

Treasury marketable debt maturing within 1 year,[1] Dec. 31, 1952–56

	Maturities	Percent of total marketable debt outstanding
	billions	
Dec. 31, 1952	$80.1	51.9
1953	82.1	51.1
1954	67.4	41.5
1955	67.0	41.0
1956	74.9	46.6

[1] Including savings notes and bonds becoming callable.

Mr. BURGESS. I think you will see we have made some impression. We could have refunded more, perhaps, if we had been willing to pay very high rates and force the market up in competition with private and State and municipal issues. I think you will find a wider spread between, say Aaa bonds and Government bonds today than there was.

Senator DOUGLAS. Would it be an interruption if I asked——

Mr. BURGESS. Not at all.

Senator DOUGLAS. What was the size of the Federal financing in 1956? What was the total of your issues in refinancing?

Mr. BURGESS. First of all we had to roll over about 21 billion of bills every 3 months.

Senator DOUGLAS. What about notes and so forth?

Mr. BURGESS. For 1956?

Senator DOUGLAS. Yes.

Mr. BURGESS. The total new securities issued in exchange for maturing securities in 1956 was over $50 billion, counting bills just once. We had new refunding issues of 48½ billion in under 1 year issues and 2 billion in over 1 year. We also issued $7½ billion of new issues for cash.

Senator DOUGLAS. Would that include long-term?

Mr. BURGESS. We did not put out any long-term.

Senator DOUGLAS. But you did refinance Government obligations, at which you fixed an interest rate?

Mr. BURGESS. That is correct.

Senator DOUGLAS. What were the private capital flotations?

Mr. BURGESS. New capital is 15 billion plus. The refinancing was very small last year.

Senator SMATHERS. It would not be as much as 35, though, would it?

Mr. BURGESS. Oh, no.

Senator DOUGLAS. So that the total of Federal financing was very much in excess of private financing, if I am correct?

Mr. BURGESS. That is right; of course if you include mortgage financing the figures aren't too far apart.

Senator DOUGLAS. Now, is it not possible for the rate of interest on the larger item to affect the rate of interest on the smaller item?

Mr. BURGESS. Well, it is certainly possible. If you went off into space and put a very high price on it, I would say it is quite possible.

Senator DOUGLAS. We all make mistakes, Doctor. Now the Senator from Oklahoma thinks I never make mistakes. But I do make mistakes. If you had to do that initial loan of yours over again, would you have lowered the interest somewhat?

Mr. BURGESS. I would say this, Senator, that we made a very careful survey of the market before putting that issue out, and we could not have sold a long-term issue at a rate of less than 3¼.

They were at a premium for a very short time and then they went to a discount.

Senator DOUGLAS. They eventually were discounted because some interest rates did move up even more. But initially, they were sold at a premium.

Mr. BURGESS. Well, the speculators thought it was a good thing and they made a mistake.

Senator DOUGLAS. Did they make a mistake, or was it the high interest rate?

What was it?

Mr BURGESS. It was a little of both.

Senator DOUGLAS. Well, I appreciate this testimony with respect to the amount of private as compared with public financing, because I think it is a problem of who is the dog and who is the tail.

What you are saying is that it is the lesser magnitude which establishes the rate.

In view of the magnitude of Government financing, which one cannot say is purely competitive, the Federal Government, by the terms it establishes can effect the interest rate. I believe that it is highly important that interest rates should be competitive and that the Federal Government should be very careful when putting out new issues or refinancing old ones.

Mr. BURGESS. We are very conscious of that, very conscious of that. We wish we had a smaller amount of 1-year maturities, because these large refundings are a factor in the market of course.

I think one test of whether we have been paying excessive rates is the extent to which the holders of the obligation do or do not accept the offer we make.

Senator LONG. At the time the Federal Reserve Act was passed, what was the national debt?

Mr. BURGESS. About a billion dollars, as I recall.

Senator LONG. Now, then, even at that time the Federal Reserve Board had the power to protect the interest rate on Government issues, did it not?

Mr. BURGESS. Yes, they did not actually trade in Governments, until World War I.

Senator LONG. Well, now, subsequently that has increased from a billion up to $277 billion. Now would you not say that indicated that the Federal Reserve Board has used its market to protect the Government's interest on its national debt, when that might seem desirable?

Mr. BURGESS. Well, sir, I think Mr. Douglas' subcommittee in 1950 is the best report on that.

Senator DOUGLAS. I will stand on those views.

Senator LONG. I would like to get one thing straight on this matter. I did not subscribe to it in 1950. That was at a time when the Korean war was going on. There was inflation, and an increase in the cost of living each year. At that time it sounded a lot better to me than now when we do not have a war going on or a shortage of goods.

As a matter of fact, you just got through telling me that we had overproduction of capacity in almost every field of consumer goods.

Mr. BURGESS. I do not think that affects the broad general principles of how to operate a central bank. I think the principles are just as sound now as they were then.

Senator LONG. You think that might have been a statement applicable to an inflationary period during the war, or at peacetime when you have a capacity to produce everything?

Mr. BURGESS. I would not say that every statement designed for that period would be good, but that was a good statement.

Senator LONG. As far as I am concerned, if a Democrat makes a mistake, it is just as much a mistake as if a Republican made one.

Mr. BURGESS. I will admit that, too, Senator.

Senator DOUGLAS. I would be very glad to admit a mistake, but I think I was correct at that time, and the general principles which I laid out are also correct.

I think this issue is extremely important, Mr. Chairman, even though, perhaps it is more under the jurisdiction of the Banking and Currency Committee than of this committee. I hope we can have an analysis of the Treasury refinancing carried out in detail to indicate the yields in private industry, at the same time as the refinancing to get some light on this question as to whether the Treasury merely follows the private market or whether it really helps to shape the private market.

Now, it may be out of the purview of this staff, but I would appreciate it if our staff and the staff of the Banking and Currency Committee would work on that.

Mr. BURGESS. I am very happy to hear that suggestion. I would like to do it very much, to give the quotations on these issues to show whether the buyer got a bargain or whether he did not. I think that is very appropriate for this committee, because this is the committee that handles the public debt.

(The material requested is as follows:)

Prices of new marketable Treasury issues on first date quoted and on date issued,[1] 1953–57

Issue	Maturity	Amount issued	First quote: Date	First quote: Price (decimals are 32ds) [2]	Issue date quote: Date	Issue date quote: Price (decimals are 32ds) [2]
1953		*Millions*				
2¼ percent certificate	Feb. 15, 1954	$8,114	Feb. 2, 1953	$100.03	Feb. 16, 1953	$100.05
2½ percent bond	Dec. 15, 1958	620	do	100.03½	do	100.06
3¼ percent bond	June 15, 1978–June 15, 1983	1,606	Apr. 15, 1953	100.09	May 1, 1953	99.29
2⅝ percent certificate	June 1, 1954	4,858	May 20, 1953	100.00	June 1, 1953	99.30
2½ percent tax certificate	Mar. 22, 1954	5,902	July 7, 1953	99.31	July 15, 1953	100.01
2⅝ percent certificate	Aug. 15, 1954	2,788	Aug. 5, 1953	100.03½	Aug. 17, 1953	100.04
2⅝ percent certificate	Sept. 15, 1954	4,724	Sept. 2, 1953	100.04½	Sept. 15, 1953	100.08
2⅞ percent note	Mar. 15, 1957	2,997	do	100.04½	do	100.09
2¾ percent bond	Sept. 15, 1961	2,239	Oct. 29, 1953	100.08	Nov. 9, 1953	100.24
1⅞ percent note	Dec. 15, 1954	8,175	Nov. 18, 1953	100.09	Dec. 1, 1953	100.08
2½ percent bond	Dec. 15, 1958 [3]	1,748	do	100.11	do	100.11
1954						
1⅝ percent certificate	Feb. 15, 1955	7,007	Feb. 1, 1954	100.12	Feb. 15, 1954	100.14
2½ percent bond	Nov. 15, 1961	11,177	do	100.12	do	100.24
1⅛ percent certificate	May 17, 1955	3,886	May 5, 1954	100.11½	May 17, 1954	100.09
1⅞ percent note	Feb. 15, 1959	5,102	do	100.15½	do	100.08
1 percent tax certificate	Mar. 22, 1955	3,734	July 22, 1954	100.02	Aug. 2, 1954	100.02
1⅛ percent certificate	Aug. 15, 1955	3,558	Aug. 3, 1954	100.11	Aug. 15, 1954	100.11½
2⅛ percent bond	Nov. 15, 1960	3,806	do	100.12	do	100.19
1⅝ percent note	May 15, 1957	4,155	Sept. 24, 1954	100.01	Oct. 4, 1954	100.00
1⅛ percent certificate	Dec. 15, 1955 [3]	4,919	Nov. 22, 1954	100.06	Dec. 15, 1954	100.02
1¼ percent certificate	Dec. 15, 1955	5,359	do	100.06	do	100.02
2½ percent bond	Aug. 15, 1963	6,755	do	100.06	do	100.11
1955						
1⅝ percent note	Mar. 15, 1956	8,472	Jan. 28, 1955	100.04	Feb. 15, 1955	100.02
2 percent note	Sept. 15, 1957	3,792	do	100.04	do	100.00
3 percent bond	Feb. 15, 1995	1,924	do	100.11	do	100.06
1⅜ percent tax certificate	June 22, 1955	3,210	Mar. 23, 1955	100.00	Apr. 1, 1955	99.31
2 percent note	Aug. 15, 1956	5,706	May 4, 1955	99.31½	May 17, 1955	100.00
1⅞ percent tax certificate	Mar. 22, 1956	2,202	July 11, 1955	99.31½	July 18, 1955	100.02
3 percent bond	Feb. 15, 1995 [3]	821	do	100.03	July 20, 1955	100.00
2 percent tax certificate	June 22, 1956	1,486	July 20, 1955	100.01½	Aug. 1, 1955	99.31½
2 percent note	Aug. 15, 1956 [3]	6,841	do	100.02	do	99.29
2¼ percent tax certificate	June 22, 1956	2,970	Oct. 4, 1955	99.31	Oct. 11, 1955	99.30½
2⅝ percent certificate	Dec. 1, 1956	9,093	Nov. 28, 1955	99.31	Dec. 1, 1955	99.31
2⅞ percent note	June 15, 1958	2,283	do	99.31	do	99.31
1956						
2⅝ percent certificate	Feb. 15, 1957	7,219	Mar. 5, 1956	100.03½	Mar. 5, 1956	100.03½
2⅞ percent note	June 15, 1958 [3]	2,109	do	100.03½	do	100.03½
2¾ percent note	Aug. 1, 1957	12,056	July 16, 1956	99.31½	July 16, 1956	99.31½
2¾ percent tax certificate	Mar. 22, 1957	3,221	Aug. 7, 1956	99.29	Aug. 15, 1956	99.28
3¼ percent tax certificate	June 24, 1957	1,312	Nov. 19, 1956	100.00	Dec. 3, 1956	100.02
3¼ percent certificate	Oct. 1, 1957	7,271	do	100.00	do	100.03
1957						
3⅜ percent certificate	Feb. 14, 1958	8,414	Feb. 4, 1957	100.01	Feb. 15, 1957	100.01
3½ percent note	May 15, 1960	1,464	do	100.01	do	100.04
3⅜ percent certificate	[3] Feb. 14, 1958	2,437	Mar. 19, 1957	99.29½	Mar. 28, 1957	99.30
3½ percent note	[3] May 15, 1960	942	do	99.31½	do	100.02½

[1] Marketable certificates, notes, and bonds; excludes Treasury bills and those notes issued solely in exchange for 2¾ percent investment bonds, series B.
[2] Closing bid quotations as reported by the Federal Reserve Bank of New York.
[3] Reopening of an existing issue.

The above table relates to the approximately $200 billion of marketable certificates, notes, and bonds that the Treasury has issued since January 1, 1953.

In addition, the Treasury has sold approximately $350 billion of Treasury bills. Since all of these bills were sold at auction, the interest return to the investor was determined exclusively by market forces, rather than by the Treasury.

Mr. BURGESS.
I welcome that.
Senator KERR. Mr. Chairman, I would like to ask a question.
The CHAIRMAN. All right.
Senator KERR. Yesterday we discussed the responsibilities and power of the Federal Reserve bank. You told us that the total amount of debt, corporate and individual and private, had increased from $600 billion as of December 31, 1952, to 793 billion as of December 31, 1956. During that time how much did the amount of currency——
Mr. BURGESS. Well, what was the starting date?
Senator KERR. December 31, 1952. December 31, 1956, those are the dates.
Mr. BURGESS. Total money in circulation, 29 billion.
Senator KERR. Say that again, will you, please?
Mr. BURGESS. 29 billion—this is the end of fiscal year, that is June 30, 1952.
Senator KERR. All right. How much was it?
Mr. BURGESS. $29 billion. On December 31, 1952, the amount of currency actually circulating outside banks was somewhat under that—$27.5 billion.
Senator KERR. All right.
Mr. BURGESS. And December 31, 1956, the amount outside banks was about a billion higher—$28.4 billion.
Senator KERR. Now other than currency, what was used for money in the increase there?
Mr. BURGESS. Bank deposits. Do you mean whether liquid form of money was used?
Senator KERR. No. People did not deposit currency, did they?
Mr. BURGESS. No, they used bank credit as their means of payment, checks on the banks, yes.
Senator KERR. Now, how can a bank provide credit—how can a bank loan money when it does not have money?
Mr. BURGESS. Well, of course, if the person borrows the money and leaves it in the bank, then all they have to do is put up reserves at the Federal Reserve bank.
Senator KERR. The point is now, and I am quite serious about this, while I have very definite opinions, if they can't be substantiated by facts, I do not want to change the facts, I want to change the opinions.
Mr. BURGESS. Yes, yes.
Senator KERR. What source of money is there other than currency? What is the use of money besides currency?
Mr. BURGESS. We use bank deposits.
Senator KERR. What did we deposit other than money?
Mr. BURGESS. They arise from savings.
Senator KERR. But, I mean, in what form is it?
Mr. BURGESS. Well, it is a deposit in the bank——
Senator KERR. What do you "deposit in the bank"?
Mr. BURGESS. Well, you deposit checks in another bank or currency.
Senator DOUGLAS. They come ultimately from loans. They are bank-created purchasing power. Isn't that true of the vast proportion of demand deposits?
Mr. BURGESS. Loans and investments.

Senator DOUGLAS. Yes, but the origin of the loan which the bank sets up is in the form of a created deposit, is that not true?

Mr. BURGESS. That is true to a large extent.

Senator DOUGLAS. Well, is it not true to the overwhelming extent? And it is on these created deposits that the checks are drawn.

Mr. BURGESS. Some of that is deposits of gold. We import gold from abroad.

Senator KERR. How much gold float is there?

Mr. BURGESS. Very little.

Senator KERR. Well, how much?

Mr. BURGESS. This past year—1956—we gained about $200 million worth of gold. That is very little.

Senator KERR. Well, you have told us that there is about $3 billion difference in the supply of currency between 1952 and 1956, fiscal year?

Mr. BURGESS. Yes, sir; although it's less than 1 billion if you leave out currency in the banks and put it on a December base.

Senator KERR. Yet there has been an increase of 393 billion in debts. How much in bank deposits and other forms of savings? What is the difference in total deposits as shown by banks, building and loan associations, mutual savings banks?

Mr. BURGESS. Well, this table on total deposits and currency shows a change from the end-of-the-year figures in 1952 of 195 billion.

Senator KERR. That is December 31, 1952?

Mr. BURGESS. Yes, to December 1956, as 221 billion.

Senator KERR. $221 billion?

Mr. BURGESS. Yes, that is excluding United States Government deposits. That is the total of all deposits: Time deposits, demand deposits.

Senator KERR. Of commercial banks?

Mr. BURGESS. Of all banks. Now that includes currency outside of the banks as well, the way this happens to be set up.

Senator KERR. That does not include savings banks, building and loan associations and so forth?

Mr. BURGESS. No, it doesn't include savings and loan, but it does include all banks.

Senator KERR. What I am trying to get in the record here is a statement from you of what that consists of.

Mr. BURGESS. That consists of bank deposits plus currency.

Senator KERR. If I may ask a favor, I would like to have you state it, in terms which are consistent with the question: To make a deposit in the bank you have either gold to deposit, cash, or credit, have you not?

Mr. BURGESS. That is right.

Senator KERR. There is no other except gold and we do not have any of that except what is over at Fort Knox or some other Government depository, do we?

Mr. BURGESS. That is right.

Senator KERR. Now, is it not a fact that this entire structure of debt and entire structure of deposits is built upon a system of credit created by borrowing from individuals and corporations and governments, from banks, and by banks from the Federal Reserve?

Mr. BURGESS. Mostly. I say there are some few exceptions like gold, like investments by banks, which is a form of credit, of course.

Senator KERR. Well, other than the hard money other than actual money, which is either currency or gold, the rest of it has to be credit as I have described it?

Mr. BURGESS. That is right, yes.

Senator KERR. Well, isn't that possibly the flexibility that the Federal Reserve Board has, to either create a greater amount of credit or restrict it, restrict the total amount of credit?

Mr. BURGESS. Yes, sir; they can influence it.

Senator KERR. They can determine it.

Mr. BURGESS. Let's put it this way: They are the marginal element. They are largest such element.

Senator KERR. Now, let me ask you this: Doesn't the supply of this money in the form of credit or currency pretty well determine the rate of operation of our industrial economy?

Mr. BURGESS. I would not like to make it quite as broad as that. It is a very important factor.

Senator KERR. Isn't it the most important among the factors that determine it?

Mr. BURGESS. Well, there is another factor that we sometimes overlook.

Senator KERR. More important?

Mr. BURGESS. That is the volume of actual savings as compared to the demand for money.

Senator KERR. But, regardless of whether it comes from savings or created credit, by bank or Federal Reserve Board lending, the total amount of that affects the rate of growth and operation of our economy.

Mr. BURGESS. That is right.

Senator KERR. Now, if we had held the limit of that through 1953, 1954, 1955 and 1956 to what it was in 1952, wouldn't it have limited us to the same rate of operation that we had in 1952, generally speaking?

Mr. BURGESS. Well, generally. Of course, there are always exceptions. Generally speaking, it would tend to do that. Also, we must consider the rapidity with which they use their money. Whether they leave it in the bank or whether they use it——

Senator KERR. The Federal Reserve banks and their functions, at least in big part, are the marginal part, to provide the elasticity, let the money move out faster or slow down?

Mr. BURGESS. That is right.

Senator KERR. Now you said a while ago that the new capital was $15 billion.

Mr. BURGESS Yes; it was $15.7 billion last year.

Senator KERR. Do you have what it was in 1955?

Mr. BURGESS. It was a little bit less than that. It was $14.7 billion.

Senator KERR. Then the annual increase in capital, as you have used the term, and as I think I understand it——

Mr. BURGESS. I should limit it. This is the amount of new securities for new capital sold in the market, exclusive of the United States Government.

Senator KERR. But, generally speaking, our economy is growing at a rate that has used 15 to 20 billion dollars capital per year?

Mr. BURGESS. That is a very high figure.

Senator KERR. Well, what was it in 1954?

Mr. BURGESS. It was—I will be glad to put that in—a little less. It has been going up each year. Of course, this is not the whole capital supply.

(New corporate and municipal issues for new capital in 1954 were $14.3 billion.)

Senator KERR. What is the total supply increase annually?

Mr. BURGESS. Just like your business; a certain amount of capital plowed back. Earnings of the business are plowed back. That totals about $10 billion a year.

Senator KERR. What is the increase annually?

Mr. BURGESS. In capital?

Senator KERR. Yes.

Mr. BURGESS. Well, it is pretty close to the sum of those two figures.

Senator KERR. Then any time that is reduced, what you call the gross national product would correspondingly be reduced, would it not?

Mr. BURGESS. It tends to be. I am sorry to make qualifications. It depends on the consumer spending, on the gross national activity. This capital flow is a tremendous element in the growth——

Senator KERR. In the growth and stability of the economy?

Mr. BURGESS. Yes.

Senator KERR. Is there any other agency or organization in this country that has as much to do with providing the elasticity as the Federal Reserve Board?

Mr. BURGESS. No; none. They have the greatest.

Senator KERR. And they put the brakes on to slow down; if they take the brake off, we kind of move up a little faster, don't we?

Mr. BURGESS. Well, that is the tendency.

Senator KERR. Well, as they have put it on the last year or two, was it while we were going uphill or downhill?

Mr. BURGESS. Uphill.

Senator KERR. And if you put the brake on going uphill?

Mr. BURGESS. Well, the figures of speech are getting a little mixed up.

Senator KERR. When you are climbing a hill, do you need a brake, or when you are sliding downhill?

Mr. BURGESS. In economic parlance, you need it when you are going uphill.

Senator KERR. Thank you very much. You have been very helpful.

Senator DOUGLAS. I would like to ask some questions. I want to get some consecutiveness in the questions and answers to the witness. As I understand it, Dr. Burgess, you say, on the one hand, in the quotation of issues you follow competitive private industry; on the other hand, you implied yesterday that it was the Federal Reserve Board which helped to determine the interest rate. You say now that you take into consideration both the Federal Reserve discount rate and the interest rate in the private capital market.

Mr. BURGESS. Well, I would not say we look at the discount very hard when we are pricing an issue. We look at the prices on outstanding Government securities.

Senator DOUGLAS. Do you think the re-discount policies of the Federal Reserve influence or help to determine private interest rates?

Mr. BURGESS. Certainly.

Senator DOUGLAS. But you say that you do not make it, but the Federal Reserve Board has a very strong influence?

Mr. BURGESS. Yes.

Senator DOUGLAS. And, as I understand it, you defend the raising of the discount rate by the Federal Reserve some 6 times in the last 18 months on the ground it was necessary to check the expansion of credit and to dampen down price inflation in durable goods?

Mr. BURGESS. Yes, it is my personal view that they followed a wise policy.

Senator DOUGLAS. May I also point out to you that they have other methods of controlling inflation?

Mr. BURGESS. Yes.

Senator DOUGLAS. There is the open market operation of the Federal Reserve Board.

Now, as I think you know, I have been an exponent of the independence of the Federal Reserve Board, with the hope that their policies would bring comparatively full enmployment and stabilize prices generally. But I do not think it follows from this that one must necessarily approve the specific interest rate policies of the Federal Reserve Board. They can determine, for instance, the amount of Government securities they will sell on the open market. There are reserves in banks, and hence by reducing lending capacity or by increasing the reserve ratio they can help bring these same results.

While this is perhaps not the place to get into a quarrel with the Federal Reserve, my criticism of the Federal Reserve is that the one and only method they have used to check so-called inflation has been to raise the interest rate, depending upon its indirect effect on the quantity of money and purchasing power. There are other methods. It would seem to me that to have controlled the total quantity of monetary purchasing power directly and then to have let the interest rate be determined competitively would have been a more useful method. They could have done this very simply by refusing to rediscount Government bonds, which they have the legal right to do.

I wonder if you are going to make any comment on that? I am very anxious to get this in the record since I find that it is said that I am an exponent of high interest rates and I want to wipe that stain off of my garments.

Mr. BURGESS. I think it would be more appropriate for Mr. Martin to answer those question. But I was 18 years in the Federal Reserve System. Of course, when you buy and sell Government reserve securities or change requirements of the bank, you do very surely have powerful effect on interest rates.

Senator DOUGLAS. Indirectly, but not directly?

Mr. BURGESS. But very vigorously.

Senator DOUGLAS. I am not so certain of that. I may point up, though, and this is not a criticism of you, but the policy of the Federal Reserve in the recession of 1953–54 was to lower the member bank reserve requirements. This allowed them to create additional money and to increase their loans. While this was a proper policy, the banks, nonetheless, benefited from it. In the last 18 months, instead of raising reserve requirements and diminishing the overall supply of credit, the Federal Reserve has increased the discount rate. Therefore, banks receive a higher rate of interest on the same amount of lending capacity.

So, the policies have worked to the benefit of the banks in both periods, whether the economy was on the upswing or on the downswing.

I wondered what you would say to that?

Mr. BURGESS. Well——

Senator KERR. Speaking for myself, if not the committee, there is a legal basis upon which you can decline to answer the question. [Laughter.]

Mr. BURGESS. I would say one thing, that they did use the open market operations all during this period very vigorously. They sold Government securities from time to time.

Senator DOUGLAS. I may say that I was especially critical of the policy followed by the Federal Reserve Board in late October or early November 1955, in bailing out the Treasury on an issue in which you had misjudged the interest rate. That time I think you were too low on the interest rate.

Mr. BURGESS. Thank you, sir.

Senator DOUGLAS. And the Board agreed to rediscount and accept——

Mr. BURGESS. Purchase?

Senator DOUGLAS. Yes; so the issue could be floated.

In this way they increased the reserves of member banks in the system and increased the lending capacity of banks at a time when they supposedly were following a policy of restraint.

While this may perhaps seem unfair, nevertheless I taxed Mr. Martin about it, because this came at the very time that Mr. Martin's reappointment was up, and after the Secretary of the Treasury had phoned to him urging some aid from the Federal Reserve Board. So that you gentlemen are at least on speaking acquaintance with each other, and you operate in a real world not totally apart from politics.

Mr. BURGESS. I just want to say Mr. Martin is a completely conscientious public servant. What he did was, in my opinion, wise and necessary. It had no net effect of adding to the lending power of the banks at that time. They bought certificates instead of buying bills.

Senator DOUGLAS. Well, it of course directly increased the lending ability of the banks, and it was in contradiction of the policy which they otherwise had been following of selling Government securities.

Perhaps I should raise this directly with Mr. Martin. But it is one of the detailed criticisms which I have made of Treasury and Reserve policy.

I do want to say in justice, Mr. Burgess, that this is a case in which I think the Treasury fixed the interest rate too low in comparison with the market rate. Secretary Humphrey was having trouble, so he ran to the Reserve for help. This is one instance, Mr. Burgess, you can point to, in which you were laggard rather than aggressive.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Just 1 or 2 questions. I have been interested in the questions which came from the other side, which would indicate that by the fact that interest rates are higher is the chief reason why consumer purchases are running behind. Do you believe that increased interest rates are the sole reason that automobiles are not being sold as well this year as they were in 1955?

Mr. BURGESS. No, sir. I think you will find that the buyer of automobiles pays very little more for money today than he did some years ago. It is really quite remarkable how the terms for buying automobiles have stayed relatively easy.

Senator BENNETT. If they are not buying automobiles, it is because they prefer to buy something else with their money, which could not be effectively changed by lower interest rates?

Mr. BURGESS. I think it is also true, Senator, that consumers are still making payments on the very large amount of money they borrowed to pay automobiles in 1955 and 1956, and also payments on the very large amount of mortgages that were taken out. The amount of mortgage money that has been put out in the last few years is stupendous.

The net increase in mortgage debt of individuals was $14 billion last year, when it was supposed to be sagging; and year before that it was $15 billion. All of these consumers are having to make these payments, which has something to do with it.

Senator BENNETT. Having been in the automobile business in 1955, we knew that people were overbuying the market, and that we were taking some of our customers from 1956 and maybe some of them from 1957.

Now, isn't it true—you probably should not know this as well as I—but if there is excess productive capacity in the automobile industry, isn't it true that that productive capacity is shifting around?

Mr. BURGESS. That is true; yes.

Senator BENNETT. General Motors had 52 percent, as I remember it, of the market last year.

Now they have excess productive capacity, and we who sell Fords are doing a little better this year. So this situation of assuming that by reducing interest rates, we can mop up this excess productive capacity, ignores the fact that the consumers decide where the dollar is to go.

If I have any understanding of the general situation it is that consumers are currently going a little easier on durable goods and spending more of their money for soft goods, vacations, services, things of that kind, and that the total economy, or the total purchasing power in the economy continues to rise.

Now, do you think it is possible for Government policies, affecting interest rates, to create a permanent relationship in the market, or should it be possible? Shouldn't the consumers be left to decide for themselves how they are going to spend their money?

Mr. BURGESS. Well, personally I believe in the greatest possible freedom in the market for individuals to do the things that they want to do, make their decisions, make their mistakes and learn by them.

Senator BENNETT. And that includes the money market?

Mr. BURGESS. Yes, sir.

Senator BENNETT. What percentage of the total Government obligations are represented by the bill that is before us, affecting savings bonds?

Mr. BURGESS. They will be the new purchases, so that if these bills become effective this year, it will relate to some $5 billion of new purchases of savings bonds.

Senator BENNETT. Well, assume that it actually affected the whole savings-bond structure. What percentage is that of the total national debt?

Mr. BURGESS. That is $41½ billion out of 277, which is 15 percent of the total.

Senator BENNETT. Fifteen percent?

Mr. BURGESS. Yes.

Senator BENNETT. Are there legal limitations on the other 85 percent?

Mr. BURGESS. Yes, I think when you were not here the other day we gave a statement, as requested by the chairman last week, showing exactly the limitations on each form of Government bonds.

Senator BENNETT. But in any event, we are dealing in this bill only with a potential 15 percent?

Mr. BURGESS. That is right; yes.

Senator BENNETT. Are those legal limitations as high or higher than the 3½ asked for in this bill?

Mr. BURGESS. A 4¼-percent ceiling applies to the great mass of bonds outstanding.

So they are higher. The only others under limitations are some of those that are issued to Government trust funds.

Senator BENNETT. Thank you very much, Mr. Chairman.

Senator LONG. I would like to make a statement with relation to that question and invite the witness to comment on it.

In asking about the production of automobiles and various other items, the point I had in mind is that if we weren't using higher interest rates to control inflation, we could certainly use other devices, if we were worried about inflation. It would be better to require a person to make a $500 payment on a $10,000 house than no down payment.

No one will suggest that, because every one knows we are not building enough houses as it is. So, if it is not desirable to discourage the construction of houses by requiring a downpayment, then it is not desirable to discourage the buying of houses by raising interest rates.

The same thing it true of every other consumer item.

We would not want to have downpayments. We would like industry to produce more. That being the truth, I see no reason in raising these interest rates on the theory that we are preventing inflation.

Senator BENNETT. I would like to follow that question up. Isn't it a more accurate statement of Federal Reserve policy to say their policy is intended to put some limits on the supply of credit rather than intended directly to raise interest rates?

Mr. BURGESS. That is correct.

Senator BENNETT. That is collateral. It is not the original.

Senator LONG. The point is that the credit is necessary in order to make the purchases possible.

You have an excess of productive capabilities in every segment of consumer goods. Do you want less production of consumer goods or do you want more?

Senator KERR. Would the Senator yield?

Senator LONG. Yes.

Senator KERR. Don't you understand that the higher the interest rate, the easier it is for the people to borrow the money so that they can purchase these consumer goods?

Senator LONG. Oh, yes.

Senator KERR. Now, if you did not understand that, there is no difference between you and the Senator from Utah.

Senator LONG. They are one-third deeper in debt than 4 years ago.

Senator KERR. Don't you know the higher they raise the interest rate, the easier it is for people to get in debt?

Senator LONG. Yes.

Senator BENNETT. The Senator from Utah would like to make the observation: One of the questions before us fundamentally is should we be concerned with this volume of debt, should we be interested in discouraging it? Is there any danger? If there is none, then of course we should be interested in keeping rates down, making credit completely free.

But I grew up in the belief that a man, as an individual, based on his own personal situation, there was a practical limit to it, to the amount of debt a person, as a person, could face. I think we are beginning to approach that in many respects.

Senator KERR. And the faster you raise the interest rates, the faster we will reach it, won't we?

Senator BENNETT. That assumes the man is just panting to get into debt. Actually, if the interest rate is raised, it has a discouraging effect, as we know.

Senator KERR. Oh, I thought you said it had no effect. That is how I understood your statement.

Senator BENNETT. My point of view was, the problem was on restriction of credit. The interest rate is collateral.

Senator KERR. Totally immaterial of that?

Senator BENNETT. No, it is collateral.

Senator KERR. I would like to join the Senator from Louisiana in asking the witness to comment on it, now that we understand the situation.

Mr. BURGESS. Mr. Chairman, I think we have covered this ground several times. It relates to Federal Reserve policy. The Treasury came here on the very simple problem of trying to get the interest raised on savings bonds and we hope we won't get too far away from that question.

The CHAIRMAN. Any further questions?

Mr. Secretary, I want to take this opportunity to thank you and congratulate you on the knowledge you have displayed as to the problems we have been discussing.

Mr. BURGESS. Thank you, sir.

The CHAIRMAN. What is the pleasure of the committee? Shall we continue now, or meet tomorrow or later, or tomorrow morning?

Senator LONG. Mr. Chairman, Mr. Keyserling completed about 55 percent of his presentation. We have been asking a considerable number of questions. I will abide by the decision of the chairman, but I would hope that there would be a relatively good attendance. I suggest we leave it to the chairman to decide.

The CHAIRMAN. I imagine if you want more Senators here, we should recess until tomorrow morning.

Senator LONG. Very well.

The CHAIRMAN. Very well. We will recess now until tomorrow morning.

(At 12:25 p. m. the subcommittee adjourned until 10 a. m. Friday, April 5, 1957.)

SAVINGS BOND INTEREST RATE INCREASE

FRIDAY, APRIL 5, 1957

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to recess, at 10:20 a. m., in room 312, Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Frear, Long, Douglas, Gore, Williams, Carlson, Bennett, and Jenner.

The CHAIRMAN. The committee will come to order.

Mr. Keyserling, will you resume your testimony?

FURTHER STATEMENT OF LEON H. KEYSERLING, CONSULTING ECONOMIST AND ATTORNEY; FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT

Mr. KEYSERLING. Mr. Chairman and members of the committee, yesterday I made the point that the easiest thing to calculate with respect to the effect of higher interest rates is the increased costs of interest; and I submitted an estimate that by February 1957, the annual interest rate on the national debt was more than a billion dollars higher, and the annual interest rates paid throughout the economy about \$3⅓ billion higher, than if interest rates had remained at the 1952 level.

Connecting that with my testimony today, I said that in the final analysis a change in interest rates, so long as the condition of the economy remains the same, is a transfer of income and does not in itself consume economic resources, and therefore theoretically, if the change in interest rates did not adversely affect the economy, or did not result in a less equitable enjoyment of income than without the change, the results would be nugatory.

Now I am proceeding to analyze the hard-money higher interest rate policy from the viewpoint of the general economy, and will make several general points.

First, the claim that the higher interest rate policy, as it is now being applied and as it is now gaining momentum, is an effective weapon in dealing with inflation, is in my opinion erroneous; and beyond that, it is increasing rather than decreasing some of the distortions among the various parts of the economy.

Second, as I started to indicate yesterday, the situation which we now face, while characterized by some selective evidences of price increases and economic strain—we usually have some in a varied economy except when we are in a generalized recession or depression, which we are not now—the situation now is not one of inflationary strain, but rather of underutilization of capacities. Therefore, the hard-money higher interest rate policy, as a general weapon to restrain overall inflation and to restrain excessive or nonsustainable economic growth, is now misdirected.

I want to say that, when the Under Secretary of the Treasury said yesterday that in all the areas that he could think of the demand for goods was less than our productive capacity with respect to consumption, and not merely with respect to shifts within the structure of consumption, he was fairly well in agreement with the general economic analysis that I am going to present.

This general economic analysis centers upon the problem of the relationship between the growth of productive facilities and the growth of consumption. I first learned from a book called Controlling Depressions written by the Senator from Illinois a number of years ago——

Senator DOUGLAS. It is really extraordinary how these witnesses quote my writings to produce diverse and divergent points of view.

Mr. KEYSERLING. I later learned from a very good series in Fortune magazine, which is interesting because it is a responsible business journal, written last year, that the economic troubles that we got into after the end of the 1920's was basically an imbalance between the rate of growth in our productive capacities and the rate of growth in our consuming abilities.

There are many facets to this, but I at least think that it is fundamental.

With reference to what Senator Bennett said yesterday, with which I am in agreement, I am not endeavoring to indicate here that if there are certain difficulties in our current economy—and there are—that the hard-money policy is the sole culprit, or responsible for all of these difficulties. I am merely trying to indicate that I think it is one of the responsible agents, and that in any event it is operating in a direction contrary to the solution of the problems with which we now have to deal.

Also, in my comments about consumption, I recognize the free right of consumers at their election to shift from one area to another, from automobiles to houses, from houses to services, and I think in the long run we are going to have a larger part of our consumption in services. But as I analyze the current and recent situation, I think the overall aggregate of consumer demand of all kinds is far below what we would like to see it, and this applies to most of the basic productive areas. Further, if there is to be a long-range shift in consumption from hard goods to services, if that is a long-term trend in the economy and not merely a 1-year variant for erratic reasons—and I think it is a long-term trend—then the relationship between hard-goods productive ability and the consumption which in the long-run pattern is being devoted to those purposes, must retain some reasonable balance.

I want to insert the next chart in this context. (See last previous chart.) These are official figures, except for the straight line projection of a desirable rate of economic growth. This chart shows, in uniform 1956 dollars, the relative rates of our economic growth at different periods. The top part of the bar shows a 4.7-percent annual average growth rate from 1947 through 1953, a 2.6-percent rate from 1955 through 1956, and a 2-percent estimated rate from fourth quarter 1955 to fourth quarter 1956. All I mean by 'estimate" is that the constant dollar figures for the fourth quarters of both 1955 and 1956 were estimated by myself from official government figures. Of course, while those figures in fact might vary from other estimates by very small amounts, it is nonetheless clear—and this is corroborated by the judgment and concern of business commenators—that the rate of economic growth, particularly during the last 12 months, has swung far below the compound rate necessary to absorb fully a growing labor force and a rising productivity.

Senator DOUGLAS. Mr. Keyserling, I wish you would clear up that point. Is this growth of total production in per capita production?

Mr. KEYSERLING. Gross national product.

Senator DOUGLAS. Or output per man-hour?

Mr. KEYSERLING. Total gross national product. This whole chart relates to total gross national product. If we take the 2-percent figure from the fourth quarter of 1955 year to the fourth quarter of 1956, we can first compare it with the 40-year average which has been about three percent. So the 2-percent figure is low even if we assume a rate of technological change from year to year at the 40-year average rate. However, we do know, and it is borne out by the long-term productivity figures, that we are moving into a new technology where our science and tools and productive capacity are rising at a gradually accelerating rate over the decades. So comparing the 2-percent figure with the more recent rates that have been maintained say for a number of years after World War II, we have sunk more than 50 percent below that more recent rate of growth.

Senator BENNETT. Mr. Keyserling, before you leave that, isn't it reasonable to assume that that 4.7 rate in the years immediately after World War II was inflated by the fact that production for civilian use was necessarily contracted during the war? Isn't that a bit of a catchup?

Mr. KEYSERLING. I think that the Senator may have a point there. If the differential between the 4.7 percent rate and the most recent 2 percent rate were a difference of 10 or 15 or 20 percent, rather than more than 50 percent, I might be willing to concede, although I might feel that the 4.7 percent rate was a rate we had to maintain if we weren't going to have excess employment and that we had to find other ways to fill in the gaps when the catchup period was over.

Senator BENNETT. Isn't it also true that that high list contains the Korean, the little, short but definite Korean fight?

Mr. KEYSERLING. That is true. But working hours were shorter during the Korean war than before the Korean war. And therefore, if we were to say that after the Korean war we should have a lower rate of growth in national product, we would merely be saying that we could not have full prosperity in times of peace, which I don't believe.

It is true that, when we got out of the Korean war, we had new problems of absorbing our labor force and our productivity in nonwar pursuits. But the Korean war period was not a period of strained resources in the sense that the early part of World War II was, when we ran up hours from 40 to 48. During the Korean war, there was actually a reduction in working hours.

The main point I would make is that, even making some allowance for the fact that the 4.7 percent rate might be a little higher than a sustainable rate, due partly to the Korean war and due partly to a catchup, the 2-percent rate is a rate that is undesirably low. In any event, in terms of the erroneous claim that we now face a general inflationary trend in the economy, I think that it is a rather conclusive figure.

Senator BENNETT. I don't want to pursue this any further and interrupt your conversation, but just to make one more point. From 1947 to 1953, if they are inclusive, you have 7 years.

Mr. KEYSERLING. Yes.

Senator BENNETT. In which you can absorb 1948, which as I remember was a rather unpleasant year. And here we are taking single years and setting them out against the 7-year average.

Mr. KEYSERLING. 1947–53 also includes the 1949 economic recession, which pretty well balanced off 1948.

Senator BENNETT. I mean 1949. I am a year off.

Mr. KEYSERLING. That would presumably pull the average rate down, not push it up.

Senator BENNETT. If you had taken the 1948 year out by itself as you did the 1953 year, taking those two middle terms——

Mr. KEYSERLING. You will note that I have also shown, in the second bar, the 1953–56 average, which is only 2.6 percent. I haven't taken the most recent year out for any reason except we are naturally interested in what is happening now.

But you can take the average for 1953–56, and you get only a 2.6 percent rate, which is still well below the 40-year average.

Senator JENNER. Say that again.

Mr. KEYSERLING. The average for 1947–53 is 4.7 percent. The average from 1953 through 1956 is 2.6. The average from 1955 to 1956, which is 1 year, is 2.7 percent. From fourth quarter 1955 to fourth quarter 1956, the figure is 2 percent.

Senator BENNETT. What is the average for the 10-year period 1947–56? That is 9 years.

Mr. KEYSERLING. I would have to compute it. Somewhere between 4.7 and 2.6. It would be around 3¾.

Senator BENNETT. Wouldn't that be just a little above your 40-year average that you have referred to?

Mr. KEYSERLING. It would be a good deal above it, because technology is advancing. And it would be a tremendous amount above the 2-percent figure for the last year, because the decline from 3¾ percent to 2 percent is about 47 percent.

This is something that we need to meet quite vigorously. There is a general recognition through the economy that the rate of expansion is slowing down a good deal. When I come to the next chart, which shows the effect upon unemployment, you see a verification or correlation. You can pick up almost any business journal, and it will concede that the rate of economic growth has slowed down greatly, that it has resulted in more slack in more parts of the economy, that the outlook for the year ahead is for what is euphemistically called a leveling off. And a leveling off in an economy which must grow to hold its own is the early stage of a recessionary threat.

I am not arguing that we are in a classical recession now, and certainly not in a depression. I am arguing that the right time to start dealing with these problems is early rather than late, and that a hard-money, using interest rate policy is not the right policy to follow in the framework of the evolving economic situation.

Senator BENNETT. I have no more questions at this point, Mr. Chairman.

The CHAIRMAN. Mr. Keyserling, have you examined the budget estimate of the increased revenue for the next fiscal year?

Mr. KEYSERLING. Yes, sir.

The CHAIRMAN. Do you agree that there is going to be an increase above the previous fiscal year by reason of prosperity, so to speak?

Mr. KEYSERLING. I think that, if the current economic trends evolve, Senator, in the way that it seems they are evolving, there is at least a 50–50 chance, that the estimate of the Treasury as to budgetary receipts may be high.

The CHAIRMAN. I would think——

Mr. KEYSERLING. This is highly speculative.

The CHAIRMAN. Personal incomes perhaps may show an increase. I am speaking of the corporate incomes.

Mr. KEYSERLING. Corporate income has been softening somewhat. I will come to that later and appraise it.

The CHAIRMAN. You know the estimate upon which this is based is a substantial increase in corporate income as against an individual income. I wish you would give us your opinion on that.

Mr. KEYSERLING. What you say, Senator, is certainly very relevant to the point, that if the Federal Government is now spending—you and I, Senator, might not agree completely on spending policy, but I will say this—that if the Federal Government is now spending more than $1 billion more than it was a few years ago on interest charges, and if the inescapable evolution of the gradually increasing interest rates will soon result in increased interest costs to the Federal Government of a billion and a half to two billion dollars, I would say that this is one of the worst ways to balance that the money could be used.

I think there are other types of expenditure that are more desirable than paying out these interest bounties. I think it would be more desirable to undertake some kind of tax reduction than to pay out these interest bounties; and I think it would be more desirable to retire some part of the national debt than to pay out these interest bounties. I think these higher interest payments have the lowest priority of all expenditures in a proper management of the national budget under current conditions.

The CHAIRMAN. In the testimony given by Mr. Burgess, and the questions asked by Senator Kerr, it was brought out that if we refinance the public debt at the present going rate of interest, that it will add to the interest charges $4.4 million. Do you agree with that?

Mr. KEYSERLING. Yes, that seems to be entirely consistent with the figures I have worked out. I think that the figures I gave yesterday on the increased cost now are a little closer to the actual figures than his higher figures because I believe he applied the increased interest rate to the whole corporate debt rather than to the part of it that has been refinanced. It is certainly true, as more refinancing comes along——

The CHAIRMAN. Then there is a potential increase in the expense of the Government in financing the public debt in future years?

Mr. KEYSERLING. There is no question about it. One of the most dramatic illustrations of this are the figures that I gave yesterday, that whereas during the past 4 years the increased interest charges on the public debt have been about $1 billion for the whole 4 years, they are at an increased annual rate of more than a billion dollars in the first quarter of 1957, which is a very dramatic illustration of how fast this thing snowballs.

The CHAIRMAN. The interest charges today are approximately 10 percent of the total tax revenue of the Federal Government. Is that correct?

Mr. KEYSERLING. Yes, I think they are $7 billion dollars or more, aren't they? In that neighborhood. That would be about 10 percent.

The CHAIRMAN. Approximately 10 percent of the total revenue received from taxation is now going to interest charges?

Mr. KEYSERLING. That is true.

Senator LONG. Mr. Keyserling, one other point should be considered, and that is what we are doing to State governments.

Mr. KEYSERLING. I think I developed that in the first chart that I showed yesterday, Senator Long, pointing out that the increased interest burden on State governments was even greater than the increased interest burden on the Federal Government.

For example, if you look at the right-hand upper corner in the first chart, while the increased interest burden in February 1957 compared with 1950 on the national debt was 23.6 percent higher, the increased interest burden on State and local governments was 69.6 percent higher.

Senator LONG. Sixty-six percent higher.

Mr. KEYSERLING. Sixty-six percent higher.

Senator LONG. The figures are by the Treasury that the States have been obliged to go $25 billion deeper in debt. They have had a difficult time raising revenue, especially competing with industry as they are. They have gone another $25 billion in debt during the last 4 years.

Mr. KEYSERLING. That is certainly true. It seems to me a little inconsistent, when the Federal Government is imploring the States to assume a larger and increasing part of the responsibility for the things which traditionally have been considered State and local in their character, because the Federal Government has such a heavy national security burden, it seems to me inconsistent under such circumstances for the Federal Government through its explicit policies to impose such heavy additional interest burdens on the States.

The CHAIRMAN. May I make a comment there?

When I came to the Senate 24 years ago there was one Federal grant. We then spent $250 million on it. Today there are 53 Federal grants to States, and there are 13, I think, new ones recommended by the President.

If they are enacted, including the road fund, we will be spending on Federal grants this coming year $5,400 million, as compared to $250 million 24 years ago.

That brings out your point that the Federal Government is assuming many of the things, duties, and obligations, that should be performed by the States.

Do you agree?

Mr. KEYSERLING. I have said I don't entirely agree with you on budgetary and expenditure policy. But I do agree——

The CHAIRMAN. Mr. Keyserling, you don't have to advertise that every few minutes. We have disagreed for a long time. But I think there are some things we can agree on.

Mr. KEYSERLING. I think there are a number of things we can agree on.

The CHAIRMAN. I am trying to find something that you and I do agree on.

Mr. KEYSERLING. I personally am very happy when we do, because I have a much greater chance of having some of these policies that I believe in adopted when you agree with them, Senator, than when you don't. I surely hope that you will agree with this one.

The CHAIRMAN. You have made a good witness and I am glad that you are here.

Senator LONG. Here is one point that I had in mind, Mr. Keyserling. In almost every parish in the State of Louisiana we voted these bond issues to build more schools. In the parish of Baton Rouge, for example, the parish of East Baton Rouge where I live, we voted the last year a $30 million bond issue to build more school buildings for our childern. The way I figure it, that means these increased interest rates are going to cost us another $8 million, so we could have had $8 million more schools on the same repayment schedule if we hadn't had to pay these higher interest rates.

It doesn't do us much good to vote Federal aid for school construction and to give my parish $8 million to build more schools, when they raise the interest charges by $8 million.

Mr. KEYSERLING. Let me say, if I may do so without being presumptuous: I think I have made the best case I can, to the effect that interest rates are going up and that they are pushing up costs. I would like to move into the area of how they affect the economy, because that is the only argument being made by anybody for these higher interest rates. Everybody admits that just deliberately raising the cost of Government per se through higher interest payments is undesirable. Everybody admits and knows it is placing a tremendously increasing burden on the States. And everybody admits and knows in a general way that the rerationing of national income which is taking place, through this higher interest rate policy, is inequitable. I will demonstrate that a little further on.

Generally speaking, it is redirecting the flow of income from the people who borrow to the people who lend, and broadly speaking, it is supplementing income where income supplementation is relatively less needed, although I like to see everybody supplemented, at the expense of the people who are paying the higher rates now and who need income supplementation now.

This is pretty well conceded by everybody. The only real argument made for the higher interest rates is that they are helping the economy, that they are fighting inflation, that they are promoting economic stability. Therefore, I want to direct myself to this point, and show that the higher interest rate policy is outmoded and wrong now, even if some higher interest rate policy at some earlier time may have been desirable.

Senator JENNER. Mr. Chairman, on that point isn't there an additional argument, that it is necessary in order to keep floating the Government debt?

Mr. KEYSERLING. That argument is made, but I, just as an observer who was in these matters, more or less, for a long time, and who has watched them very carefully, do not believe that an increase of 122 percent in the rate of interest on 3- to 5-year Government obligations has been necessary to float those obligations.

This is not something that I can definitively prove, Senator, nor can anyone else. I can't definitively prove it. The Treasury can make a categorical statement that this is the interest rate we have to pay to float the obligations. I just don't think so.

You see, the Treasury gets into a certain inconsistency on this, if I may say so, because half the time they say that this is a deliberate policy which was put into effect to stabilize the economy, to fight inflation, to reverse the results of an alleged undesirable lower interest rate policy, and the other half of the time they say that they have merely followed the market rather than had a deliberate policy.

Now I am not blaming them for saying "we did it." But half the time they say "we didn't do it it." Half the time they say we have just followed supply and demand, and we have adjusted Government interest rates to the private interest rates in the market. But they have both sides of this particular coin at the same time. Either they have to fish or cut bait. Either they must say we had to do this, we were helpless marionettes of the private interest rate makers, or they must say we did it because we think it is desirable. They want to say both. I don't think they can say both.

Senator CARLSON. I have a statement to which Secretary Humphrey states—I believe expresses his views at the present time. This was made last fall. I will read a sentence because it confirms what you have said:

> Our problems today are the problems of great prosperity. They are nonetheless real and difficult and must be courageously faced if we want to keep true prosperity that will continue and stretch forward into the future.

So I take it from that that he takes the view that it is necessary to save the situation.

Mr. KEYSERLING. I want to establish the point that to a degree the Federal interest rate policy may have been shaped by what was happening in other parts of the economy. But to say that it is purely a reactor is not a realistic, practical observation. It has been both a reactor and an original force. I think it has been a conscious policy. I respect those who initiated the policy and followed the policy, although I disagree with it. I am trying to analyze it. But I don't accept the view that it "just happened."

Senator CARLSON. If you will permit, we will get into this a little further.

In view of the Secretary's statement—I think these figures must be accurate, I take them to be accurate—in this same speech—and I will quote again—he said:

> Let's go back to 1939, before the last World War, and come down to today. In the period of about 6 years, from 1939 through the end of 1945, the year that the war ended, the value of the dollar in goods that it would buy was reduced from 100 cents to 76 cents, a reduction of 24 cents or about one-quarter. During that period interest rates, by deliberate design of the administration then in power, were artificially held at low levels.

Do you agree with that?

Mr. KEYSERLING. I agree with part of the language. I not only disagree with the analysis, I don't like to say so, but it is incredible to me that a man as sophisticated and knowing as Secretary Humphrey would have attributed the inflation during the conditions between the outbreak of World War I and 1945, or whatever end year he used, primarily to the money policy.

Let me say—first of all, I want to repeat that this is a little off the track of what I am trying to do here today for this reason——

Senator CARLSON. You are discussing inflation.

Mr. KEYSERLING. Yes, sir. But I said yesterday, and I am saying today, I am not appearing here today in a political vein. Right or wrong, I was against the hard money policy in 1952. I disagreed with the administration I served insofar as steps were taken toward increasing interest rates. I don't want to argue that now because, whether it was right or wrong, I am interested in where we are now and where we are going and what is the right thing to do now.

But since you have raised this point, I must say this: I must say that when the Government of the United States was spending $3 billion a year for national defense in 1939, measured in 1956 dollars, and by 1944 was spending $146 billion a year for national defense in a cataclysmic war situation, it is just ridiculous to attribute war-created inflation to low interest rates. The only way the interest rates could have been high enough to stop war-created inflation would have been if they had been enough higher fundamentally to cut down very seriously the demand of the economy upon its productive facilities. What is it during the war that we did that we shouldn't have done? Should we have built our Armed Forces at a slower rate? Obviously building them at the rate we did was inflationary. We could have produced material——

Senator LONG. You mean the rapid rate was inflationary?

Mr. KEYSERLING. Yes.

Should we have organized our striking forces at a slower rate? Should we have built our Navy at a slower rate?

Senator GORE. We could have lost the war.

Mr. KEYSERLING. Should we have built plant at a slower rate? The building of plant during the war was a tremendously desirable thing, because not only did it enable us to produce, but after the war we found that that plant could be absorbed, fortunately, under both the Democratic and Republican administrations, in the peacetime pursuits of a prosperous people.

I just don't agree with the idea——

Senator CARLSON. Doctor, I wasn't trying to get into a controversy. I was trying to get some fact. I think you agree with me that this statement is what actually happened so far as inflation was concerned in percentages.

Mr. KEYSERLING. I don't agree that it happened because of the monetary policy, and I don't think that Secretary Humphrey would have said so, unless it happened that he was making a speech or statement in defense of the monetary policy many years later. It just doesn't fit.

Senator WILLIAMS. What was the unemployment in 1952, do you recall?

Mr. KEYSERLING. I believe it was less than 2 million. I have the figures here.

Senator WILLIAMS. Do you have the figures for what they were in 1952?

Mr. KEYSERLING. Yes. I will have to get out the Economic Report here.

In 1952, according to the January, 1957, Economic Report of the President, total civilian unemployment was 1.6 million. Under 2 million.

Senator WILLIAMS. What was it in 1950?

Mr. KEYSERLING. 3.1 million.

Senator WILLIAMS. What was it in 1948?

Mr. KEYSERLING. Two million.

Senator WILLIAMS. What is it today?

Mr. KEYSERLING. Today——

Senator WILLIAMS. The most recent figure that you have.

Mr. KEYSERLING. I believe that the current figure is 2.8 on full-time unemployment, or an average of 2.9 for the first quarter. I have something to say about that in the next chart, because I have always maintained that we have a very peculiar count of unemployment.

Senator WILLIAMS. What is the number of employed?

Mr. KEYSERLING. Today?

Senator WILLIAMS. No, for those 5 years.

Mr. KEYSERLING. The total employed, I believe you asked for 1950, was 60 million; 1952, 61.3 million; 1956, 65 million—64.9.

Senator WILLIAMS. What was it in 1939, for comparison.

Mr. KEYSERLING. In 1939, civilian employment was 45.7 million.

Senator WILLIAMS. What was unemployment that year?

Mr. KEYSERLING. Unemployment that year was high. Nine and a half million.

Senator WILLIAMS. What was it in 1936?

Mr. KEYSERLING. I am sorry; this chart that I have doesn't go back before 1939.

Senator WILLIAMS. What were the interest rates in 1939?

Mr. KEYSERLING. The interest rates in 1939, I suppose I have that here somewhere—it is a long time ago for me, but I can find it.

Senator WILLIAMS. Since we were attributing the interest rates, I wonder how they parallel this unemployment. That is what I am getting at.

Mr. KEYSERLING. First of all, let me make some comments about the figures that you have adduced. You have shown all——

Senator WILLIAMS. No; you have shown them. You quoted them. I just asked for them.

Mr. KEYSERLING. I have shown them, then.

The figures show that employment has grown greatly over the years: that is true. The population has grown, and employment has grown over a long span of years. The important thing from the viewpoint of current economic analysis is the trends in the ratios between employment and unemployment, because I believe I said to the committee yesterday—and I don't attribute this to any particular group—we indulge in the fallacy of assuming that pay for the American economy every year is the same, when in truth it changes every year, and that is the miracle of our economy.

In other words, if we had for example, an increase from one year to the next year of a million and a half in the population, and an increase of 750,000 in the labor force, and an increase of 250,000 in employment and 500,000 in unemployment, superficially you could say that employment was higher. But realistically, we would be losing ground, and if we lose that kind of relative ground for enough years, the rising level of unemployment begins to weigh down absolutely on the structure and you get into a difficult situation.

Senator WILLIAMS. Prior to World War II, in the period 1933 to 1940, was there a hard money policy in effect or was it a low interest policy?

Mr. KEYSERLING. The interest rate policy after 1933 involved a wide succession of measures in most fields to reduce the rate of interest. I happen to think that this was one of the factors in producing recovery, although for quite other reasons the recovery was incomplete until 1940–41.

Senator WILLIAMS. Were they artificially reduced?

Mr. KEYSERLING. I don't know what is meant by artificial. They were reduced by overt human action, just as they are being increased by overt human action now.

Senator WILLIAMS. By design?

Mr. KEYSERLING. Yes, by design.

Senator WILLIAMS. What was the average unemployment record for that period?

Mr. KEYSERLING. Very high, from 1930 to 1940.

Senator WILLIAMS. Would it run around 10 million?

Mr. KEYSERLING. It varied greatly. It was something like 12 million in 1932, something in that range in 1933, then it moved downward toward I believe 7 million in 1937, and then it moved upward toward around 9 million in 1939.

Senator WILLIAMS. And this so-called hard-money policy has been in effect since 1952 to 1957, for 5 years. What has been the average unemployment for this period?

Mr. KEYSERLING. Very much lower.

Senator GORE. What does that prove?

Mr. KEYSERLING. But, Senator Williams, you are committing, though not by design, the same error that Secretary Humphrey did in his statement. We can't attribute the high unemployment in 1933–40 to the lowering of interest rates during that period. The high unemployment stemmed from the great depression, from the crash starting in 1929. Before that crash, interest rates were very high, and if we want to evaluate the economic consequences of high interest rates, we must start before the 1929 crash, not after it.

Senator WILLIAMS. I am not trying to prove anything. I was not quite in agreement with you that any one factor is responsible. I am not trying to say that the hard money policy has necessarily resulted in less employment. But that in itself hasn't been such an adverse factor because even you admitted the other day that for the past 5 years we have had the highest degree of prosperity the country has ever had.

Mr. KEYSERLING. No; I haven't admitted that during the past 5 years we have had the highest degree of prosperity that the country ever had. I think we have had a reducing rate of economic growth and a higher level of unemployment. But I am not interested in making that point in itself.

First of all I said—and the record will show it—I am not arguing that the hard money policy is solely responsible for any of our economic difficulties at any time. I am saying that it is one of the factors. I am also saying, insofar as the argument has been advanced that the hard money policy was designed to fight inflation, that the American economy, generally speaking, is not now in an inflationary situation. It is starting to move in the opposite direction. And we ought to take account of that. And therefore, this disposes of the current argument for the hard money policy, namely, that it is needed to fight inflation.

Now, if we want to start to make a complete analysis of interest rates and prosperity, the sound thing to do would be to go back before the 1929 crash, and examine what were the various factors producing it. I think that the very high interest rates then, which incidentally were very much higher than they are now, were one of the important factors. I also think that the reduction in interest rates, the reduction in the cost to the farmer as a producer, the reduction in the cost to the homeowner as an enjoyer of a basic American commodity, I think that one of the most important economic reforms—and I hope we have gotten beyond the time when I as a Democrat or anybody as a Republican claims exclusive heritage of those reforms—was lower interest rates.

I think that the reduction in interest rates between 1933 and 1939 is one of the most important, enduring, economic gains that the American economy has ever had. And incidentally, it didn't reduce the incomes of money lenders. I don't use that term critically. Some people do, so let's say, of those who lend money. "Money lenders" sounds critical. Those who lend, as the economy has expanded, have had more loans to make and have had more business to do, and therefore they get a compound double increase when the interest rates go up at the same time.

And I will show figures to the effect that the interest rate income has been going up a great deal faster than wages, or profits, or other types of income.

The CHAIRMAN. You have made references once or twice to the difference that we have had in the past. I want you to understand that I have never favored higher interest rates than necessary to obtain the funds desired.

I have the old-fashioned idea that money is a commodity and that if you want to obtain that commodity you have to pay the current rates. I don't question the arguments made that the actions of the Government may affect those rates. I have been in business for 50 years, and I have had to borrow money during that time. I paid as low as 3 percent, and I paid as high as 8 percent during that period. But never at any time have I advocated higher interest rates than necessary, and I do not do it now, because I regard interest as an expense of business, as a burden upon those who have to pay the interest. And it should be no greater than is absolutely necessary to obtain the funds desired.

And I have not made any statement to this effect, and unfortunately I have not writen a book on the subject.

Mr. KEYSERLING. I agree with you completely on that.

Senator GORE. Before Mr. Keyserling goes ahead could I ask one or two questions on this particular point?

The CHAIRMAN. Certainly.

Senator GORE. Those who think that Government acts to maintain a low interest rate monetary structure want to use the word "artificially" in describing such an action. Are not actions by the Government to push interest rates up just as subject to description by the term "artificially"?

Mr. KEYSERLING. Senator, that is why a few minutes ago I said I said I didn't like the word "artificial." I think, under the current operations of our economic system, and the current posture and position of the Federal Reserve Board and Treasury in that system, that we have a conscious policy on the part of the Government or the Federal Reserve Board or both with respect to interest rates. Sometimes that conscious policy is to move them downward, or to adopt collateral measures that tend to move them downward.

Sometimes the conscious policy is to move them upward. In any event, it is a conscious policy. Let's discuss it as to the relative merits of the policies, and not get caught in the trap of saying that one is artificial and one is natural, that one makes for a free economy and the other makes for a controlled economy.

I don't see how, when the Federal Reserve Board and the Treasury get together, as they have—and I am not criticizing their right to make a policy—and take certain deliberate steps of action to push interest rates upward, I don't see how they can claim that this isn't intervention in the economy, just as if they took action to push the interest rates downward. This business of calling one intervention consistent with a free economy, and calling the other intervention a controlled economy, I don't understand. It is a positive policy in either event, a positive intervention in either event.

Senator GORE. Now with respect to the point of view expressed by our distinguished chairman: What was the national debt at the time the Federal Reserve Act was passed?

Mr. KEYSERLING. That is a long time ago for me.

Senator GORE. It was approximately a billion dollars.

Mr. KEYSERLING. I am sure it was much less than $5 billion.

Senator GORE. It was approximately $1 billion.

Senator LONG. It was about $1 billion.

Senator GORE. How can there possibly be a so-called free-money market with a national debt of $277 billion, with weekly maturities on the average greatly in excess of the total national debt at the time the Federal Reserve Act was passed? Is it not absolutely necessary for the Government to take action in the management of the public debt? Those who wish to describe governmental action as artificial, are, so far as I am concerned, free to do so. But however it is described, it is necessary, is it not, Mr. Keyserling, for the Government to take definite and positive steps in the management of the public debt when we have a debt of such tremendous proportions?

Mr. KEYSERLING. I think that is conceded on all sides. And if one will read the responsible reports of the top economic agencies of the current administration—and I respect their views—one will find in those reports the clear statement that they have adopted certain conscious policies in the field of money and credit because they believe those policies are right.

Let's separate the point that I disagree with some of those policies from the point that these are conscious and positive policies. They should admit them to be such, and discuss them on the merits.

Senator GORE. If the interest rates are left entirely to supply and demand, and the Federal Reserve continues to restrict supply—which in itself is not leaving it entirely to supply and demand—and the public debt continues to go up as it has for the past 5 years, can there be but one course, and that upward, for interest rates?

Mr. KEYSERLING. I would be inclined to think so. At least I would be inclined to think that interest rates—I don't believe they could or would leave it alone, but if they did, yes, I think that the trend in interest rates, assuming prosperity, would probably be a little faster upward than if there is a conscious policy which believes it to be for the good of the general economy to have relatively low interest rates. I agree with you on that.

Senator GORE. So, to pay lip service to the cause of leaving the interest rates to the mercy of supply and demand cannot be consciously done by those who—I did not say honestly done—but I cannot believe the thesis of leaving interest rates to supply and demand can be supported by those who consciously perform actions every day and every hour which affect the monetary situation.

Mr. KEYSERLING. That's right. I think decisions made from time to time as to the relative amount of the total outstanding obligations of the Government, as refunding comes along, should be for various terms of years, is a conscious policy. We all know that those decisions have an effect upon the carrying cost to the Government, have an effect upon the rate of interest. One may say those decisions are made partly for other reasons, partly because the Government believes for other reasons that it should have more of one type of obligation and less of another. But I also think that one of the factors in this conscious policy with respect to distribution and duration of obligations is consideration of the impact on interest rates. At least, it should be. And therefore, of course, interest-rate policy is to a substantial extent a conscious policy of Government in our modern economy.

Senator GORE. Mr. Chairman, I will not persist in pursuing this point at this time, because I think Dr. Keyserling deserves the privilege of proceeding with his analysis.

I asked these questions to point up my own questioning of the statement you made, that we must or that we even can depend upon a free-money market. No such thing is available to us when the economy and the monetary system are burdened with the enormous national debt we have.

The CHAIRMAN. I qualified my statement I think to this effect: That I realize that governmental action had an influence on interest rates, but I wanted to see the lowest interest rate we could get, both for the Government operations and for individuals. I regard interest as a cost of doing business.

The Federal Government is borrowing to pay the cost of conducting the business of the Federal Government. I didn't get into the field, to make clear to the Senator, as to what brought about these rates. I simply made a statement that I think the rates should be as low as possible in order to obtain the money desired. But I agree with the Senator that certain actions of the Government, with a debt of $275 billion, naturally affect this market.

Senator GORE. Those actions can bring an upward pressure or a downward pressure on interest rates.

The CHAIRMAN. I didn't attempt to discuss that, and the Senator is correct. The position I took was that the money should be borrowed at the lowest possible rates. What has brought about these high rates is a matter that we are now discussing.

Senator GORE. Mr. Chairman, in that connection don't you think it is the responsibility of the Congress, under the Constitution, to do what this committee is doing now, to give consideration to this matter?

The CHAIRMAN. I think so. That is the reason that I was very much in favor of having this hearing.

Senator BENNETT. Mr. Chairman, I would like to suggest to all of my colleagues that we withhold—restrain ourselves until Mr. Keyserling has had a chance to finish the next two and a half pages of his statement.

The CHAIRMAN. He has raised such interesting points that it is difficult not to ask questions.

Senator GORE. May I say to my colleague that I was straining hard to restrain myself and had just arrived at that conclusion.

Mr. KEYSERLING. All right then, I will try to race ahead, because I think I will answer some of the points that have been raised with my remaining materials.

To finish with this chart quickly, the top area shows the declining rate of economic growth, which is the first stage in the transition of an economy from an adequate rate of growth to an absolute rate of decline (see last preceding chart).

If the declining rate of economic growth continues and leaves more and more resources unused, the weight and cost of the unused resources will ultimately start an absolute leveling off or an absolute decline.

The middle part of this chart simply projects at a uniform rate of growth—that doesn't mean that the economy must grow the same every year—it projects at a uniform rate of growth, measured against labor force growth and a conservative estimate as to productivity, the desirable growth pattern of the economy. It then plots the actual rate of growth, and shows that in the most recent year particularly—and I don't want to concentrate too much on the earlier periods—during the last year we have an approximation of about $20 billion as the difference between the actual annual product at a uniform price level and what the annual product should have been if the growth rate during the past 12 months had been maintained at something close to the long-term average growth rate potential.

TABLE 4.—*Deficits in gross national product and components, 1947–53 and 1953–56*

[In billions of 1956 dollars]

Period	Full employment needs				Actual levels				Deficits			
	Gross national product	Personal consumption expenditures	Private investment[1]	Government expenditures	Gross national product	Personal consumption expenditures	Investment[1]	Government	Gross national product	Personal consumption expenditures	Investment[1]	Government
1947	$293.6	$200.0	$52.3	$41.3	$289.6	$197.6	$51.7	$40.3	$4.0	$2.4	$0.6	$1.0
1948	308.7	205.5	53.8	49.4	302.7	201.5	52.8	48.4	6.0	4.0	1.0	1.0
1949	322.8	214.4	53.0	55.4	301.8	206.7	39.7	55.4	21.0	7.7	13.3	----------
1950	337.7	223.1	58.6	56.0	329.9	219.1	58.6	52.2	7.8	4.0	----------	3.8
1951	351.0	220.6	62.0	68.4	354.2	220.6	63.4	70.2	−3.2	----------	−1.4	−1.8
1952	365.6	227.6	54.6	83.5	366.6	227.6	54.6	84.5	−1.0	----------	----------	−1.0
1953	382.1	238.7	55.0	88.3	381.6	237.2	52.0	92.3	0.5	1.5	3.0	−4.0
1954	397.3	252.7	58.0	86.5	374.6	241.4	51.1	82.0	22.7	11.3	6.9	4.5
1955	415.0	266.0	63.0	86.0	401.7	258.3	63.4	80.0	13.3	7.7	−.4	6.0
1956	432.7	279.9	66.8	86.0	412.4	265.7	66.8	79.8	20.3	14.2	----------	6.1
1956: 4th quarter (annual rate)	439.5	285.1	67.5	86.9	418.4	267.4	70.1	80.9	21.1	17.7	−2.6	6.0
1947–53:												
Total	----------	----------	----------	----------	----------	----------	----------	----------	35.1	19.6	16.5	−1.0
Average	----------	----------	----------	----------	----------	----------	----------	----------	5.0	2.8	2.4	−.1
1953–56:												
Total	----------	----------	----------	----------	----------	----------	----------	----------	56.8	34.7	9.5	12.6
Average	----------	----------	----------	----------	----------	----------	----------	----------	14.2	8.7	2.4	3.1

[1] Sum of gross private domestic investment, plus net foreign investment.

NOTE.—Due to rounding, detail does not necessarily sum to totals.

Source: Actual data, Dept. of Commerce; estimates of needs, Conference on Economic Progress.

When we talk about Federal revenues, to show how important this economic analysis is, as distinguished from the isolated budgetary analysis, if the Federal government is collecting revenues at approximately one-sixth, or 16½ percent, of the total output of the economy, then a $20 billion deficiency in national production means a loss of more than $3 billion in Federal revenues.

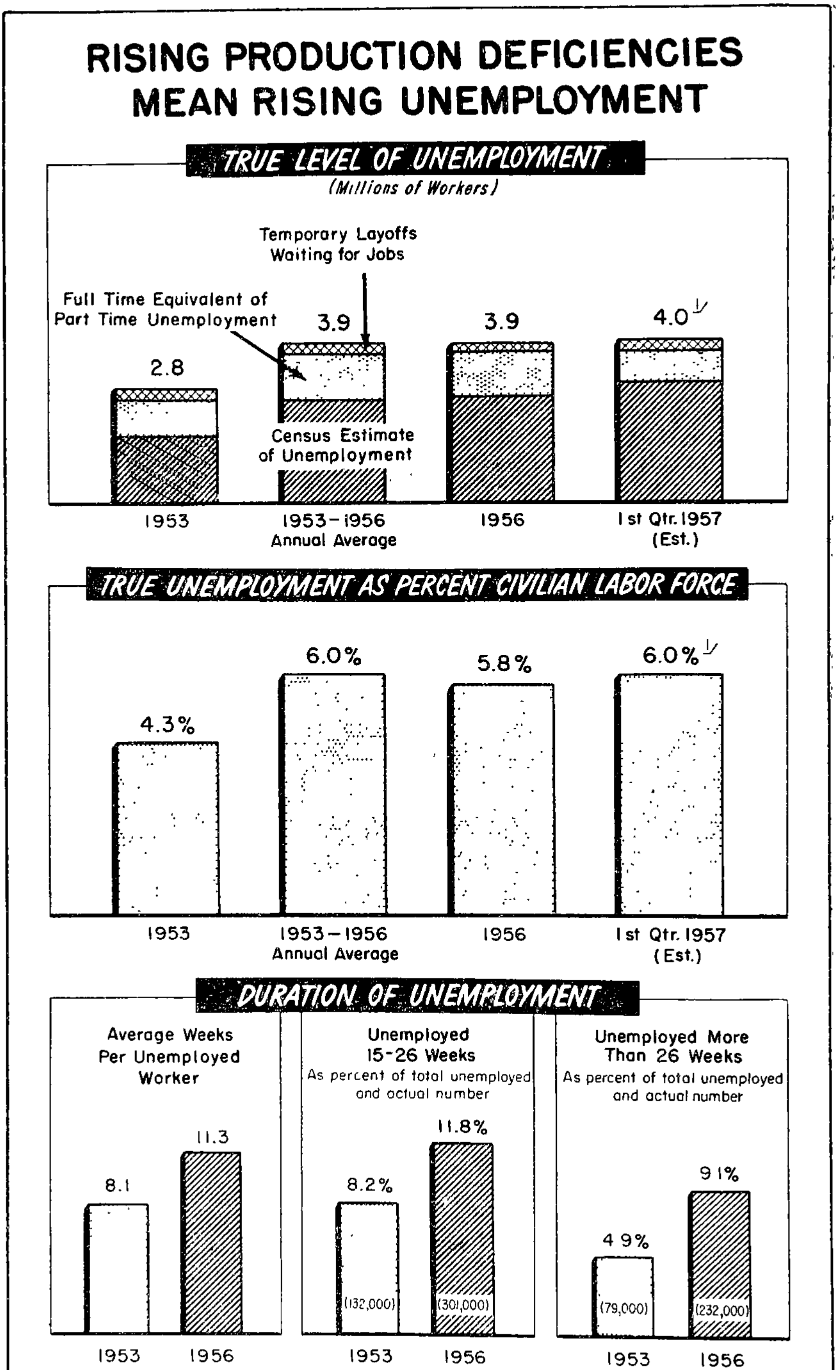
All I am getting at is that, even if the high-interest-rate policy were resulting in lower direct cost to the Federal budget, we would have to consider its impact upon the whole economy. But when it is resulting in higher direct costs to the Federal budget, certainly it isn't very encouraging to note that it is also causing indirect losses of Federal revenues by slowing down our overall rate of economic growth.

I am not saying that this slowdown is due solely to the hard-money policy. If it weren't due at all to the hard-money policy, the slowdown would still destroy the reason for the hard-money policy, because the reason advanced for the hard-money policy is that we are growing at an inflationary rate which needs to be restrained. That is the main point I am making. I am not trying to make the case against the hard-money policy carry too heavy a load.

Let's concede, which I won't, that the hard-money policy has had nothing to do with this slowdown. I think it has. I think I can show it has. But let's assume that it hasn't. The reason for the policy still disappears when your economy is moving into an area of increasing unemployment, accompanied by a large slowdown in the rate of growth.

I want to show from some of the later charts that there is an additional argument against the higher interest rate policy. Not only is it being pursued during a period of economic slowdown, but, in addition, when you look at the separate parts of the economy, the policy is operating most severely against the parts that are already deflated, or that are already in a very bad situation, agriculture being one, and not operating hardly at all against the very parts of the economy which the Chairman of the Federal Reserve Board and others have said it was designed to restrain.

Let's move on to the next chart.



1/ Approximately seasonally adjusted

Data 1953-56, Dept of Commerce, estimated for 1st Q 1957, Conference on Economic Progress

In this chart I have shown, based on official figures, what is happening to unemployment. The only thing that I have done which isn't customarily done is to say this: If, in the automobile plants of Detroit, or in the steel mills or anywhere else, because industry has a legitimate desire not to have a lot of full-time unemployment—and I commend that—there is a slack of work and they lay a million men off for half a week each, it has about the same economic effect as if they laid off half a million men for a full week.

I don't criticize them for doing that. But I do say—and this is very important—our unemployment statistics have not been brought up to the point of sophistication where they take any account of part-time unemployment in the census figures on unemployment.

Senator DOUGLAS. Mr. Keyserling, at the risk of violating the injunction on not interrupting, I may say that I agree with you thoroughly. When I was chairman of the Joint Economic Committee I urged that an improved index be computed which would take account of part-time unemployment. And while the data is not published in the Economic Indicators, the staff does prepare, or did prepare, every month an allowance for part-time added to full-time unemployment. Those figures exist privately, although they have not been published.

Mr. KEYSERLING. Broadly speaking, what this chart shows is, first, the Census Bureau's estimates of unemployment. But it also shows part-time unemployment, translated into its full-time equivalent. And it also shows so-called temporary layoffs waiting for jobs.

Taking these three things together, and translating them into their full-time equivalent, the true level of unemployment in the first quarter of 1957 is now estimated at about 4 million. As a matter of fact, to be conservative, I made a seasonal adjustment on this chart. Unseasonally adjusted, it is about 4.2 million. This contrasts with an average of about 3.9 million in the most recent years, and less than 2.8 million in 1953.

It is interesting that, when I show unemployment figures in this way, they correlate fairly well with the decreasing rate of economic growth.

In other words, if you compare your decreasing rate of economic growth with the disutilization of labor which results in increasing unemployment, you get a good correlation. You don't get a perfect correlation, because there are lots of areas of the economy where people are technically employed but terribly underemployed. Agriculture is an example of that. We have a tremendously underutilized labor force in agriculture.

TABLE 5.—*"True" unemployment, 1953–56*

[In thousands of persons]

Period	Reported unemployment	Full-time equivalent of part-time unemployment[1]	Temporary lay-offs and waiting for new jobs or businesses	"True" unemployment	
				Total	As percent of civilian labor force
1953 norm[2]	1,602	[3] 800	[4] 233	2,635	4.1
1953 actual	1,602	900	268	2,770	4.3
1954	3,230	1,400	348	4,978	7.7
1955	2,654	1,050	250	3,954	6.0
1956	2,551	[5] 1,100	271	3,922	5.8
1957: 1st quarter (estimate)	2,907	1,060	265	[6] 4,232	[6] 6.4

[1] Based on data for persons working part-time for economic reasons.
[2] Full employment level of unemployment for 1953.
[3] Based on 1952 data.
[4] Based on 4th quarter of 1952 and 1st 3 quarters of 1953.
[5] Very preliminary.
[6] When adjusted for seasonal variation, the 1st quarter "true" unemployment level is about 4 million persons and the rate of unemployment is about 6 percent.

Source: Basic data, Bureau of the Census. Some computations by Conference on Economic Progress.

The duration of unemployment is also important as shown in the bottom half of the chart. Those unemployed more than 26 weeks have risen to 9 percent of the total unemployed in 1956, compared to about 5 percent a few years ago; and those unemployed between 15 and 26 weeks have risen to almost 12 percent as against 8 percent, and the average duration of unemployment has risen by about 3 weeks, from 8 weeks to 11 weeks.

Moving on to the next chart. I come to the phase of my argument which is crucial. This whole problem in the final analysis may be simplified as a problem of the relative growth of production and consumption. Let me give one figure first, and then work from that figure, because it is a rather striking figure.

During the last—and I want to say this slowly—comparing fourth quarter 1956 with fourth quarter 1955, in 1956 prices, investment in producers' durable equipment, which is at the heart of our productive economy as it is now organized, has increased about 12 percent. Consumption has increased only about 1.6 percent. These are uniform 1956 dollars.

In other words, we are building up an imbalance between those two factors. I don't mean that I am against business. I say that if we had a full rate of economic growth, in other words, if we had balance between investment and conusmption, the absolute opportunity for business investment could be larger than the actual amounts that have been put forth. And over a longer range of time, this would be much better for business, because even now they are worrying about how long this investment boom can keep up, when, during the last year, it has been moving about seven times as fast as consumption.

How does the hard money policy come into this, so you won't think I am just talking of something that bears no relation to that policy? The main argument advanced for the hard money policy—and you can check with the people who have been its defenders—is that it is——

The CHAIRMAN. I am sorry to interrupt you. You speak of the hard money policy. Do you mean a policy whereby the Federal Government deliberately offers obligations of the Government at a higher rate of interest than these, merely to increase the interest rate?

Mr. KEYSERLING. This gets to the question of whether the people are correct who say that the interest rates have needed to be raised this much to get the funds. My position, Senator, is that the Government has followed an economic policy based upon the idea, first, that we are faced with an inflationary threat; second, that the main element in that inflationary threat is what they call the investment boom; and third, that the deliberate and conscious increase in interest rates, with certain other aspects of a more stringent credit policy, would curb the investment boom and therefore bring things into better balance.

The CHAIRMAN. You do think then that the obligations of the Government are at a higher interest rate than necessarily to obtain that——

Mr. KEYSERLING. Yes; I think they have been too high. I think those making this policy have sought to justify it on grounds of an independent economic policy which they themselves have stated—I am not putting it into their mouths. I say that economic policy is wrong, in my judgment.

The CHAIRMAN. There is one thing involved that has disturbed me, too. As you know, much of our public debt is in current obligations that can be called upon shortly. As I understand the position of Secretary Humphrey, when he issued I think a billion dollars at 3¼, it was to put a part of the Federal debt on a long-term basis, 20- or 30-year bonds. That was the beginning, as I understand it, of this alleged action of the Federal Government for hard money.

Mr. KEYSERLING. They interrelate; yes.

The CHAIRMAN. That particular issue.

Mr. KEYSERLING. They interrelate.

The CHAIRMAN. And the reason for that was—and I would like to have your opinion about it—to take a part of the debt and put it on a long-term basis so that the Government, by reason of some unforseen obligations, would not be put in jeopardy in paying these current loans, which everybody knows is a much lower rate of interest because they come back in 90 days, 6 months, or so forth.

I am asking these questions because I am interested in what you have to say. I have been impressed by it. I want you to answer that question as directly as you can. Do you think the Federal Government has deliberately offered these securities at higher rates of interest than necessary to obtain the funds that they desired at that particular time?

Mr. KEYSERLING. That is my position.

The CHAIRMAN. Give us details of it. Back it up with some action that was taken by the Federal Government.

Mr. KEYSERLING. The action that was taken by the Federal Government is of various kinds. One kind you have referred to, the change in composition of the average duration of the public debt. This has involved more than one reason being given. I can't limit it to one reason because there are more. One reason they have given is that it is desirable as a long-term process to have more of the Federal debt on a long-term basis.

Senator GORE. But as a matter of fact, there is less at a long-term basis now.

Mr. KEYSERLING. Yes.

Senator GORE. Excuse me.

Mr. KEYSERLING. These questions are so complicated at best that I am trying to simplify the analyses.

Senator GORE. I would like to substitute the word "excuse" rather than "reason," but excuse me.

Mr. KEYSERLING. The Senator used the word "deliberately," and therefore I want to be very deliberate about what I say about it. There is more than one reason given for doing what they have done. One you have alluded to, to change the average duration of the national debt. Another reason is to place various parts of the Federal debt in different hands on the ground that that was desirable.

Another reason they have given, and this is the one that I want to stress, and I think an examination of all their statements will bear me out—and in fact it is corroborated by this statement that was read at Secretary Humphrey's—the main reason that they have given is not these two, but that they have done it because it would be good for the whole economy to have a higher interest rate and increasing credit stringency during the last few years, and it is this that I basically as an economist disagree with.

The CHAIRMAN. Is there any other specific instance except this billion dollars 3¾ issue that you can give wherein they offered securities at a higher interest rate than necessary to obtain the funds desired?

Mr. KEYSERLING. Even as to that issue, I can't prove definitively that it was a higher rate than necessary.

The CHAIRMAN. I mean of course——

Mr. KEYSERLING. They say it wasn't at a higher rate than necessary.

The CHAIRMAN. That is linked up with the long-term question.

Mr. KEYSERLING. Yes, sir.

The CHAIRMAN. Are there any other instances where they got short-term money at higher rates of interest than these?

Mr. KEYSERLING. I don't have here a list of all the instances where the Government has refloated obligations at a higher rate than previously, but the citations that I gave yesterday showed that for a long period of years, not limited to any one issue, there has been a gradual and substantial and accelerating increase in the interest rates at which the Government offers issues. So it is not limited to any one particular issue.

The CHAIRMAN. Has that increase only been enough to meet the increase in interest rates that generally prevailed?

Mr. KEYSERLING. I very much disagree. I think it has been an independent factor, and I think it has been an independent generating factor of some of the other increases in interest rates.

The CHAIRMAN. You say that stimulated some of the other interest rates?

Mr. KEYSERLING. Yes, sir. I say it not only stimulated them but in one sense made them unavoidable.

Senator Byrd, one of the best proofs of that is what is happening before this committee. The fact that they are asking for an interest rate increase on Government bonds isn't the big thing in itself. The big thing is that they are admitting that, when you raise interest rates at one point, you have to raise others to make them correlative. At the present moment, they happen to be trying to make the savings bonds correlative with other bonds.

The CHAIRMAN. Do you think interest rates should be completely stationary?

Mr. KEYSERLING. No, sir. I think that there should be some discretionary flexibility.

The CHAIRMAN. Where there is a great demand for money, and only a given demand of money, it is reasonable for the interest rates to rise?

Mr. KEYSERLING. Surely. I am not trying to be a zealot about this. I believe there should be some flexibility in an interest-rate policy, and that is why I said, Mr. Chairman, at the beginning of my testimony, that perhaps an interest increase of about the size that occurred say from 1950 to 1952 may have been reasonable. However, I didn't mean to imply that it should have been done within those 2 years. Spread out over the whole period, it might have been desirable, though even this I doubt. That is why in computing what I regard as the higher cost of the interest rates, I took only a 4-year period rather than a 6- or 7-year period, to make it conservative.

I think there should be some flexibility in interest rates from time to time. But just like on the question of the farm problem, one could be for some flexible price supports and yet not agree as to the specific policy of how fast or how far they were flexed and when.

Now, coming to the matter of consumption, my basic argument is that most of the deficit in production, which is represented by a rising rate of unemployment and a slower rate of economic growth, is on the consumption side and not on the production side.

I was very impressed with some remarks that I believe Senator Bennett made yesterday, about what was happening in the automobile companies. I am not criticizing the automobile companies. What happened is just this: Ford decided a few years ago that they had fallen behind technologically, and they put billions of dollars into plant and equipment. Then General Motors found that it was somewhat behind Ford, and it put billions of dollars into plant and equipment. Then Chrysler found that it was behind them both, and it began by borrowing $200 million from Prudential, and it put tremendous amounts into plant and equipment. Each company hoped that it could get a larger part of the market than any of them in fact got. That is the American competitive system, and to a degree may be desirable. What I am saying is that, as to this type of investment boom, these types of companies and others—A. T. & T., I. T. & T., General Electric—the people at the heart of this big investment boom which is going ahead too fast relative to consumption are not restrained by this hard money higher interest rate policy, because they are relatively little affected by it.

You can take it as a truism that, in any period short of a depression, when companies of that size sit around a table and find that it will reduce their average production costs to put in more tools, and that in the long-range sweep of the American market they have a chance of getting business to justify that investment, you can put it down as a truism that those kinds of operators—and I am not saying this critically—will not be restrained because interest rates are one-half of a percent higher or 1 percent higher or $1\frac{1}{2}$ percent higher.

Therefore, the hard-money policy, which even according to the statements of the Chairman of the Federal Reserve Board was designed to curb the investment boom, has not curbed it at the point where it has been racing ahead relatively too fast.

What has it curbed? It has curbed investment in inventory financing and general operations by small business. It has raised the interest costs severely on the very frequent refinancing that the farmer has to do. It has tremendously increased the costs on home ownership, and on home construction which is now falling too low. And let me say this about the interest-rate policy, just to show how one interest rate drives up another. The Government now is saying that they have to raise the interest rates on certain kinds of mortgage financing for homes, because the other interest rates have gone up.

Well, this is not only an example of the point that Senator Byrd made. It is also an example of terribly fallacious reasoning, because the real reason why housing construction has fallen is that the costs are too high already for the average American family, which is the basic market for housing after the luxury market is saturated.

The CHAIRMAN. The veterans claim now they can't get loans on this Federal housing. Would you favor an increase on the interest rates on that?

Mr. KEYSERLING. I certainly would not. I think that, with higher interest rates, they would get less housing, because this is a cost problem.

The CHAIRMAN. It is better not to give an increase in rates, even though they can't get loans on housing?

Mr. KEYSERLING. Yes. But I don't agree that the higher interest rates would enable them to get more housing. I don't think that a general shortage of capital is the basic reason why they can't get money for housing. I think the basic reason is different.

The CHAIRMAN. The fact is that they are not getting money on housing. How do you account for that?

Mr. KEYSERLING. They would get it if they could afford to pay enough.

The CHAIRMAN. You have just said you don't think we should increase the interest rates.

Mr. KEYSERLING. I am saying this: I am saying that the reason that the veterans aren't getting housing is that they cannot pay enough to bring forth housing at current costs; that the interest rates are already too high; that if you raise the interest rates more, the veteran would have to pay still more for housing, and would be still less able to afford it, and therefore will get still less housing.

The CHAIRMAN. I don't follow that. You have been pretty clear in most of your statements, but I can't follow that at all. In other words, the less interest they pay on the loans the more loans they can get; is that what you mean?

Mr. KEYSERLING. Yes.

Senator DOUGLAS. Is it not rather the more loans they will want.

The CHAIRMAN. But they can't get them.

Mr. KEYSERLING. You have to look at the buyer as well as the seller, the borrower as well as the lender.

The CHAIRMAN. I have a number of letters from veterans saying they can't get the loans on their properties because the banks and others won't lend to them at interest rates prevailing.

Mr. KEYSERLING. Interest in the sense that we are talking about is a factor in cost or a factor in price. Let me try to make this clear. Higher prices do not always result in more sales. Higher prices sometimes result in less sales.

The CHAIRMAN. It is your position, then, that there should be no increase by Congress in the rates allowed to be paid; interest rates on veterans' loans?

Mr. KEYSERLING. I feel that very strongly.

The CHAIRMAN. Even though that stops the veterans from obtaining any money?

Mr. KEYSERLING. I think there are better ways for them to obtain the money and the housing they need.

Let me answer another part of your question first. I am sorry to take so much time.

The CHAIRMAN. This is very interesting.

Mr. KEYSERLING. There are a lot of relationships. Suppose we assume, for the moment, that the banks will not lend the money to the veterans at current interest rates, and that this is the main obstacle. That would simply mean that, because of high interest rates in other parts of the economy on a differential basis, the banks would rather make other kinds of loans. This is an excellent illustration of the fact that, once interest rates start chasing each other upward, you have to chase more and more, and what is the end? In other words, it may be true, because of the rise in interest rates generally throughout the economy, and the differential rises in different parts, and the fact that the marginal difference between the interest rate that you can earn by buying a Government bond and the interest rate that you can earn by buying a corporate bond has come closer to the traditional interest rate on housing, that banks are not willing to lend money for housing at this interest rate, so it is just a spiral. We should stop this spiral, not validate it.

The CHAIRMAN. What is the interest rate on it?

Mr. KEYSERLING. It is one of the hardest things to find, because, as I said, I don't have the facilities to get private interest rates.

Senator BENNETT. The veterans' rate is 4½ percent.

Mr. KEYSERLING. That is only the first very tiny beginning. They pay a lot more interest than that.

Senator BENNETT. I think that was the Senator's question.

Mr. KEYSERLING. I think it is about 4½ percent.

Senator BENNETT. It is a 4½ percent limit by law.

Senator LONG. I know what it is in Louisiana. In Louisiana it is 4½ percent plus a 12½ percent discount. In other words, you can borrow $8,750, and pay 4½ percent on $10,000, which works out to a 6 percent interest rate. That is the way it works in Louisiana. They work it differently in other States. I know that is what it is in the State I come from.

Mr. KEYSERLING. Let me move down these separate and related answers that I want to give the Senator. First, I advance as proposition No. 1 that one of the reasons why money is not flowing into housing may be that, according to the customs of the financial community, the differential between the interest rate now in effect on housing and the interest rate in effect on other things is not as large as has been regarded as a customary differential in terms of appraisal of the relative desirability of various types of investment.

Therefore, this housing difficulty is in part a byproduct of the fact that a lot of other interest rates have gone up. There are two ways of approaching it. You can say, let's sweeten up the housing interest rate, so that it becomes competitive with the others. Then we are off again on another spiral, because I don't believe you can ever, by just raising one rate after another, or by raising these interest rates and then having to raise some other interest rates, arrive at an equilibrium. That is my first argument.

My second argument is that, even if the higher interest rate on housing would promote the flow of funds into veterans' housing, which I don't think it would because I think it is mainly a problem of what they can afford to pay—whatever the banks may say—my second argument is that houses are already priced out of the market for the average family, and still higher interest rates would make costs still higher.

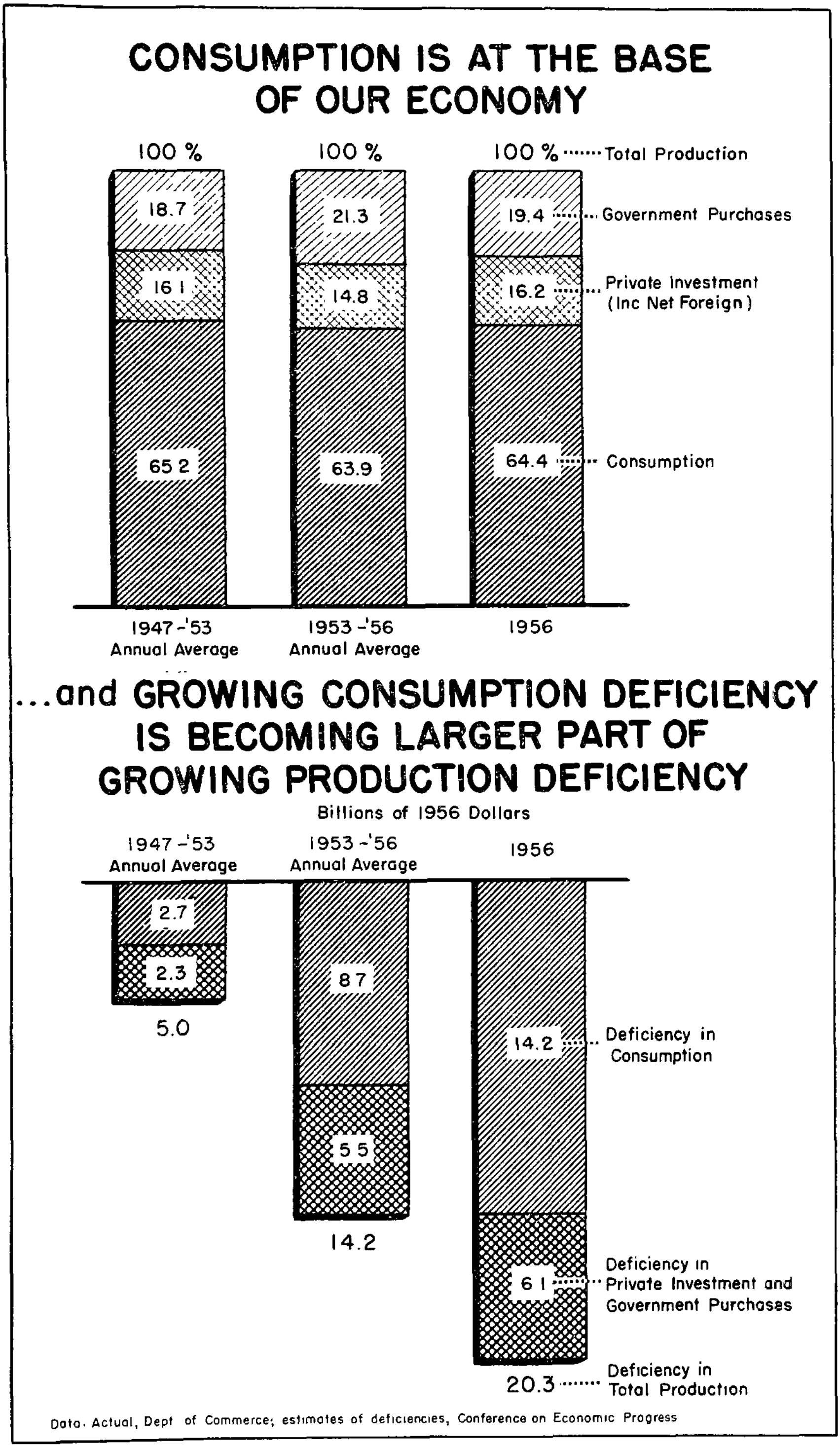
But the third thing is that, even if the higher interest rate for housing would promote the flow of money into housing, and if the veterans would buy in adequate numbers—which I don't believe they would—nonetheless I think that is a terrible kind of inflation in the form of inflation of debt costs, which is quite as serious as an inflation in prices. To inflate the cost of credit to the average borrower is more serious than increasing the national debt.

I have some other illustrations here of this current situation. Certainly, we haven't had a recession yet. But the economy is being floated more and more on an inflationary expansion of private credit and higher costs because of some of these other distortions that I have talked about, and I don't think the solution is to inflate it still more.

The CHAIRMAN. I am not advocating an increasing rate. I wanted your opinion on why these bonds are not salable.

Mr. KEYSERLING. I think other ways should be found to help veterans to get housing. I think one of the most important long-range constructive ways would be to begin somewhere to get at least a hold on this interest spiral which I think is inflationary in all respects.

The point I was making on this next chart is that our main deficiency now is on the consumption side rather than the investment side.

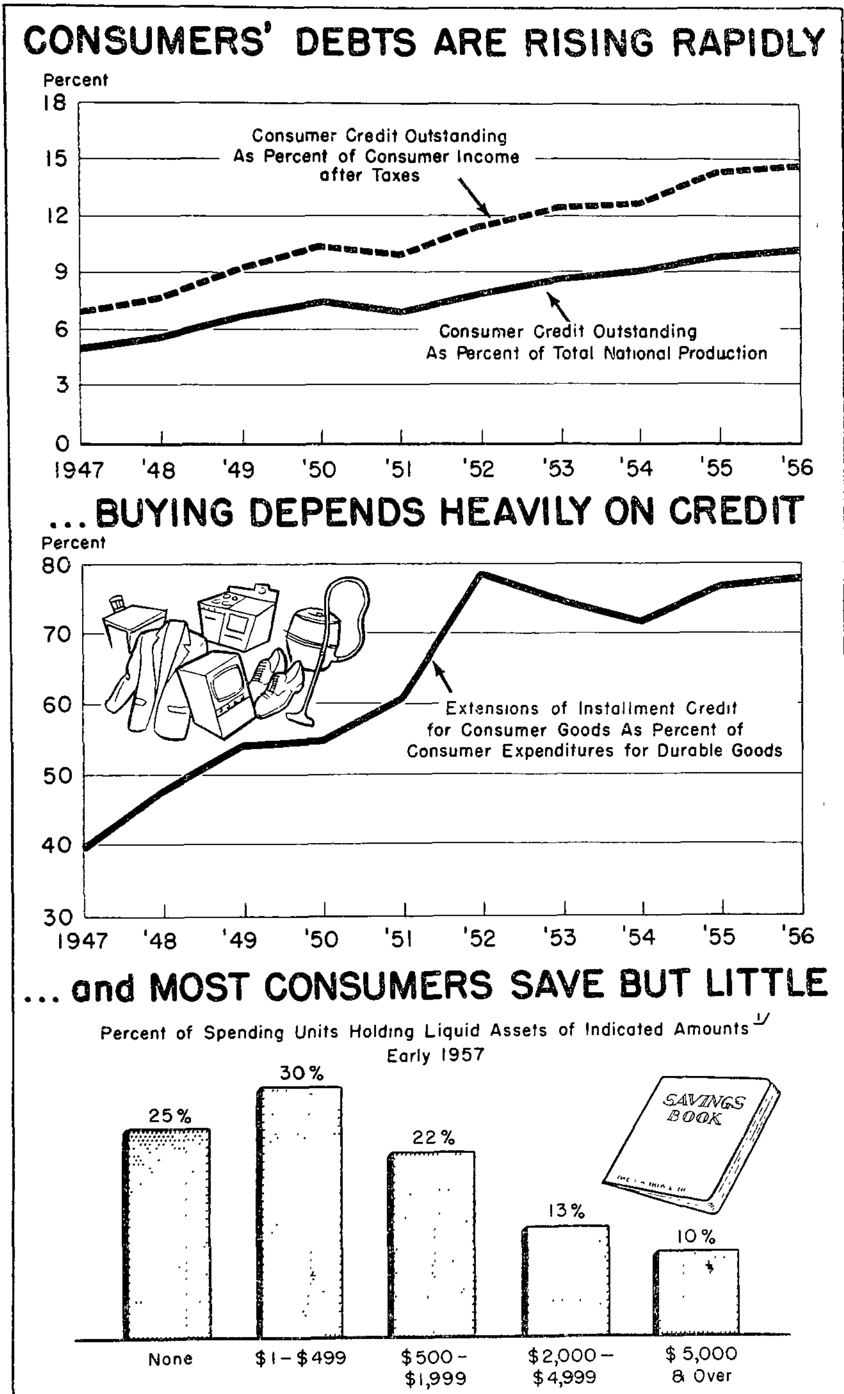

CONSUMPTION IS AT THE BASE OF OUR ECONOMY
100 %
100 %
100 % Total Production
18.7
21.3
19.4 Government Purchases
16 1
14.8
16.2 Private Investment (Inc Net Foreign)
65 2
63.9
64.4 Consumption
1947-'53 Annual Average
1953-'56 Annual Average
1956
...and GROWING CONSUMPTION DEFICIENCY IS BECOMING LARGER PART OF GROWING PRODUCTION DEFICIENCY
Billions of 1956 Dollars
1947-'53 Annual Average
1953-'56 Annual Average
1956
2.7
2.3
5.0
8 7
5 5
14.2
14.2 Deficiency in Consumption
6 1 Deficiency in Private Investment and Government Purchases
20.3 Deficiency in Total Production
Data. Actual, Dept of Commerce; estimates of deficiencies, Conference on Economic Progress

Out of our $400 billion economy, 65 percent of it roughly is consumption. That is an under appraisal in some ways, because we invest to consume. Consumption in a peacetime economy is a long-range galvanizing factor, and even Government spending goes into consumption, except as to the military program, because we are spending for goods and services to consumers. All this is just another way of saying that we produce to consume.

As the slack in the economy has increased, the major part of that slack has not been in business investment. My point is that, of the 20 or so billion dollar overall production slack in 1956, the vast part of it was in consumption. This deficiency in consumption breaks down various certain areas. First of all, there is deficient consumption by farmers. It is very closely tied in with the very serious deflation of farm income. There is also a big deficiency in consumption by wage earners, by low income families generally, and in consumption by other people.

The point I make about the hard money policy is that, if you make a listing of the parts of the economy that are relatively out of balance on the low side, that are relatively depressed, and the parts of the economy that are relatively inflated or relatively advancing too fast, you find that the hard money policy is pouring water on the embers and spraying gasoline on the flames. It is doing little about the investment boom in plant and equipment. It is getting no real grasp on the expansion of consumer credit. It is hurting the basic consumer. the small-business man, the home owner, the average worker, and the farmer.

Let me go on to some of the other charts which show some of this.



1/ Preliminary; from 1957 Survey of Consumer Finances
Data: Board of Governors, Federal Reserve System; Dept of Commerce

Here you see what is happening to consumer debt. This is most interesting. Let's show how much confusion there is about this matter of inflation, generally engaged in by some people in the Government. They say consumer debts are rising, therefore there is inflation. Of course, there is inflation of consumer debts. But there is all the difference in the world between a rise in consumer debts imposed upon enough income to buy the full products of industry, and rising consumer debts which even with existing incomes don't provide enough to buy the full product of industry. At the beginning of the World War II, you had the first type of situation. Say the productive power of industry is 100. Suppose the buying power of the people out of income during wartime is 100. Then, suppose 25 in consumer credit imposed on that. You have 125 buying power against 100 production power. That is inflation. You want to pull down on the credit. But suppose, in peacetime, the buying power out of income is 75, and the productive power is 100, and the expansion of credit brings buying power up to 95. To be sure, you have too much credit, in fact, you have a nonsustainable boom in credit, which can't go on forever. You can't finance too much of the economy out of credit. Nonetheless, you have deficient consumer buying power, so it is really an income problem—income being deficient.

Look how much consumer debts have risen even during this recent period, when we haven't had enough consumption. The Under Secretary of the Treasury sat here yesterday, and said categorically, that demand is short of ordinary productive capacity in practically every consumption area of the American economy. He said that here yesterday. He was asked, is there any area of the American economy now where you would try, by an explicit or overt policy, to restrain consumption. He said, not now.

Look what has happened to debts during this recent period. Consumer debts, the top line on the chart, as percent of consumer income after taxes—I mean the ratio of debt to income—have risen from about 7 percent, as I read the chart, to about 15 percent. In other words, they have doubled.

I know that our economy has to run in part on debt. And I know that debts must grow as the economy grows. But I say that a ratio of consumer credit to income which has doubled—and note that I am not beginning with any political change in administration, I am trying to get politics out of this—has risen much too fast.

The next line on the chart is consumer credit outstanding, as percent of total national production. That is another measurement. That has risen from about 5 percent to about 9 percent plus.

Senator BENNETT. It has doubled?

Mr. KEYSERLING. It has nearly doubled.

Next, look at extensions of installment credit for consumer goods as percent consumers' expenditures for durable goods. That is a heavy area of credit extension. The extension of consumer credit has risen from 40 percent of the buying of durable goods in 1947 to almost 80 percent now. For all practical purposes it has doubled.

And there is a squeeze on consumers. Some people say, erroneously, that the reason consumers borrow so much, or the reason they are not spending more, is that they have plenty of income but are saving too much. Twenty-five percent of the people have saved nothing in terms of their liquid assets. Fifty-five percent of the people, cumulatively, have savings of less than $500, and so forth and so on. Seventy-seven percent, cumulatively, have liquid asset savings of less than $2,000.

Senator DOUGLAS. How do you define liquid assets?

Mr. KEYSERLING. These are Federal Reserve Board concepts and figures.

Senator DOUGLAS. Does it include bank balances? Ownership of stocks and bonds?

Mr. KEYSERLING. I think it includes Government bonds.

Senator LONG. That does not include tangible assets like housing and things of that sort?

Mr. KEYSERLING. It wouldn't include that.

Senator LONG. Is that saving on an annual basis?

Mr. KEYSERLING. That is the accumulated saving.

Senator LONG. That is the accumulated liquid savings?

Mr. KEYSERLING. The accumulated liquid savings of 25 percent of spending units is zero. In other words, they have accumulated practically nothing. So it is not true that your deficient consumption and your excessive expansion of debt is due to too much savings. Consumers just don't have enough to spend.

And may I say, in talking about the selective inflation and selective inflation which we have now, what does the hard money, high interest rate policy have to do with this excessive expansion of consumer credit?

This chart verifies exactly what Senator Long said yesterday, that in the areas of the economy that are dangerously riproaring, this high interest rate policy is not slowing down the selective inflation. Higher cost in the form of a debt burden is a cost as well as anything else is. And in one sense, until you reach the bust, it is inflationary. If people have to pay higher interest costs on their housing, it is inflationary, unless they do without. That is just black and white arithmetic. If they have to pay higher taxes, at least higher than they otherwise would pay, to support increased interest charges somewhere, that also is inflationary.

This kind of squeeze might be desirable, if we were in a situation of excessive consumer buying, but we are not.

Senator DOUGLAS. Mr. Chairman, I think for the sake of the record we ought to put in the listing of liquid assets as drawn from the Federal Reserve Bulletin for March 1957, footnote 2, on page 257:

> Liquid assets includes all types of United States Government bonds, checking accounts, savings accounts in banks, postal savings, and shares in savings and loan associations and credit unions. Currency is excluded.

I take it therefore that stocks and bonds of private corporations would not be included in liquid assets.

Senator JENNER. I didn't quite understand that chart from that standpoint.

In other words, Mr. Keyserling, from that chart just last shown do you mean that 90 percent of the people have less than $2,000 down saved from the standpoint of liquid assets?

Senator GORE. Seventy-seven percent.

Mr. KEYSERLING. The chart shows 77 percent.

Senator JENNER. I am taking 90 down, $2,000 down to nothing. I think 25 percent have nothing.

Mr. KEYSERLING. I mean it in the sense that this is the finding of the survey made by the Federal Reserve Board. You understand, Senator, that I have no independent way of making a nationwide survey.

Senator JENNER. I understand.

Mr. KEYSERLING. This chart shows that 90 percent of the spending units have liquid assets of less than $5,000.

Senator JENNER. Ninety percent have less than $5,000?

Mr. KEYSERLING. Yes, sir.

Senator GORE. Ninety percent.

Senator JENNER. You don't include cash?

Senator DOUGLAS. That's right.

Mr. KEYSERLING. Oh, yes, cash in the bank is included.

Senator DOUGLAS. Currency is extra. Also corporate stocks and bonds seem to be extra.

Mr. KEYSERLING. Money in the pocket is excluded, but bank deposits are included. They don't know what money you carry around on your person.

Senator JENNER. Stock and bonds are not included in liquid assets?

Mr. KEYSERLING. Corporate stocks and bonds are not. At least in the lower ranges, stocks and bonds don't amount to much. We are pretty sure of that. Actually, this doesn't give the whole picture, because the liquid assets doesn't get to the question of what debt burdens people carry on other things. Some of the noncounted items are negative, not positive. Suppose a man has a house and owes three-quarters of its cost. That is a negative item, not merely a not counted item.

I said a little while ago that the main distortion in the economy is in the growth of producer equipment, which means a growth of technical knowledge and productivity, at a faster rate than the growth in consumption, and at what I call a nonequilibrium rate.

Let me say one thing about a very important matter. We read in the papers that productivity declined in 1956 to very low levels. It is hard to be accurate about 1956 productivity figures. But what is this likely to mean? I have read figures stating that productivity, which was growing, let us say, three and a half percent a year for a number of years, grew at only something like 1 percent in 1956. But to avoid wrong and dangerous conclusions, we must distinguish between the technological situation and the economic situation. From the technological point of view, it is utterly incredible to me, with this biggest investment boom we have ever had, which we assume is used intelligently, and with automation, and with the scientific developments that we know are taking place, that the technological rate of productivity advance suddenly collapses. The so-called decline in the rate of productivity advance in 1956 is not technological. It is due rather to a low pressure of demand, which is causing plants to slow down. If they slow down because they are selling 2 or 3 million fewer cars than they sold before, it is going to show up in the so-called productivity figure. But the task is to lift demand, so that the technological productivity potential may be realized, not to reduce wage advances to an artificially low rate of productivity caused because consumer buying power is already too low.

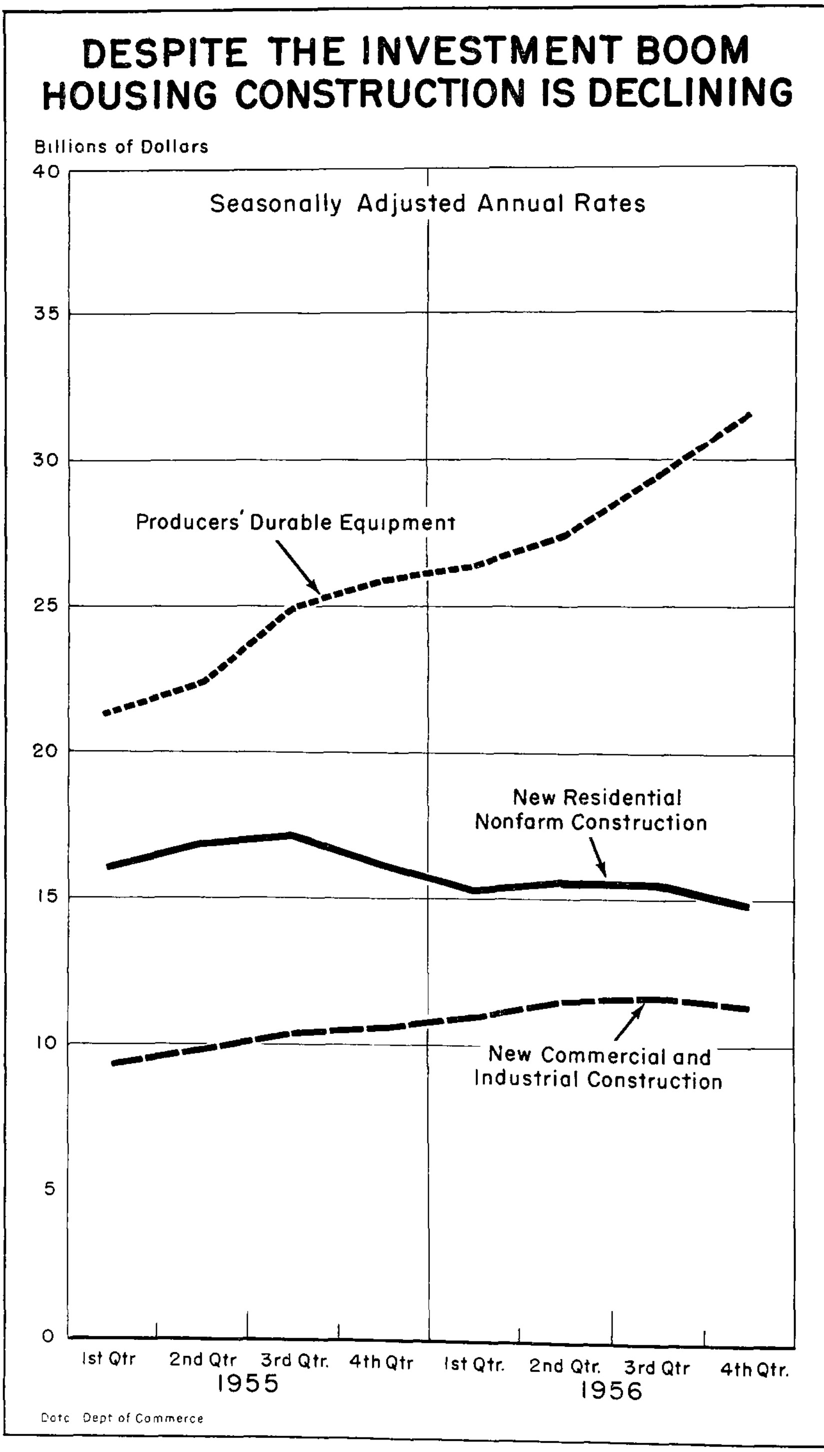
Senator BENNETT. Isn't the productive figure that is quoted for 1956 calculated by taking some figure of output and dividing it by the number of men?

Mr. KEYSERLING. Of course it is. But I say that the amount of output in a manufacturing plant per man will in part depend not only on technology but also upon demand for products. If a great motor company, for example, is selling 2 or 3 million fewer cars in a year than the year before, it will not translate all of that into overt unemployment. It translates part of it into underutilization of facilities. Underutilization means lower productivity.

Senator BENNETT. That is right.

Mr. KEYSERLING. One of the biggest mistakes that we could make is to say that, because of the lower productivity resulting from underutilization, we should abate the rate of growth in wages and consumer incomes because of the theorem that they should be equated with productivity. They should be equated with technological productivity to a degree. But if the lack of demand comes from inadequate buying power on the part of consumers, and if that is causing the managerial decline in productivity, then you are starting a bad spiral by starting to adjust downward instead of adjusting in the other direction. If you wait too long, you won't be able to make the right correction. Because when demand gets too low, then business profits, being very volatile, start slipping faster than other parts of the economy, and then it is too late to make these adjustments. That is why I am so concerned about the early stages.

With respect to producers' durable equipment, this next chart shows in a different form the relative boom. Expenditures for producers' durable equipment, which have been racing ahead during the past 2 years, went up from an annual rate of something like $21 billion to well over $30 billion. Meanwhile, housing construction has moved absolutely downward.


DESPITE THE INVESTMENT BOOM
HOUSING CONSTRUCTION IS DECLINING
Billions of Dollars
40
35
30
25
20
15
10
5
0
Seasonally Adjusted Annual Rates
Producers' Durable Equipment
New Residential
Nonfarm Construction
New Commercial and
Industrial Construction
1st Qtr
2nd Qtr
3rd Qtr.
4th Qtr
1955
1st Qtr.
2nd Qtr.
3rd Qtr
4th Qtr.
1956
Data Dept of Commerce

New commercial and industrial construction, other than housing, which is another form of investment in productive capacities, has also moved upward relatively too rapidly. So you have a bad distortion there. And the hard money policy obviously is operating severely against housing construction, which has declined rapidly. I am a little puzzled sometimes by the statements of the Federal Reserve Board, on grounds of inconsistency. We can find statements that they have adopted this high interest rate to slow down the rate of housing, and the next minute the Government comes in with a proposal to raise interest rates so that we can get more housing.

Which do they mean? They have said both things. This isn't my statement. You can find it in the record. The Federal Reserve Board participated in a panel with me last year, before another committee, where they said we have raised the interest rates because we think housing has been growing at too fast a rate, and we want to slow it down. A little while later, the Government comes in and say they want to raise the interest rates to get more housing.

I want to know which they mean. I think I already know what has happened. I think that the increase in interest rates has been one of the factors slowing down housing to far too low a rate, in absolute terms and relative to other parts of the economy.

Senator BENNETT. Mr. Chairman, may I make the observation that some housing—I can't remember the percentage; it is a very high percentage, approximately half—is purchased in conventional mortgages outside of any Government program. And then there is one Government interest rate for FHA housing at 5 percent, and an interest rate for veterans at 4½, subject to further distortions, as indicated by the Senator from Louisiana.

So what we face, as far as the Government is concerned, is the question of the imbalance between the interest rates in our own program. Whatever effect the hard-money or the high-interest-rate policy may be having on conventional mortgages outside of the other program is outside of our control unless we completely reverse the present monetary policy.

Mr. KEYSERLING. You have to consider that. I suggest, in considering it, though, that you also consider this: Broadly speaking, the real problem in the long run is not with the first half of the population that you talk about, because they are at income and demand levels where they can get housing, and they get good housing. That market gets saturated from time to time.

The big problem of housing in America, both from the viewpoint of a decent standard of housing for people, which we want, and an ample and expanding growth of the housing industry, which we also want, is in the second area, the lower income groups and the middle-income groups. As to these, it is my confirmed judgment—and I could give you a lot more on it than I have time to give you here today—that the real problem there is not that the interest rate has not been high enough to call forth a flow of capital, but that the buying power of these people has not been sufficient to sustain at current housing costs a high enough level of demand.

Senator BENNETT. To turn your statement around, isn't there a real problem because inflation has raised the cost of housing per square-foot area and certain style, so that they can no longer price them out of the market?

Mr. KEYSERLING. Costs are already too high for these people. From that point of view, interest costs are just one factor in those costs, and therefore an inflationary factor.

Senator BENNETT. Isn't it also true that, during the years when we had a soft-money policy, with low interest rates, we had an inflation process that really was the heart of the basic housing problem? The value of our dollar shrank about 36 percent.

Mr. KEYSERLING. I am torn between two considerations here. It is up to the committee to decide which course it wants me to follow. I can fully answer the Senator's question and analyze this whole problem, and I think this would help to clarify the thinking on inflation, because inflation has occured for quite different reasons from those frequently ascribed.

On the other hand, it is a little collateral to this hearing to review the whole history of our economy since 1929 or 1939. I have material here which shows price trends since 1939, and which I think can show very quickly and very conclusively that, while we all deplore the inflations which took place, they didn't occur because of the easy-money policy, or in any major part because of the easy-money policy.

Senator GORE. I would like to see the chart.

Senator BENNETT. Shall we leave it between us that inflation did occur, that it did increase the price of housing, and that, regardless of its cause, the effect of the inflationary pumping up of the housing price is actually more of a deterrent to the purchase of housing than a half of 1 percent increase in interest rates might be, or 1 percent increase today?

Mr. KEYSERLING. Yes, but I want to leave the record at this point with one comment. What you are really saying, Senator, is that a big war is an even more serious problem than the hard-money high-interest policy. That is what you are really saying, because the big inflation occurred due to a big war, and the big inflation occurred because Congress, and I think rightly—but that is neither here nor there—decided to finance half of the cost of the war out of taxation instead of all of it out of taxation.

The people thought they were saving when they lent the money to the Government to finance half the cost of the war. If you buy bonds, if you thus "save," and those savings are put into investment to build plants, you have something to realize on your savings. But if you buy bonds and the "savings" are used to be destroyed in war, there is nothing in back of them. I am not implying that this was improper. I think it was proper. I don't think the Government could have financed the war 100 percent out of taxes, or 75 percent out of taxes. In any event, I was for financing more of it out of taxes than was actually financed out of taxes. But the method of financing was necessarily inflationary—war is necessarily inflationary. After the war, there were released tremendous volumes of savings and backlog, resulting from the method of financing the war. This has happened after every war. The big problem is to try to have peace. But the inflation was not substantially due to the easy-money policy; that policy was beneficial.

Senator BENNETT. You show a turndown in the red line of new residential construction. It is my feeling that a change of a half or 1 percent in the interest rate wouldn't turn that up substantially, because the real problem is the price that has accumulated on a house for one reason or another.

Mr. KEYSERLING. We are getting into a mathematical fallacy here. We are talking about one half of 1 percent, and 1 percent, and 1½ percent, as though they were very small figures. But that is fallacious. If you are paying an interest rate of 3 percent on a house, and that interest rate goes to 4½ percent, the 1½-percent increase doesn't look like much, but you have had a 50-percent increase in your carrying charges, and the carrying charges on a house over the life of a house are as much or more than the entire capital cost. So let's get this interest-rate matter straight.

We are not just dealing with 1½ percent or 1 percent, as my earlier chart shows. You have had a 122-percent increase in certain types of interest charges, and a 60-percent or more increase in other kinds. If I buy a house and pay 4½-percent interest instead of 3 percent——

Senator BENNETT. It increases 50 percent on the basis.

Mr. KEYSERLING. It is higher every year. I mean every year it is 50 percent higher.

Senator BENNETT. It depends on which base you and I select.

Mr. KEYSERLING. Surely.

Senator BENNETT. You selected the one where the greatest percentage of increase is shown. I relate it to the cost of the house. It is an increase of 1½ percent of the cost of the loan per year.

Mr. KEYSERLING. I say it is an increase of 50 percent of the interest-cost of the loan per year. It is just a matter of how you figure it. If I have been paying $500 a year in interest, and I start paying $750 a year in interest, according to my mathematics I am paying 50 percent more.

Senator GORE. I would like to give a specific example to illustrate the result.

In 1952 the average two-bedroom house financed by FHA loans could be paid for with a payment of something over $50 per month for about 21 years. A comparable house by 1955 required a payment of approximately $69 a month, and not for 21 years but for 25 years.

Mr. KEYSERLING. 50 to 70 would be 20 on 50, or a 40 percent increase.

Senator GORE. I can supply the exact figures in dollars and cents as supplied to me by the Housing Agency.

(Figures later supplied by Senator Gore are as follows:)

1952—$59.60 per month for 21.7 years.
1955—$69.25 per month for 25.6 years.

Senator BENNETT. I am not concerned with the payments involved.

Senator GORE. The man paying for a house is, I assure you.

Senator BENNETT. I will give you a simple example. I am using these figures because they represent the current housing problem, the current interests problem on housing. If you assume a house that costs $20,000, and a 4½ percent interest rate, to be paid over any period of time, the average actual interest that the man will pay is an interest on $10,000, because part of the time he is paying on more than half of it, and the tail end of it he is paying on less than half.

Mr. KEYSERLING. On a $20,000 house?

Senator BENNETT. $20,000 house. His average interest is $10,000. At 4½ percent that is $450 a year, averaged out over the life of the house.

At 5 percent it is $500 a year. Let's assume this is a 20-year payment program. He has increased $50 a year, at interest for 20 years, so he has added a thousand dollars to the cost of his house by the one-half of 1 percent increase in interest rate.

Mr. KEYSERLING. How much would it be at 1 percent? I means if the interest rate went up 1 percent. I have an important point to make. How much more would he pay per year on your calculations?

Senator BENNETT. He would pay $50 a year.

Senator JENNER. $100 a year.

Senator BENNETT. One percent increase? It would be $100 instead of $50.

Mr. KEYSERLING. Let's see how big these small figures really are. We should consider the low- and middle-income families who are the real housing problem. We generally think of rent having a ratio of 1 to 5 to income for these families. One hundred times five is five hundred. This means that, every time you increase the interest rate 1 percent or $100, you move into a $500 higher annual income family group as the lowest family income group that can afford to pay that amount of rent. When you look into distribution of income statistics, you find that every time you do that, you jump several million families, if I make myself clear, because there are about 8 million spending units that have income below $2,000 a year, as I recall it.

So these small figures get pretty big when you put them in a small budget. A hundred-dollar increase in rent is a lot in the budget of an average family.

Senator GORE. In other words, every time you have this corresponding rent increase, you raise the monthly payments for houses beyond the reach of some 5 million families.

Mr. KEYSERLING. Several million, depending of course on the size of the increase.

Senator BENNETT. My point, Senator Gore—this is true—is that it is equally true that the effect of the inflation, regardless of interest rate, has approximately doubled the cost of that house compared with the man who was fortunate enough to buy an identical house in 1947.

Mr. KEYSERLING. I am perfectly willing to admit that World War II cost our economy infinitely more than the hard-money policy—or World War II plus the cost of other past wars. But I am saying that we cannot erase those past wars. We can now begin to put a stop to these rising interest costs which are so serious. You can take one item in the budget and say this is not important, it is only 10 percent or 5 percent, and here is another item that is 50 times as big. But all these things go by degrees. Each part counts. And the overall increased charge upon the economy, accumulating from these spiraling interest rates, is tremendous any way you look at it.

These higher interest costs are also moving the money in the wrong direction; they are not helping the economy.

Senator BENNETT. It is not the only effect. There are spiraling wage costs.

Mr. KEYSERLING. I have something to say about wages, contrary to the current propaganda.

Senator BENNETT. The whole manifestation——

Mr. KEYSERLING. We are not passing on those things here today. I am not saying that interest is the only thing, but it is very important.

Senator BENNETT. That is all, Mr. Chairman.

It is now 12:10 p. m. Are we going forward? We still haven't gotten down to the bottom of the page on which the witness started.

Mr. KEYSERLING. I can finish in 10 minutes, if uninterrupted.

Senator GORE. Mr. Chairman, may I remind my distinguished colleague——

Senator BENNETT. I don't need reminding.

The CHAIRMAN. The witness said he can finish in 10 minutes without interruption. I hope he won't be interrupted.

Senator CARLSON. Mr. Chairman, I may have to leave before he concludes.

As I did quote from the Secretary of the Treasury's speech that he made in Detroit, Mich., last fall on the prosperity in America, I would like to ask unanimous consent that at the conclusion of Dr. Keyserling's statement that this be printed in the record.

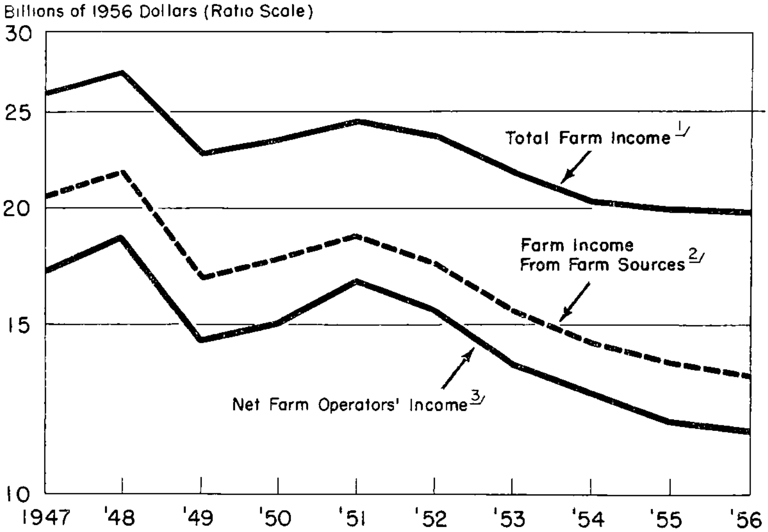
The CHAIRMAN. Without objection, that will be done.

Mr. KEYSERLING. We need a policy designed to improve the balance of the economy, to deflate those who are overinflated, and to inflate those who are underinflated.

Here we have a chart which shows, especially since 1951, the way farm income has been moving—this is in uniform 1956 dollars.

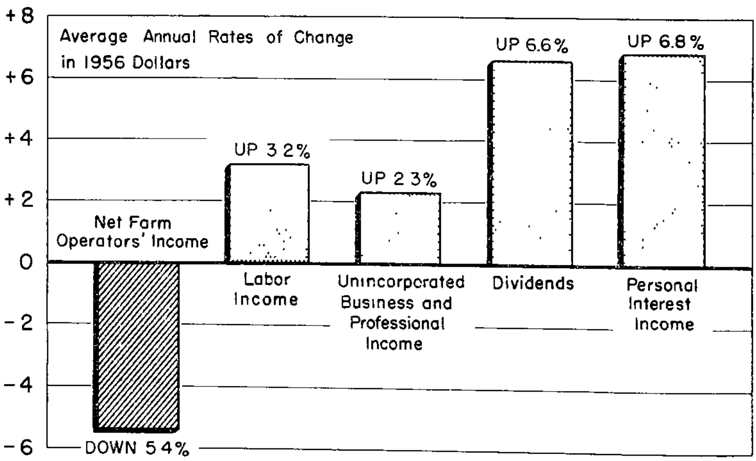
90578—57——12

FARM INCOME HAS FALLEN SHARPLY, ESPECIALLY SINCE 1951



....and OTHER INCOME GROWTH HAS BEEN VERY UNEVEN

1953 – 1956



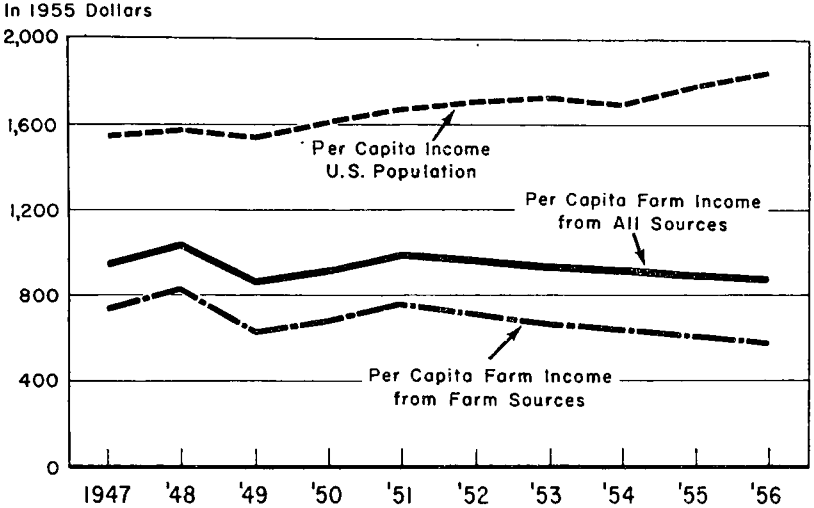
1/ Total farm income is total net farm income before taxes, and includes income of farm people from farm and nonfarm sources.

2/ Farm income from farm sources is net farm operators' income from farm sources, plus wages of farm resident workers and their nonmoney farm income

3/ Net farm operators' income is their income from farm marketings (including CCC loans) less production expenses, their nonmoney income, Government payments, and adjustments for inventory changes

Data: Depts of Agriculture and Commerce

PER CAPITA FARM INCOME HAS DECLINED TO LESS THAN HALF PER CAPITA INCOME OF THE WHOLE POPULATION



Data 1947-'55, Depts of Agriculture and Commerce

...and POVERTY IS CONCENTRATED IN FARM AREAS

Estimated Percent of Farm Operator and All Multiple Person Families Earning Incomes of Indicated Amounts from All Sources, Before Taxes, 1955.

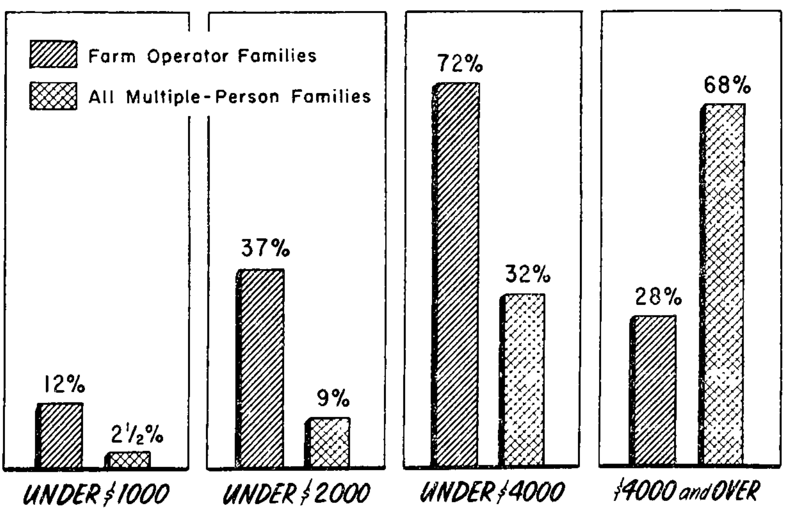


TABLE 6.—*National income and farm income, 1947–56*

[Totals in billions of 1956 dollars; per capita in 1956 dollars]

	Total national income		Total farm income		Farm income from farm sources		Total farm operators' net income
	Total	Per capita	Total	Per capita	Total	Per capita	
1947	241.0	1,672	26.1	964	20.4	752	17.0
1948	256.2	1,747	27.5	1,061	21.8	843	18.5
1949	250.4	1,678	22.7	875	16.8	645	14.5
1950	274.7	1,811	23.5	936	17.5	697	15.0
1951	296.4	1,920	24.5	1,013	18.7	773	16.6
1952	305.4	1,945	23.7	978	17.5	720	15.5
1953	315.5	1,976	21.7	958	15.5	685	13.7
1954	308.5	1,899	20.2	924	14.4	660	12.7
1955	332.5	3,012	19.9	897	13.7	617	11.9
1956	342.4	2,037	19.8	889	13.3	599	11.6

Source: Departments of Agriculture and Commerce. Constant dollar figures calculated by Conference on Economic Progress.

Interest rates are of tremendous importance to the American farmer, because he can't finance except by borrowing.

When the steel companies raised prices greatly, last year, they didn't say they needed these higher prices just because of the wage increases. They said that in part, and I think they should have absorbed most or all of those wage increases. Aside from that, they said they were raising prices to build new plants.

A farmer doesn't get a higher price to buy a tractor and thus get paid for it before he buys it. In the American way, he buys the tractor and puts it on the farm. If it increases his productive efficiency, and if he doesn't get "skinned" in two many other ways, the tractor gets paid for by being used.

Since when is it proper to pay for plants by raising prices before the plant is built? Then, when the plant is built and results in improved productivity, instead of reducing prices, they raise prices again, because they are just accustomed to raising prices every year. Then, when labor gets some wage increase to take account of increasing productivity and the need for more purchasing power to absorb the increasing productivity, then the steel companies raise prices again right away to take account of that. And because of the juxtaposition of those two events, people read about it in the papers and say the wage increases caused the price increase. This is wrong. But this isn't my main theme today. The main point I am making here is that the farmer can't raise his prices that way. He can't finance plant out of price increases. He can't finance his plant out of depreciation reserves. He can't finance his plant out of accrued earnings, or high profits. So it really hits the farmer hard when the interest rate goes up, and he has to refinance all the time.

Here is what has been happening to farm income. While we talk about general inflation, farm income has gone down tremendously. Incidentally, it is still going down. The parity ratio in February of this year was 80, the lowest since World War II.

The bottom part of this chart portrays certain other kinds of income growth. We have heard a lot of talk about inflationary wages; we have heard talk about other things. But let us get the true picture, and this bears very directly upon whether we should take $4 billion a year now, and $8 billion a year soon if this higher interest program continues, take it out of the pockets of wage earners, consumers, homeowners, farmers, and put it into the pockets of the people who were getting higher interest rates.

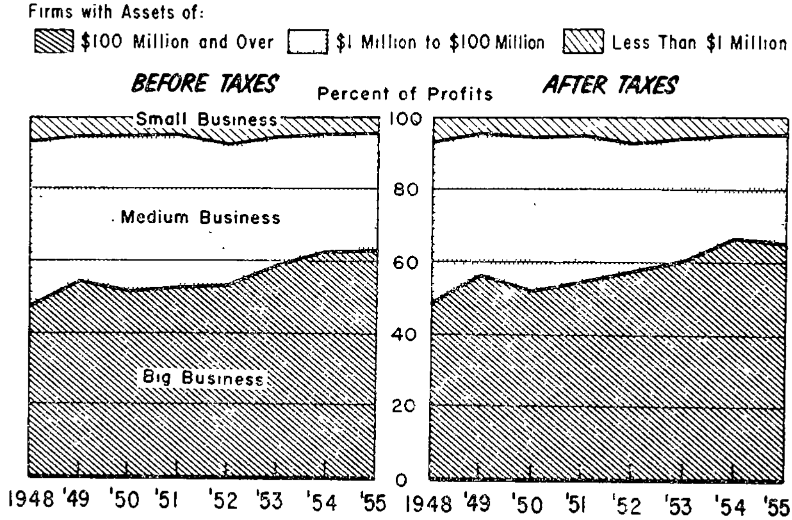
Look at the relative rates of income growth, as shown on the chart above. This is also in uniform 1956 dollars. Since 1953, farm operators net income down 5.4 percent a year; labor income, up 3.2 percent; small business and professional income, up 2.3 percent; dividend income up 6.6 percent; personal interest income up 6.8 percent.

In other words, personal interest income—which is the income resulting in part from the application of higher interest rates—has gone up more than twice as fast as labor income, and you can't compare it with farm income because farm income has gone down. It has gone up almost three times as fast as small business income. And dividend income, which is in a sense the result of some of the imbalances in the economy, because corporations voluntarily pay out money in dividends when they don't need as much as they have for plant expansion, has gone up twice as fast as labor income, and almost three times as fast as small business and professional income.

I don't say that the main reason why net farm operators' income has gone down 5.4 percent a year is the hard-money, high-interest policy. I don't say that the main reason why dividends have gone up so much faster than labor income is the hard-money, high-interest policy. I do say that the hard-money, high-interest policy is 1 factor, and 1 important factor. It certainly is the main reason why personal interest income has gone up so excessively fast.

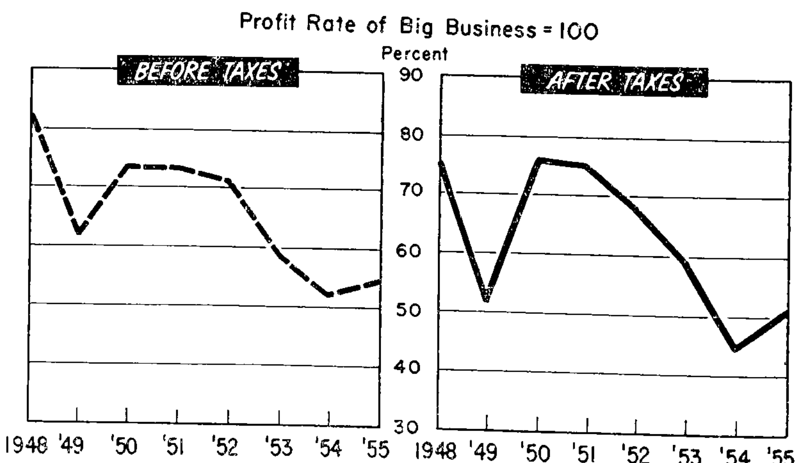
And I do say that the hard-money, high-interest policy has been a big factor in the troubles and disadvantages suffered by small business.

THE SHARE OF BIG BUSINESS IN TOTAL MANUFACTURING PROFITS HAS INCREASED GREATLY



Data: Federal Trade Commission, and Securities and Exchange Commission

PROFIT RATES OF SMALL BUSINESS AS PERCENT OF BIG BUSINESS PROFIT RATES* HAVE DECLINED SHARPLY



* Percentage ratio of small business profit rates to big business profit rates on stockholders' equity
Small business: manufacturing corporations with assets under $1 million;
Big business: manufacturing corporations with assets over $100 million.

Data Federal Trade Commission, Securities and Exchange Commission

I have one final comment, which has nothing to do with the charts. This is one of the first times that the Congress—and this is only a toehold—has had a chance to do much about this interest rate policy in recent years. What has been the theory? The theory has been that the Federal Reserve Board should be independent. Of course, I agree with Senator Douglas that interest-rate policies are made very substantially, or should be made very substantially, by the Treasury, and that the Federal Reserve Board deals with rediscount rates, credit policies, etc. The analogy was used of having a good fence between the two neighbors. I think the two neighbors are sitting on top of the fence and getting along very amicably together, and I think they are even lending one another paint for the fence, and nails, too.

Be that as it may——

Senator GORE. And also providing excuses for one another.

Mr. KEYSERLING. That's right.

There is a real shell game going on, as to whose responsibility it is. But be that as it may, the argument is made, insofar as policy does fall within the province of the Federal Reserve Board, that the Federal Reserve Board is an independent agency. Let's analyze that a little bit, because it is of vital importance.

As an independent agency, the Federal Reserve Board at the same time has claimed in recent years, although it isn't claiming so much now, that it is the most important organ of economic policy in the United States. It says that is does things that profoundly affect the whole American people. In fact, there was a time when the Board or its boosters claimed that you didn't need some of the other things that some of us thought you needed, if you just had a good operation of the Federal Reserve System.

Let's put these things together. Here is an agency, created by the Congress in 1914, an agency which would represent a monopolistic concert of banks, intolerable under the law if it hadn't been authorized by the Congress; an agency which gets its revenues through action of the Congress, even though Congress doesn't have much control over the use of those revenues; an agency which claims that it is exercising economic policies affecting stability and growth more than any other agency or combination of agencies; and at the same time this agency says that it should be independent because if it were not independent it will be political.

Where does this argument lead? Tax policy is very important. Tax policy takes money from every American family. Why not set up a group of bankers and businessmen and labor people and college professors to administer the tax system independently, and thus get it out of politics? What about price and wage control during the war? Or farm policy? If these other things are properly guided by congressional review and policy, why should the monetary policy be the independent domain of bankers?

I just can't see it. I don't want to be misunderstood. I am not arguing that the basic legislative structure with respect to the Federal Reserve System should be changed. I am not arguing that—I don't want anybody here to misunderstand me—I am not arguing that the Federal Reserve Board should be put under the Treasury. I am not arguing that the legislation authorizing it should be changed. But I do say that there is need for a change in the attitude and a change in emphasis. I think this is of very basic importance to the economy, and therefore is very basically a congressional matter, and I think that it is very fortunate that Congress has one little opportunity in this tiny little bill to give some attention to it.

I hope that occasions will arise shortly when there will be more opportunity to review this whole policy.

The CHAIRMAN. What would you suggest that this committee do with this bill?

Mr. KEYSERLING. I think I would surprise the committee if I said that I thought that the committee ought to unanimously endorse the bill.

Senator LONG. Mr. Keyserling——

The CHAIRMAN. That is what I thought you would say.

Senator LONG. I have in mind——

Senator DOUGLAS. You do not say that.

Mr. KEYSERLING. No, sir; I do not say that.

Senator LONG. I had in mind offering a substitute for this bill in 2 sections, 1 section to authorize the Secretary of the Treasury to pay on E-bonds as high a rate of interest as he is paying on any obligation being issued by the Government, or, section 2, directing both the Secretary of the Treasury and the Federal Reserve Board to use the powers vested in them by law to reduce the level of interest rates both on the national debt and also in the civilian economy generally.

As far as I am concerned that would still mean that people could get 3¼ percent on their E-bonds but it would at the same time mean the Government could save enough money in its other refinancing operations to save this $100 million which is necessary to put this into effect.

Do you have any ideas how we could put that into effect or how we could meet the problem?

Mr. KEYSERLING. Considering how much time and effort and thought I have given to the proposal in the bill now before the committee, I do not want to express a spot judgment on your suggestion, Senator Long. I certainly commend the Senator on any realistic effort that he might make toward getting the Congress to consider the whole basic problem of interest and credit policy.

Senator LONG. Congress passed the Federal Reserve Act and set up the Federal Reserve Board as an independent agency. But it is certainly created by Congress, and we have to accept responsibility for what that agency does.

Furthermore, Congress passed the Full Employment Act. The Secretary of the Treasury said that their interpretation of the Full Employment Act is that it requires them to raise interest rates. Frankly, it seems to me as though my interpretation of the Full Employment Act requires just the opposite.

Mr. KEYSERLING. Of course, the Under Secretary of the Treasury was completely and utterly wrong in saying that the Employment Act of 1946 gave a directive to the Federal Reserve Board, much less a directive to it to do specifically what they say they are doing. The Employment Act of 1946 vested authority in the President and in the Congress. It did leave vague and unclear the relationship between the Federal Reserve Board and the Government, because it made no reference whatsoever to that problem. The Employment Act of 1946 certainly didn't do what the Under Secretary of the Treasury said, either directly or indirectly. It gave nothing to the Federal Reserve Board. It made no reference to that Board. It defined no monetary or credit policy. I agree with the Senator from Louisiana that the Board and the Treasury, in their current policies, are running counter to the clear intent of the Employment Act of 1946, insofar as they are subordinating maximum employment, production and purchasing power to other less desirable objectives.

Senator GORE. Mr. Keyserling, the thing that disturbs me about this bill is the fact that it is the first time that the Congress has been called upon, or had an opportunity, to give approval or disapproval of the monetary policies pursued by the administration which I hold are fallacious.

Second, an increase in the interest rate with respect to the savings bonds would, it seems to me, not only constitute an approval of the policy, but would add fuel to the fire in that the increase of one interest rate tends to increase pressure for other interest rate increases as was testified to by the Chairman of the Federal Reserve Board.

Mr. KEYSERLING. On one day—excuse me, I was thinking of the Under Secretary of the Treasury.

Senator GORE. This was Mr. Martin. I think the Secretary of the Treasury had been on both sides of that fence.

Mr. KEYSERLING. That is why I said, "on one day."

Senator GORE. So it seems to me that instead of this bill being very minor in its nature, one that could be reported out very quickly and passed by the Senate on the Unanimous Consent Calendar, that it is a matter that requires careful deliberation. And I am in a considerable quandary as to what course is best to follow with respect to my own position. I am somewhat inclined to oppose the bill for reasons that I have stated.

Would you be willing to give us the benefit of your views in that regard?

Mr. KEYSERLING. May I be permitted first to say one thing about what the Senator from Louisiana said, before I overlook it. I am trying to present some economic analyses, for what the committee thinks they are worth, and I have very high regard for the legislative function, which involves many matters of judgment that I can't enter into. I do not want to overstep my appropriate role here.

However, I didn't want to create the impression that I was in any way expressing a tentative disapproval of the proposal that the Senator from Louisiana just made. All I was saying was that I wouldn't be prepared at this moment to go into it as thoroughly, or analyze it as carefully, or suggest things with respect to it, as I have with respect to the bill which I have already been invited to testify on before the committee.

At the same time, I am certainly sympathetic to the general purport and intent of what the Senator from Louisiana has said in two respects. First, I think that the Congress should have more to do with this problem than it has had to do recently. And second, everything that I have said indicates that I believe the Congress should try to exert some leverage toward a gradual and careful and prudent method in the opposite direction from upward-spiraling interest rates. My impression is that this is Senator Long's intent; I commend it. I would be very glad to go into this more with the Senator, and offer what assistance I can of a technical character in connection with his current proposal or others that may emerge. I am always available for such help as I might be able to extend to this committee.

The CHAIRMAN. Senator Jenner?

Senator JENNER. As the baby of this committee, I would like to ask this question, hypothetically.

As I got it from the testimony of these hearings, the E bonds in particular are being cashed in faster than they are being bought. We have to consider the immediate financing of about $76 billion of Government debt, and in the immediate future, in 1967, I think, the handling of $201 billion Government debt. This is hypothetical.

Let's assume from your presentation that you are correct and that we establish a policy of at least maintaining if not lowering the interest rates, and let's assume for the purpose of the hypothetical question that we do that, and the bonds don't sell.

How are you going to manage a $277 billion debt? Are you going out then and confiscate, say, "You have to put the money in here, you have to keep the Government afloat"? That is hypothetical. In other words, the bonds don't sell at the present rate that Congress established. Then what do you do?

Mr. KEYSERLING. Let me answer this excellent question as best I can.

All legislation, in varied degrees, is based upon a hypothesis as to its effect. If your hypothesis were correct, if it were correct that any bit of legislation would result in making it impossible or improperly difficult for the Government to conduct its normal and necessary financial operations, by definition that legislation would then be undesirable. But to accept this hypothesis automatically misses, it seems to me, the real question. The real question is whether, in the judgment of the Congress, the hypothesis is correct or incorrect. You can't just answer the problem by saying we don't want to risk any uncertain results at all, because all legislation is to a degree faced with some uncertain results.

If your argument, Senator, sustained the conclusion that the Congress should not act because there are always some uncertainties, you could make the same argument, if the interest rates went up another 2, 4, or 6 percent. You could also say, hypothetically, that the Congress in legislating to put a stop to rising interest rates, or to intrude its judgment, would be taking some risk that maybe the Treasury would have some difficulty.

It is always a matter of balance, and it is always a matter of judgment. All I have tried to put before this committee is what I think are some very powerful reasons why the Congress should put some blocks in the way of the spiraling interest rates, and why I believe that this would improve rather than impair sound Treasury operations, although it might affect some people who are wedded to a certain policy. I believe that the time has come to take prudent steps in the direction that I have indicated.

That is my carefully considered answer. Now let me answer one other part of your question.

You raised the question—and I am glad you brought it up because it is one of the most important isues—about more savings bonds being cashed in than sold. I heard the Under Secretary of the Treasury say that. But I submit, why has this happened? I say that it has not happened—and this gets to my whole economic analysis—it has not happened because of the varying interest rates. Do you think that the average American family cashes in or doesn't cash in a series "E" bond, or that the average American family shifts from a series "E" bond to something else, because if they have a thousand dollars in savings they are going to get $5 more or less in interest in the course of a year? I say that is nonsense. The average American family is cashing in more of these bonds than they are buying because of a general economic situation which validates everything I have said before this committee. They are cashing them in because they are pressed to make ends meet under the evolving economic conditions which I have tried to portray. And they are not going to cash them in any slower if they get half a percent interest more. Many of them aren't even going to know that the rate has been changed.

Senator GORE. Or buy any more.

Mr. KEYSERLING. Or buy any more.

Senator JENNER. From the House hearings I believe the Under Secretary testified—I don't have it in front of me—that this was necessary because they had an immediate financing of about $5 billion, and they were fearful that unless this was done they couldn't float the $5 billion. My question is, If we get to the place in this country, with a $277 billion Government debt, a $253 billion corporate debt, a $50 billion local and State government debt, and a $213 billion individual debt, when we get to the place where we can't handle the Government bond debt, what will happen to us?

Mr. KEYSERLING. Obviously, that would be intensely serious, if it should happen.

Senator JENNER. We have only $32 billion in circulation. If somebody demands payment—we are $800 billion in debt—isn't Hell going to be to pay?

Mr. KEYSERLING. It is still a matter of judgment as to what is going to happen, and why. It is still a matter of whether a person is willing to accept your hypothesis to the effect that these dire things might happen if the Treasury-Reserve Board policies were in any respect altered by congressional action.

Senator JENNER. I asked a hypothetical question. What will happen to us?

Mr. KEYSERLING. On your assumption, very bad things would happen. But I disagree with your assumption, and I say that what is happening now justifies some change in the policies. Further, we should consider what would happen if the Congress so surrendered its legislative responsibility——

Senator GORE. And the Constitution.

Mr. KEYSERLING. What would happen if the Congress bowed out every time the Secretary of the Treasury, or the Director of the Budget, or the President, gave their statements as to the terrible things that were going to happen if they didn't get exactly the interest rates that they want or the budget they want? I have been in Government a long time, and I know the needs on both sides. It is to be expected that the Treasury, in advocating a higher interest rate, should say that it is important or essential, and I respect their saying so. I am not imputing their motives; I think they are of the highest. That is their judgment. But I am not going to be swayed by the strength of the language which an executive officer pleading for the approval of his policy uses. I still submit to this committee that their judgment in this instance is wrong.

Congress, in the final analysis, still has to decide on balance which way to go. As to your question, Senator Gore, there is only one thing here that bothers me. It is the point that, if everybody else has had his interest hand-out, why should the series E bondholder not get it, too? I think this point has a lot of important permutations. First, the high-interest policy is hurting them more than it is helping them, looking at the whole situation. Second, I am really sorry that the first matter that has come before the committee is this particular matter. I wish that there had been legislation proposing to raise the interest rate on somebody other than these people, particularly so as not to introduce the complicating factor of equity. But nonetheless, I feel that the economic considerations move in the direction of trying to put a stop to this interest spiral. That is the best way to help the average American family, including the savings bondholder.

Senator GORE. You have just said that you are not a member of the legislative branch, but you have, as you say, just demonstrated the capacity to survive in it if you were a member of it.

It is a difficult position. We are called upon to endorse the hard-money policy on a bill, and under circumstances that place those of us who may oppose it in the most unfortunate and disagreeable political position.

Mr. KEYSERLING. I well understand that.

Senator GORE. As one member of the committee I expect to waive the political liability and arrive at a considered judgment as to what, in my opinion, is the best and the soundest course to pursue. Understand I may not waive that too often, but in this particular case I think I will.

Senator LONG. I want to illustrate the point that you have in mind, Mr. Keyserling. I did a little calculating here to see who gets hurt by this high-interest-rate policy. I personally feel that it should be reversed. I think it has been going in the wrong direction as you have testified. I subscribe to practically everything you have said here today and yesterday.

Let's take a veteran who has a $10,000 house, and who wants to move into a $12,000 house. When he lets go of his 4½-percent mortgage, and he buys his house at a discount, takes that beating of 12 points on a discount, so he gets $8,800 and pays interest on $10,000. He is in effect paying 6 percent on the $8,800. But in this instance we are talking about him borrowing $12,000. For that additional $2,000 the increased interest charges that he would be paying would work out at an extra one-half percent to $270 a year extra to have a house that would be $2,000 more expensive.

On the other hand, if the inteerst rate remained constant, if it was at the 4½ percent, where I would like to see it, the increased cost to him would be $750 to live in a $12,000 house as against living in a $10,000. By the time we take $270 out of that veteran's pocket we are not doing him any particular favor by saying, "Yes, we did that but you have a hundred dollar bond here and we increased your income by 25 cents a year." That doesn't offset the $270 that he has had to put out in order to meet the increased charges of buying a larger home, with an extra bedroom, assuming his family is larger than it was.

Senator BENNETT. Mr. Chairman, I had wanted to question Dr. Keyserling about what he would do about this situation, in order to clear up the situation to which he objects. But I understood his answer to the Senator from Louisiana was that he had not had a chance to study that problem over.

Was I correct?

Mr. KEYSERLING. That was only part of my answer. I did say, prefacing with a remark that I didn't want to be presumptious, that in my opinion, since it was asked, I would be against the bill now before the committee. I hope I made that perfectly clear.

Senator BENNETT. You made that clear.

Mr. KEYSERLING. My additional remarks were made with respect to an additional proposal by the Senator from Louisiana, for which I have a great deal of sympathy as to its intent and purpose, but would not be prepared to comment on it in detail at the moment.

Senator BENNETT. Are you prepared now to comment on a program that you would recommend the Government adopt in place of the present monetary policy of the Federal Reserve Board?

Mr. KEYSERLING. I cannot here set forth a complete economic program. I would be prepared, at another time, if the committee wishes, to go into such matters in detail. But as to the bill now before you, I have set forth fully my reasons for believing that it is undesirable. I have done this in the perspective of the whole range of our current economic problems.

One of my objections to the hard money high-interest rate policy initially was that I thought that any short-range benefits to be gained by certain permutations would be outweighed by jumping around in an unsettling manner with something as fundamental as interest policy. I said initially, some years back that the new policies, put forward in the name of stability, would in fact demoralize or at least disorganize the bond market for Federal issues. My fears came to pass. The Treasury and the Federal Reserve Board beat a rather hasty retreat for a bit, but it is hard to get fixed notions out of people's heads.

They drew a deep breath, and in 1955 or thereabouts they started again, and are going to town on hard money high interest policy. I think any alternative policy, of course, has to be guided by prudence and caution; you are dealing with a very delicate thing. So the plea I make now is: Let's not take the first step in the wrong direction. Let's take our steps carefully and slowly, but not take the first step in the wrong direction. This bill, I believe, is in the wrong direction.

The CHAIRMAN. We certainly thank you, Mr. Keyserling. You have made a very interesting witness.

(The following was presented for the record:)

REMARKS BY SECRETARY OF THE TREASURY GEORGE M. HUMPHREY BEFORE THE ECONOMIC CLUB OF DETROIT, DETROIT, MICH., OCTOBER 8, 1956

TRUE PROSPERITY IN AMERICA

I am very grateful to you for giving me the pleasure of coming out to Detroit for this visit in such pleasant surroundings with so many of my old friends.

And I am particularly pleased to have been introduced to you by Albert E. Cobo, the man who is now the mayor of this fine city and who soon will be the Republican Governor of this great State.

I want to talk to you for a few minutes today about something that almost everybody seems to be talking about—tight money.

We can't have high prosperity, abundant jobs at high pay, high confidence, high spending, and wide general expansion with cheap, unlimited money and a stable cost of living all at the same time.

Our problems today are the problems of great prosperity. They are nonetheless real and difficult and must be courageously faced if we want to keep true prosperity in America—prosperity that will continue and stretch forward into the future.

Let me tell you why. And let's start, as Al Smith used to say, by taking a look at the record.

Let's go back to 1939—before the last world war—and come down to today. In the period of about 6 years, from 1939 through the end of 1945, the year the war ended, the value of the dollar in goods that it would buy was reduced from 100 cents to 76 cents, a reduction of 24 cents or about one-quarter. During that period interest rates, by deliberate design of the administration then in power, were artificially held at low levels.

During the next 7 years, from the end of 1945 through 1952, covering the postwar period and prior to the advent of this administration, and when we were supposed to be returning to a peacetime economy, the value of the dollar in goods that it would buy was further reduced from 76 to 52 cents, or another 24 cents—a reduction this time of about one-third. And, during most of that period, by deliberate design of the administration then in power, interest rates were still being held to a low level.

And all that time the cost of living was steadily increasing until there was a total increase during those 13 years of the previous administration of almost 100 percent in the cost of living while the dollar was cut nearly in half.

Since the election of this administration from 1952 right up to the present day, almost 4 years, the value of the dollar in goods that it would buy has been reduced from 52.1 to 50.9 or about 1.2 cents. Interest rates have been allowed to fluctuate naturally, both up and down, in response to the extent of demand.

The record is all too clear. The evidence of the actual facts is too convincing. While we had arbitrarily cheap and plentiful money the cost of living doubled—the value of the dollar was cut in half. Whereas, with money advancing or declining more freely in response to the pressure of demand, we have enjoyed a perfectly remarkable stabilization in the cost of living and as sound a dollar as can ever be had.

There is plenty of talk nowadays of a new record high in the cost of living, but again let's look at the record. From 1939 through 1952, under the deliberately inflationary policies of the previous administration, there were 30—yes, 30—separate times when new record highs in the cost of living were set and the cost of things for living rose from $1 to $1.92. The cost of those same things today is at a record high at $1.96½. But the real point is that of the total increase of 96½ cents over the whole period, 92 cents came during the 13 years under the inflationary policies of the previous administration as compared with only 4½ cents in nearly 4 years under the stabilizing policies of the administration now in power.

A new record high now, yes; but built up by 92 cents under deliberate inflation in 13 years and held down to only 4½ cents by a reversal of policy to stabilization during the 4 years just past.

No more effective demonstration of the difference between the two policies in their effect upon the lives of the American people could possibly be made.

Now is there any reason why we should not learn from that hard experience? Is not this demonstrated fact of the past a reliable guide for the future to show us the pitfalls to avoid and point the course that we should follow if this great prosperity, if these great good jobs, good pay, and good times are to endure and further sweeping increases in the cost of living are to be held down?

I can give you no lecture on abstract economics, but I can call your attention to a few commonsense basic facts.

Our problem is the problem of prosperity; to continue to live successfully and permanently with prosperity, in peace and freedom.

It may be even tougher than the problems of adversity, for when you are in trouble the whole idea is to get it over with—to make a change. What we have now, we want to keep. We want good times to continue. We want to have exactly the same problem next year, the year after, and as far ahead as we can see.

The problem of learning to live with prosperity, at peace, and in the freedom which we Americans regard as our birthright, is not alone the problem of government.

It is equally your problem—the problem of every American. We cannot place upon the Government the exclusive concern with the difficulties—we might call them the happy difficulties—that arise when you try to make prosperity last in a time of peace and in a free society.

It might be called the problem of "too much all at once." But there is a simpler and older name for it: the problem of supply and demand. We are prosperous, and that means we are working very close to the limits of our manpower and our materials. We are at peace, so there is no place for wartime controls or powers to ration work and materials. We are free, and we want to stay free, so we do not want to dictate wages, prices, or rents. We do not want to arbitrarily allocate materials and labor by Government order or decree.

But just because we are prosperous—in peace and in freedom—because the public in general has great confidence in the future, we all want to buy and expand. The public wants to earn more and spend more, all at the same time. The demand for money is unlimited, but the supplies of the things money buys—goods, materials, and the labor, skill, and services of people—are limited. We have neither the necessity of war nor the desire of dictatorial government to ration those things. That being so, we must keep the supply of money from growing beyond the supply of people and materials. That is the only way to avoid rapidly rising prices and inflation while maintaining prosperity in company with both peace and freedom.

In years gone by the Government, deliberately encouraging inflation, arbitrarily held the price of money down.

The cost of living doubled. Our debt went up by a large amount, partly because the prices of the things the Government was then buying went up so much in price. And all that extra debt we still have with us to pay with hard work and the sweat of our brows for the errors of the past.

Today a very high percentage of all the people of the United States are employed, and the goods of the United States are being largely absorbed. Materials in most cases are in full demand and in some cases there are even shortages. Except for a very few scattered soft spots, the situation by and large is one of great prosperity straining the Nation's resources.

When, as now, widespread confidence in the future is so high that we seek to go further and faster than that, what happens? We start drawing either manpower or scarce materials away from each other. That is going on today. If you don't think it is, do what I did the other day. Take the Sunday editions of half a dozen major city newspapers across the country—including Detroit. Throw away all of the pages except those pages which have to do with advertising by various concerns to hire people, and in these half dozen papers those pages will be several inches thick. Pretty nearly everybody in business is advertising in some paper to employ some man for some company other than the one he is now working for.

The same thing is going on with many materials.

There has to be some governor, some restriction, in this situation, otherwise the price of materials and goods keeps going on up without producing any more goods, and we all just pay more for the same.

If this big demand for money is used to expand sales and plant and capacity and activity when expansion only means hiring more people and trying to get more goods than there are, then the price of goods and services will rise with no corresponding increase in either goods or productivity.

But, if the price of money rises it will tend to keep the demands for expansion in line with the supply of our resources.

And, it is easier to contract the price of money when it has served its purpose than it is to contract the price of goods and services. You don't contract what you pay for services, goods, and materials without some very serious hardships resulting. But you can contract the price of money without hurting people. That is why it is the best economic governor. It protects jobs, prices, and wages as it works.

We don't want to go the "easy" money road, the old familiar road to inflation. We don't want to go up only to come down. We want to let natural corrections and restraints operate freely. The Government is not putting up the price of money. It is the accumulated demands of people and business that is doing it.

As more and more people want to expand and use more money to do so, the demand for money increases and the price rises. Now if the Federal Reserve

Board neither arbitrarily increases the supply nor arbitrarily holds down the price, interest rates naturally rise. As they rise, and money costs more, some people refrain from so much expansion and the demand for money decreases. As supply again catches up with demand, the price again begins to decline and the pressure on the cost of living is reduced without an excessive advance hurting all the people.

There are other sources of pressure that must also be taken into account. The Government of the United States collects and spends so much money that it has a tremendous effect on the economy.

In this administration we have reduced our expenditures about $8 billion. At the same time we cut taxes by nearly the same amount as the money we saved. In cutting taxes we gave back to the public to spend for themselves as they thought best the money we saved in Government spending. This helped to make jobs in private industry for those whose livelihood had formerly depended on Government spending. They helped to produce more goods for all the people to buy, whereas when those Government employees were working for the Government they didn't produce any goods that the rest of the people could purchase.

Today we are spending in the neighborhood of $40 billion for military goods and services. That $40 billion is money that goes out in wages and for goods that turn into wages. It makes that much spending power in the country. Yet there isn't anybody involved in that whole $40 billion who makes goods that a consumer can buy. Consumers don't buy tanks or bombers.

Defense spending is necessary, and we will continue to spend on defense every penny and every billion we need to spend to provide the Nation with security. But the economic significance is that the Government in its own fiscal policy is putting a great pressure on the market for goods by putting that much money in to this spending stream and not putting added goods out for the people to buy.

That brings us to the next point, the Government's policy with respect to debt and savings. When interest rates are kept down arbitrarily, not only is the incentive to save money reduced, but the fear of inflation helps to create a lack of capital—a lack from which the whole world is suffering.

We are short in this country and in the whole world of capital—that means savings.

We have been through a period of years when there was little incentive to save. In the first place, the interest rate was held down so low that there was very little return. There was no natural incentive. In the second place, as the value of the dollar declined and as inflationary pressures took hold, people were afraid to save a dollar because it was constantly declining in value. As I have shown, 6 years later it was worth only 76 cents and in 13 years it went down to only 52 cents. So the lack of incentive resulting from low interest and the fear of inflation first took away the reason to save and, as it went on, it actually kept people from saving. On top of all this some of our public leaders then scoffed at saving as outmoded and old fashioned and urged spending and more spending, regardless of increasing debt or adequate income.

Saving money and thereby creating capital is no mystery. It simply means that some one must deny himself the pleasure or desire to spend some part of his pay check rather than save it. Part of his income he must properly spend but part can be laid away for the future if (1) there is sufficient incentive to do so because of a fair return in interest or dividend, and (2) if he feels safe in the continuing value of his savings. Most all Americans are saving something today through purchase of insurance, payments for pensions, the purchase of Government bonds or in a savings account or in the many other ways to do so. As interest rates rise all those savers benefit. But if inflation sets in and the dollar declines they all are robbed of part of their savings. Inflation is the great thief. The young, the old, the sick, the small saver, all those least able to protect themselves, are the helpless prey of wicked inflation. It must be held in check.

We must also create more incentive for more saving, to have more capital available for expansion. We must have it because we in our growing country have a million new people every year looking for new jobs. Unless someone can invest from ten to twenty thousand dollars apiece for them, they cannot get a job in which they can earn the kind of wages now being paid in America—wages 12 percent or more above those paid in 1952. Such wages can only be paid on the basis of high productivity, the kind of productivity that comes only from skilled workers using highly productive machines and power. Those machines and that power cost money. We can only have the plants, the machinery, the power, the transportation and all the rest that goes to make up our modern industrial and farm life by saving and investing. Inflation kills the goose that lays that golden egg.

Without savings and investments you cannot get high productivity. Without high productivity you cannot have high wages. Without high wages you cannot have the standard of living we all want. Inflation stops the whole process. That is something we all need to understand. The best known way to help control it is a flexible price for money, because a flexible price for money is a governor that operates to hold down the cost of living and make prosperity last, in peace and in freedom.

There can be some differences of opinion as to timing and the degree with which this process of using the price of money as our economic regulator takes place. But the process is a sound, right step in the direction of sound money; a sound economy; and continuing to have the people of this country working at more and better jobs at higher pay and with ever higher standards of living for all the people.

Now, I am not here this noon to make a political speech. But this all leads me to some vital conclusions about true prosperity. There are two roads we can travel.

The past performance, the platform and the campaign speeches of the opposition party show clearly what they propose. They show one road.

They propose cutting taxes regardless of the amount of the Government's income. At the same time they propose new Government spending programs costing many additional billions of dollars. This is the policy of deliberate inflation and must result in a return to a budget unbalanced by several billion dollars with all of the inflationary pressures that would create.

They profess concern about inflation. At the same time they attack all the things which are our best defense against inflation.

They present a glaring contradiction. They cannot be for the principle of sound money and all that it means to continuing prosperity while they are against the things which make sound money possible.

The record of their past and their promises for the future are filled with concessions to the easy way which will destroy continuing prosperity.

The program of the Eisenhower administration is exactly opposite. I am proud to put that record before you. It shows the other road.

The evidence of our present high prosperity is abundant wherever we turn.

We have record high employment—more than 66 millon people working at good jobs.

We have record high wages.

We have production of goods and services exceeding all previous records.

And we have this high prosperity—in peace—with but little change in the cost of living during the past 4 years. The money of our people during this administration has stayed sound, because our Government has been doing the things we said we would do in fiscal and monetary policy to stimulate confidence and incentive; to keep money sound.

And what of our present promises? We propose to continue those things which have worked so well in the recent past.

We propose to continue to spend only so much as is required for security and necessary services to the public.

We propose to keep our budget in balance.

We propose to cut taxes—not out of borrowed money which is inflationary and only a means of passing our debts on to our children—but whenever our budget surplus permits, when we can look ahead and see a government surplus of income over spending large enough to pay for a tax cut which can be spread fairly among all our people.

The record shows that the policies we have followed for nearly 4 years have been successful. We propose to continue them for the good of every American—to have true prosperity with peace and with freedom.

Senator GORE. Mr. Chairman, in order that members of the committee may be advised, I expect to propose on Wednesday an amendment to the pending bill to provide for the establishment of, and to establish, a point congressional committee for the purpose of studying and investigating, and with the direction to study and investigate, and report its findings with respect to the monetary policy.

The CHAIRMAN. We will meet at 10 o'clock Wednesday in executive session.

The next witness is Mr. John Baker, National Farmers Union.

Senator LONG. Mr. Chairman,, I don't know whether Mr. Ruttenberg is in the room at this time.

The CHAIRMAN. I beg your pardon?

Senator LONG. Mr. Ruttenberg informed me that if the committee would desire he would submit his statement, that it is consistent with what Mr. Keyserling has testified.

The CHAIRMAN. The secretary of the committee talked to Mr Ruttenberg.

We will be glad to hear you.

STATEMENT OF STANLEY RUTTENBERG, DIRECTOR, DEPARTMENT OF RESEARCH, AFL–CIO

Mr. RUTTENBERG. In view of the lateness of the hour and the fact that in the main much of what I will say and what is in my statement Mr. Keyserling has said, it will save the time of the committee if I put my statement in the record.

The CHAIRMAN. Thank you. Your statement will be put in the record.

(The statement of Mr. Ruttenberg follows:)

STATEMENT BY STANLEY H. RUTTENBERG, DIRECTOR, DEPARTMENT OF RESEARCH, AFL–CIO, ON BEHALF OF THE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ON H. R. 5520, TO RAISE THE INTEREST RATES ON UNITED STATES SAVINGS BONDS

The issue before this committee—whether the interest rate on United States savings bonds should be increased—raises the entire problem of the Government's recent monetary policies and the increasing rates of interest generally.

It is perfectly clear, I think, that the Government's monetary policies are among the most important factors in the determination of interest rates in the markets. This is true, not only because of the Federal Reserve Board's ability to tighten or loosen the money supply, but also because of the overwhelming weight of Government bills and bonds on the markets and the Government's strong influence on both supply and demand in the money markets.

The Eisenhower administration has followed a general tight-money policy during most of the period since it came to office in January 1953. Interest rates, which rose gently after the Treasury-Federal Reserve Board accord of March 1951, began to rise more sharply in early 1953. In response to the Government's monetary policy, interest rates have been increasing ever since early 1953, with the exception of the 1954 downturn. They have risen sharply since the winter of 1954–55.

[Percent]

	3-month Treasury bills	Discount rate	Taxable United States bonds	Moody's AAA corporation bonds
December 1954	1.174	1.5	2.68	2.90
January 1955	1.257	1.5	2.76	2.93
December 1956	3.230	3.0	3.37	3.75
January 1957	3.210	3.0	3.37	3.77
February 1957	3.165	3.0	3.26	3.67
Mar. 9, 1957	3.246	3.0	3.26	3.66

An unfair condition and gross inequity has developed as a result of interest rates on United States savings bonds remaining at 3 percent while other interest rates have been rising sharply. This inequity has meant that wealthier savers—families and business enterprises—have seen their benefits on the bonds they purchase increase rapidly, while lower-income families, who are the major purchasers of United States savings bonds, have seen the interest rates on their savings bonds remain the same. This situation has been unfair to lower income savers. It has also tended to undermine the continuing faith of such lower income families in United States savings bonds as a good investment.

The current inequity should be eliminated. It has developed because of Government policies. Government policy, I think, should bring an end to such an unfair condition.

The alternatives for Government policy, as I see it, are—

(1) To raise the interest rates on United States savings bonds; or

(2) To reduce interest rates generally by relaxing the tight-money policy and by the Federal Reserve Board's reduction of the rediscount rate.

To eliminate the existing inequity by raising interest rates on United States savings bonds would be an admission of failure about the general money-market, interest-rate situation. It would represent a final step in freezing higher interest rates into the economy.

From the viewpoint of wise social policy and the welfare of the national economy, it would be better to permit interest rates on United States savings bonds to remain at 3 percent and to reduce interest rates generally by relaxing the tight-money policy and reducing the Federal Reserve Board's discount rate. In this way, the Government would aid in providing an environment for continuing economic growth that would be beneficial to all economic and social groups in the Nation.

It would be well for this committee to examine the Government's monetary policies before admitting to failure. It would be more beneficial from a broad social viewpoint to reduce interest rates generally than to raise the interest rate on United States savings bonds.

Should the Government fail to reduce interest rates generally, then, I think, that in fairness to the small saver the interest rate on United States savings bonds should be adjusted. The current situation is grossly inequitable. If the decision is to permit interest rates generally to remain at about their current high levels and to continue the monetary policies of recent years, I think it is essential to raise the interest rate on United States savings bonds. However I would hope that this is not the course the Congress takes.

Current monetary policy needs to be reexamined. The causes and effects of a tight money market are different when seen through the eyes of someone other than a specialist in monetary policy. While some economists give credit to the monetary policy of the administration and the Federal Reserve Board for the relative mildness of price increases in the past few years, others, and I am one, believe the relationship between the two has been relatively minor.

Instead, I believe that the Federal Reserve Board, while "tilting at the windmill" of inflation has been hampering the healthy expansion of our economy. The Board's attempt to curb price inflation in the consumer and industrial markets has literally produced inflation in the money markets. In my opinion, the latter creates far more serious problems for our economy than the "price" inflation of the last few years.

In the past year and a half, money-market inflation has followed the seesaw pattern of increased rates for Treasury bills followed by increased discount rates. Since mid-1954, Treasury bill rates have increased by 2¼ to 2½ points. Since a fair rule of thumb is that the discount rates should generally be higher than the Treasury bill rates, this pressure among others, has pushed up the discount rates. Over the past year and a half, when Treasury bill rates were higher than discount rates, the Federal Reserve banks have increased their discount rates. Now, once more, the Treasury bill rate is hovering around 3 to 3.2 percent. While this may not lead to further discount-rate increases, past experience would make this result probable.

As Treasury bill rates and discount rates mount, other rates also rise. In the past 2 years, short-term rates for loans have also gone up from 1¾ to 3.6 percent, or doubled. In many instances, they have risen above the long-term rate, presaging an upturn in the latter.

This seesaw pattern causes uncertainty in the money market. Loans of various kinds become very difficult to obtain—not necessarily because funds are short, but because banks and lending institutions assume that by holding off a little longer, they can charge and secure higher interest rates. Thus the attempt to avoid price inflation produced inflation in the money markets.

To support my general contention that price inflation in the money market has caused some fundamental disturbances in the economy, I should like to discuss seven points. Each shows the effect of the rise in interest rates. Each illustrates how good monetary intentions for helping the economy have produced serious problems elsewhere.

1. Business and agricultural borrowing has not been curbed; nor has the rate of investment for new plant and equipment slowed.
2. Discrimination between types of borrowers has developed.
3. Needed public buildings and activities have been postponed.
4. Profits of banking institutions have been increased.
5. The Treasury has been forced to reverse its policy of converting debt to long-term bonds.
6. Internal financing of plant expansion through price inflation has been encouraged.
7. The root of the problem has not been affected because other more basic factors are now at work in the economy.

1. Industrial, commercial, and agricultural loans

One of the main purposes of increased discount rates has been to "spread out the boom" and slow down expenditures for new plant and equipment. However, these expenditures have continued to rise from quarter to quarter through 1956, and the total volume of commercial, industrial, and agricultural loans continued to move up, reaching a new high almost monthly to the end of last year.

Starting in early 1955, the rate of new plant and equipment expenditures has risen roughly $2 billion a quarter, until the anticipated rate for the second quarter of 1957 of $38 billion will be $12½ billion above the 25½ billion rate of the first quarter of 1955. Discount rates have been periodically increased.

During this same period, commercial, industrial, and agricultural loans of banks in leading cities have also risen almost continually. From January 1955 to December 1956, these loans grew from $22¼ billion to an alltime high of $31.3 billion. Month by month, the level of loans has risen, except for slight declines in early 1955, 1956, and 1957.

Over these months, the discount rate has gone up six times. From a level of 1½ percent at the beginning of 1955, it moved up one-fourth of a point in April, August, September, and November of 1955 and in April and August of 1956.

The attached chart, covering the period from 1952 to the present, shows the correlation between the rise in the discount rate and the rate of commercial, industrial, and agricultural loans. The dotted line represents the discount rate; the solid line, the volume of commercial, industrial, and agricultural loans.

It is argued that these loans and expenditures for new plant and equipment would have been even greater had the rise in the discount rate and the concomitant increases in short- and long-term loan rates not taken place. But the hard facts remain clear: Despite the efforts of the Federal Reserve Board to stop or partially control their increase by upping the discount rate, these loans have continually mounted. The September 1956 Federal Reserve Bulletin, reviewing interest rates during economic expansion, states: "During 1956, business demands in both capital and credit markets have risen substantially further. * * *" The Board might have added to this statement of fact, "This has occurred in spite of a very tight money policy."

2. Discrimination in types of borrowers

The tight money policy has produced restrictions on certain types of loans, but has not particularly interfered with others. Big business establishments and large corporations usually see no reason to let a rise of 1 percent or more hamper their planned rate of plant and equipment expenditures or their demand for various types of loans. Unlike smaller firms, the large enterprises have alternative sources of funds and are considered good risks by lending institutions. If necessary, they can afford to pay higher interest rates out of their earnings and reserves. The constant rise in new plant and equipment expenditures, as well as commercial and industrial loans, is testimony to the negligible effect of high interest rates on curbing or retarding this type of expansion.

As a Wall Street Journal story on September 4, 1956, stated, "Some smaller concerns are cutting expansion plans. Some medium-sized ones are delaying plans for financing them. Corporate giants generally are unaffected."

In most cases, small-business men cannot afford to pay higher interest rates. They are forced, therefore, to postpone plans for growth and expansion or even for enlarging inventory to maintain stability in their business.

In addition, an examination of the housing market shows an obvious decline in housing starts for new residential establishments and a rise in interest rates on mortgage money. The mortgage money is available, but the average American who wants to buy a new house hesitates because of rising interest rates.

The farmer, too, finds it more difficult to get money at rates he can afford, even though he needs some types of loans just to carry him over periods of the planting season.

A series of interviews, conducted with bankers around the country by U. S. News & World Report reported in the September 14, 1956, issue, illustrates the discrepancies between opportunities of different types of borrowers:

"Bankers across the Nation agree that it is harder for both builders and home buyers to line up mortgage credit, point out that their average rate of interest on mortgage loans is up sharply from last year's rate." As for farmers' desires to finance their operations, U. S. News continues, "You are likely to find that your banker is much more critical of your plans." The rule of thumb seems to be "The more urgent your need for a loan, the more difficult and costly that loan will be to arrange."

In one interview after another, bankers indicated they were granting loans only to those with top credit. "Bankers," says U. S. News "are reluctant to advance money for expansion unless the borrower has a top rating for credit."

The president of the First National Bank of Chicago told the interviewer that business had not been slowed by tight money policies. But the president of a bank in Idaho said, "Building has practically stopped," while a banker in the farming and industrial area of Cedar Rapids, Iowa, stated: "We're more choosy" on loans than we used to be. He also said, "Except in times of panic, it's never hard for well-established, efficient, well-to-do people to borrow. It's marginal people who are affected."

In New Orleans, a bank president said, "There is 'danger' in tight money policy, because it tends to hurt the marginal fellow," while a North Dakota banker agreed, "* * * we think our job is primarily to take care of our established customers * * *"

We could quote more and more of these interviews, but I am certain that constituents have made similar statements to members of the Congress.

Certainly the small-business man, the new business man, the farmer, the prospective home buyer, and the purchaser of consumer durable goods find it more difficult to buy what they want. If tight money accomplishes anything at all, therefore, it makes it harder for these groups to get money. On the other hand, it does not particularly affect the rate of expenditures and expansion plans of big corporations or large businesses.

3. State and municipal expenditures curtailed

Higher interest rates increase the cost of borrowing for State and municipal governments. Normally, there is a differential between the rates that State and municipal governments pay on their bonds and the rate paid for long-term bonds of business establishments because interest on the former is tax exempt. However, as long-term bond rates rise, State and municipal governments must raise their rates in order to compete for money in the open market. As a result, costs of needed public improvements are greater for the States and local communities and, in turn, for the taxpayers.

Almost daily one can find a newspaper report that a State or municipal government has postponed the issuance of a school bond, bonds for improvement of public buildings, or bonds for highway construction, because of the costs of floating them. For example, the October 20 issue of Business Week reported: "The tax exempt bond market has been hit even harder by tight money than the corporate sector. From Rhode Island to Florida, municipalities have been turning down bids on new issues. On scattered occasions, new municipal offerings didn't even draw a bid. Many of the municipalities that have pulled issues out of the markets have found—like most of their corporate counterparts—that conditions actually became worse later."

This effect of tight money delays necessary improvements and hampers the development of needed public facilities in States and local communities.

4. Banking profits

Tight money has led to higher profits for lending institutions. In its September 14 issue, U. S. News and World Report's article, "Where 'Tight Money' Helps" asks, who gets all the additional dollars now being paid by individuals, corporations, and governments on their borrowing? The answer is simple and straight-forward: ". . . in large measure . . . the country's banks, insurance companies and other institutions that do the bulk of the lending."

Profit statements of various banks illustrate the truth of this statement. On October 2, the New York Journal of Commerce headlined a story, "Banks Report Robust Gains in Earnings." The subhead is even more interesting: "10 to 25 Percent Advances Reflect Rise in Money Rates, More Borrowing." The juxtaposition of "rise in money rates" and "more borrowing is indicative that borrowing by large establishments has not been curtailed by higher interest rates."

A paragraph in the same story points out the effect of tight money on bank earnings: "Constributing most spectacularly to gross income was interest on loans, affected both by sharply higher money rates and by generally increased volume of credit in use."

Following this is a rundown on the profits of five New York metropolitan banks. For the first 9 months of 1956, profits increased as follows: Manufacturers' Trust Co. and New York Trust Co., 10 percent; Irving Trust, 22 percent; and Bank of New York and Marine Midland Trust, 25 percent.

"Net operating earnings of the Nation's banks will be at new all-time record highs, on the average, in their March 31 conditions reports," according to the Journal of Commerce of March 26.

"As compared with the first quarter of 1956," the business newspaper states, "net operating earnings will range from 10 to 20 percent better for the first 3 months of this year." According to this report, the explanation of the rise in bank profits lies in the following: "the record volume of lending," and "banks now are deriving the full benefits of higher interest rates that have been gradually placed in effect over the 12 months."

5. Bulk of United States debt still in short-term

In early 1953, the United States Treasury announced, as an ultimate objective, transferring United States debt from banking institutions to long-term investments as much as possible.

Short-term bonds were to be reduced and converted to bonds of long-term denomination wherever possible.

The Treasury would try to make the change to long-term bonds, but that it would have to increase interest rates at the same time. The May 1953 issue of 30-year bonds of 3¼ percent was the first step. Disastrous effects of this first issue are well known. Suffice it to say, that while the issuance of these 30-year bonds was successful, the market soon fell apart. Subsequent developments led to the reduction of interest rates. The slight recession of 1953–54 followed. After that, the Federal Reserve Board began once again to fight phantom inflation and increased the discount rate periodically. The Treasury thus gave up its policy of converting the debt to long-term bonds. Subsequent moves resulting in rising interest rates, however, have not enabled the Treasury to follow through on its policy.

Most economists would generally agree that sound debt policy would support moving the Federal debt into long-term issues and out of the bank structure. However, it appears clear that high interest rate policies of the administration and the Federal Reserve Bank, have not helped the Treasury to accomplish this objective.

6. Internal financing and expansion

Certain big companies have been discouraged from borrowing for plant expansion by higher interest rates. One might conclude, therefore, that tight money policy had accomplished its objective of controlling too rapid expansion. But expansion has continued to increase because of another serious development. As Business Week of October 20 commented, "In such a climate (tight money policy) many companies are tempted to try to live on their internally generated funds, at least for the time being."

When companies are forced, or even encouraged, to finance expansion from retained earnings, they are engaging in a serious semimonopolistic practice. The steel industry serves as a good example. Most of its leaders, such as Ernest Weir, Charles White, of Republic, Eugene Grace, of Bethlehem and others, have made public pronouncements best illustrated by an April 5, 1956 remark of Mr. White, "Higher steel prices will be necessary to justify an expansion of the steel industry within the next 10 years." In other words, the steel industry will try to get expansion funds, not from the bond or equity markets, but from the American consumer of steel and steel products.

If the steel companies went to the bond or equity markets, they would have the expense of paying interest or dividends. But by raising prices to the consumers, they can get needed funds through retained profits. Logically and legitimately this type of internal financing can be called costless capital.

This practice, setting consumer prices on the basis of funds needed for expansion rather than letting prices be determined by competition and production costs, leads to semimonopolistic dangers. In large corporations, such internal financing causes substantial increases in the book value of outstanding shares of stock. Since no new stock is sold, no additional people can share in the company's expansion. Instead, only those who already own stock participate in the company's growth.

7. *Root of the problem*

Tight money does not really affect the source of the economic growth and expansion which some people consider inflationary. I should, therefore, like to mention two or three ideas which I think need further discussion and elaboration. I do not think anyone understands their implications fully.

If we assume, as the Federal Reserve Board has, that increases in new plant and equipment expenditures have been too rapid and should be slowed down or extended over more time, it is obvious that the tight money policy, has not been successful. Instead, it has created other more serious difficulties.

Tight money policy will not affect many of the reasons for the increase in these expenditures. For example, the big corporations now spending large sums of money on their announced expansion programs are the same corporations which benefited from the accelerated amortization for defense purposes enacted during the Korean period. These 5-year amortization provisions substantially reduced the corporations' net profits after taxes. But the 5 years are almost up. In 1956 and 1957, when 5-year depreciation is completely written off, these companies could find their net profit after taxes increased by about one half the amount of the annual depreciation. To prevent misinterpretation of this prospective sudden rise in net, after-tax profits, these corporations may consider it necessary to arrange their books differently. Otherwise, they may fear accusations of sudden greediness. It would be reasonable, therefore, for them to start large-scale increases in new plant and equipment expenditures. If this is their objective, certainly, higher interest rates will not interfere with their plans.

If it is desirable—and I emphasize the "if"—to slow down the increased expenditures for new plant and equipment, the solutions must be found in other areas. Tight money will only lead to the kind of maladjustments listed in topics 2, 3, 4, 5 and 6 above.

Another possible cause for the rapid increases is the sum-of-the-digits provision of the 1954 tax law. There have been efforts to repeal this provision. Since a repeal would probably not be retroactive to pre-1954 situations, companies could take advantage of the law by adjusting their balance and loss sheets now quickly, in case the law is repealed later.

A third possibility is that the tax law's carryover of loss provisions may have brought about the current large number of mergers. Loans are necessary to buy and merge some of these companies. If the tax advantage from the merger is greater than the disadvantage of paying the higher interest rate on the loan, it is quite obvious which route a corporation wanting to merge smaller companies will take.

Accelerated amortization, sum-of-the-digits, and the carryover of loss provisions are just a few of the possible reasons for large-scale expenditures for new plant and equipment. If these reasons have any legitimacy or validity, then it is safe to conclude that tight money policy, in and of itself, will not temper the rate of new plant and equipment expenditures, or the growth of commercial, industrial and agricultural loans.

On the other hand, we know that tight money policy has injured small businesses, farmers, prospective homeowners and purchasers of consumer goods. Tight money policy has caused postponement of needed public activities. Tight money policy has built the profits of banking and lending institutions—to say nothing of its forcing the Treasury to reverse its debt management policy and its encouraging corporations to seek costless capital. For these reasons, a fresh look at monetary policy seems to be in order.

In closing, I would like to add the statement on monetary policy, adopted by the AFL–CIO executive council on February 1, 1957. You will note that this statement concludes with a request to the Government to pursue policies aimed at continued economic growth, to relax the tight-money policy and to alleviate the hardships caused by hard money:

"America cannot afford to sacrifice the needs of its citizens in the fight against inflation. The current 'tight money' policy has not only failed in its purpose, but has also delayed the achievement of necessary social goals. School construction has been postponed; roads and other vital public improvements have been delayed. The pinch of hard money has also hurt many other sectors of the economy: the distressed area, the home buyer, the farmer, and the small-business man have felt the discriminatory effects of the present high interest rates.

"At the same time, the objectives of 'tight money' have not been attained. Business expansion and expenditures for new plant and equipment have not been curbed significantly. The economy's rate of growth and the boom have not been slowed. The Federal Reserve Board's 6 increases in the rediscount rate in the past 2 years have not even caused a ripple, much less retarded the rate of business spending for new plant and equipment. Instead, wealthy corporations have found they could afford to pay the higher interest charges, or use their own resources or charge higher prices and thus use costless capital to expand.

"Nor has inflation been halted. Wholesale prices have risen continuously. Consumer prices have followed their pattern, though more moderately.

"While efforts to treat the 'inflationary' aspects of the economy have proved relatively useless, real harm has resulted from the higher interest rates. Important types of borrowers have suffered. Home buyers have had to face higher interest rates and fewer homes have been built. Farmers have found it more difficult to borrow enough to tide them over the planting and harvesting seasons. Small business has seen 1956 produce the highest rate of business failures since 1941. Local, city, and State governments have been forced to cut back or delay necessary improvements in schools, sewage, water, roads and other public works. Distressed areas have found it exceedingly difficult to secure the loans necessary to help them improve their economic situation.

"America cannot afford to sacrifice these social objectives in the pursuit of an unsuccessful hard-money policy. We cannot continue to jeopardize the welfare of many of our citizens because we are afraid of growth. We must choose to permit necessary borrowing at low interest costs for the goals our citizens need.

"Since the present 'tight money' policy, designed to fight inflation has failed in its objectives, and since its major achievement has been delay of worthwhile social programs, we recommend that the administration stop tilting with the windmills of inflation and:

1. Pursue policies designed to accomplish a steady, balanced rate of growth in the economy;
2. Relax the present tight-money policy;
3. Take specific steps to alleviate the hardships caused by hard money.

To achieve these ends, the Government should provide for Federal aid to education, an expanded public housing program and a program for middle-income housing, and the creation of a special Government corporation to lend money at low interest rates for specific necessary social programs.

"We must not undersell the American economy. Worthwhile social objectives are possible without inflationary consequences. The fearful should also be reminded that 'tight money' policies have failed to halt rising prices.

"Keeping the economy in check temporarily may require other steps in the future. Meanwhile, baseless fears should not force us to fail to meet the needs of the American people."

The CHAIRMAN. Mr. John Baker will be our next witness.

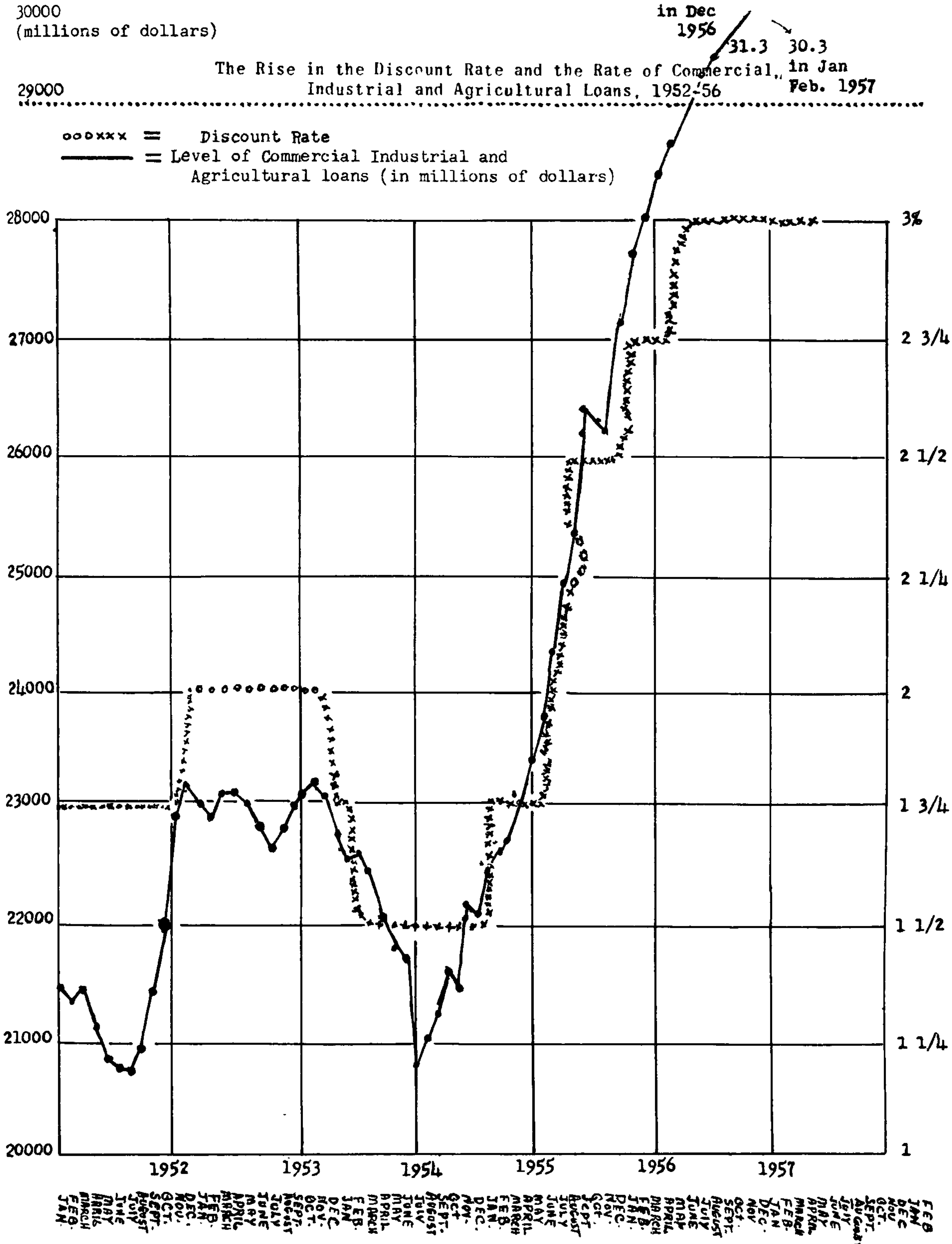
STATEMENT OF JOHN A. BAKER, COORDINATOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. BAKER. I can operate at the will of the committee. I can put this statement in if you people want to adjourn and go to lunch, or I can read it at your pleasure.

The CHAIRMAN. It is your pleasure. You are the witness to decide. I have to leave for a few minutes.

Would you take the chair temporarily in my absence, Senator Long?

Senator LONG. I will be glad to.



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Senator BENNETT. Mr. Baker, are you going to read all of the material?

Mr. BAKER. Most of this.

Senator LONG (presiding). I believe it would be well for you to submit the statement in view of the lateness of the hour, and summarize it.

Mr. BAKER. I will do that.

Senator LONG. The statement will be printed at this point in the record.

(The statement of Mr. Baker follows:)

HARD MONEY POLICY

Legislative Analysis Memorandum No. 57-14

STATEMENT OF JOHN A. BAKER, COORDINATOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, TO OPPOSE FURTHER RISE IN INTEREST RATES

The bill before you provides for a sizable increase in the rate of interest on Government bonds. If enacted, it would be another step backward that would further unbalance our already dangerously unbalanced national economy. Recognition of the restricted subject matter of the bill should not delude you into believing that it is harmless.

The policies of which this bill is another phase, have, in net, increased the burden of interest payments on the economy by $4.5 billion. This is an increase of 61 percent in only 4 years. No other major component of national expenditures has increased so rapidly. There was a $5.1 billion increase in personal interest from 1952 to 1956. The proportion that interest payments are in national income has risen by almost a fourth. For the first time since the great depression of the thirties, net interest received by creditors in 1956 exceeded the total net income of the Nation's 5 million farm-operating families.

On March 2, 1957, the rate of interest on 3-month United States Treasury bonds was at an all-time record high, almost 4 times as high as in 1954. On March 9, 1957, taxable Government bonds bore the highest interest rate of any year recorded in the Government's statistical reports. One result of these policies was that the rate of interest on 4- to 6-month prime commercial paper more than doubled from 1954 to 1956. That is a 100 percent increase per year.

The bill before you would become part of a pernicious pattern of policies that are gnawing away at the foundations of freedom, democracy, progress, and justice.

We seek to maintain and improve the health of our democracy within our Republic, to enhance rather than destroy the freedom and ability of our people to exercise their democratic rights. To do so requires that everyone in our Nation have an adequate opportunity to earn sufficient income under such working conditions that they possess the substance as well as the form of individual liberty and political freedom. To do so also requires that great concentrations of economic power, wealth, and income must be regulated, reduced, and prevented from developing further. Federal policies that impose and promote high and rising rates of interest weaken democracy and cause concentration of political as well as economic power. High and rising interest rates destroy democracy and enthrone financial oligarchy.

We seek to avoid economic depressions and the farm, business, and professional bankruptcies it entails. We seek to avoid the mass unemployment and the disfigurement and withering of human lives that depression brings. We seek to avoid the weakening of national morale, national purpose, and national strength that depression wreaks. Yet in a complex economy such as ours, when savings increase more rapidly than expenditures, when investments in productive capacity outrun ability of consumers to buy, the seeds of destructive depression are sown. Federal policies that impose and promote high and rising rates of interest promote savings and reduce expenditures. They encourage financial oligarchs to expand investment in production capacity beyond the ability of consumers to buy the potential output. The investment rate cannot be sustained. Inventories are reduced; construction contracts are canceled; rapidly increasing primary unemployment is translated into spreading joblessness as production schedules are reduced. The preconditions of national depression are on the threshold. High and rising interest rates which have killed off or slowed down farm investment, small business expansion, and consumer buying power finally channel a disproportionately large volume of funds into wealthy hands who do not care to spend it for consumption and who have no new cause to invest it. Deep, costly, nationwide depression is upon us. Future cuts in interest rates after it is then too late cannot repair the grievous damage already done.

We seek to promote and attain a rate of national economic growth that will maximize the annual increase in per person standards of living of which we are capable. To do less is stupid, unworthy of our heritage, and, in the nature of our economic and political system, it is dangerous. As the world's richest and most powerful nation we must share our blessings with the less fortunate or we shall lose them. Our population is growing by almost 2 percent per year. The cold war imposes upon us a regime of enforced dedication of resources and manpower to the otherwise economically unproductive and unrewarding military expenditures. This means that the growth of the national economy must be at a great enough rate to absorb the increasing military budget, to provide for increased rather than decreased exportation of capital and foreign economic assistance, provide a living for the increased population numbers, and still provide for enough growth to allow for improvement in per person real incomes. This is a large order. But it is a must. Federal policies that impose and promote high and rising interest rates are, by design, according to official pronouncements of the Treasury Department, the Federal Reserve Board, and the White House, devoted to the purpose of dampening down, rather than encouraging, national economic growth. High and rising interest rates reduce economic growth to a snail's pace even when total depression and regression can be avoided. High and rising interest rates make the Nation incapable of meeting its needs for more and better schools, for more and better means of communication and transport, incapable of meeting its moral obligations to our weak and unfortunate, the aged and disabled in our own country, and incapable of meeting the world repsonsibilities we cannot afford to shirk. High and rising interest rates promote rising isolationism; they kindle the flames of national egocentricism that will be both self-defeating and self-destructive, if history teaches us anything.

We seek to promote and improve economic justice in our own and other lands. We seek conditions of widespread and ethical distribution of economic opportunity, partly because this is a necessary condition of political democracy and freedom, a necessary condition to prevent development of national depressions, and necessary condition for economic growth. But we seek widespread and uniform conditions of economic opportunity because it is an essential element of the substance of our national belief in the dignity of the individual, of our concept of fairness, justice, and the Golden Rule which is the central element in the ethical principles of all the world's religions. Federal policies that impose and promote high and rising interest rates make the rich richer and the poor poorer. High and rising interest rates take money away from those whose economic bargaining power is relatively weak in our highly organized, administered economy and funnels these funds into the hands of those whose economic bargaining power is already very strong. High and rising interest rates reduce the economic opportunity of those who have the least economic opportunity and, at least temporarily, expand the economic opportunity to those who already have the most. Federal policies that impose and promote high and rising interest rates increase injustice and deny justice. High and rising interest rates work contrary to the Golden Rule; they are regressive in an ethical sense; they do not make the world more civilized, but less so.

We seek a national economy in which farm people are enabled to earn a parity farm income. Is a farmer worth as much as anybody else? We think he is. Yet farm people are able to earn only 44 percent of a parity income. Farmers' chronically disadvantaged bargaining position in the commodity markets of the Nation and the world is well known and widely recognized as part of the cause of the cripping disparity of farmers' economic opportunity. Less well recognized in recent years is the crushing political and economic burden placed upon farmers by high and rising interest rates and the hard-money policies of the Federal Government. Probably the most crushing but least recognized is the fact that high and rising interest rates, by taking money away from farmers and other politically and economically weak groups in the Nation, channel those funds into the control of economically strong groups who not only thus receive an enhanced economic position but also acquire increased political power to utilize in their continuous opposition to direct Federal farm-credit programs and their opposition to price supports, marketing orders, and other farm-income improvement and protection legislation to improve farmers' bargaining position in commodity as well as money markets. High and rising interest rates feed the political power of farmers' antagonists and weaken the political power of farmers' friends.

Indirectly, also, Federal policies that improve and promote high and rising interest rates act to reduce farmers' bargaining power in commodity markets in two ways. High and rising interest rates enhance the economic power of monopolistic and oligopolistic industrial corporations to maintain price and profits by adjusting production schedules and output. This appears to be the basis for continually rising prices of capital goods needed in farm production and farm-family living. Moreover, high and rising interest rates increase the costs of storing, processing, and distributing farm commodities and enhance the political and economic power of middlemen to buy cheap and sell dear, both through the enhanced political power they derive from high and rising interest rates and through the increased economic bargaining power that high and rising interest rates give them to withhold their marketing and processing services except as they are paid their price.

High and rising interest rates impose on farmers not only the crushing indirect political and economic burdens I have mentioned. High and rising interest rates, also, impose a crushing burden of increased direct costs upon farmers both as producers and as consumers.

Even the administration, that has requested passage of the bill before you, recognizes that farmers are in what they call a price-cost squeeze. But you have heard little from them, except in the obscure official statistical reports, that interest paid per acre by farmers has increased by a much more rapid rate than any other element of farmers' operating and living costs. The interest paid by farmers item is up by 108 percent since 1947–49 annual average. There is an acute and growing credit crisis for farmers out in the country. But I shall not take the time of the committee to go into detail about it. I request that our legislative analysis memorandum on the subject and its supplement No. 1 be placed in your record at the close of my statement. I also request that the text of S. 1533, Yardstick Family Farm Credit Act, as introduced by the Senator from Louisiana, Mr. Long, and by Senator Kerr, members of this committee, and other Senators, be placed in the record of these hearings at the close of my statement. (The statement and bill referred to appear at the end of Mr. Baker's prepared statement.) This bill provides for a 5-percent per annum yardstick farm-credit interest rate and provides that farmers who are unable to obtain needed credit from usual sources at that 5-percent rate could obtain credit direct from the Federal Government at not more than 3 percent.

Under the Federal farm and credit policies of the past 4 years, the farm-mortgage debt of farmers has increased by over $3 billion, an increase of about 50 percent. The total of short-term debts has also increased by $3 billion, which also approximates a 50-percent increase.

Each year farmers are required to borrow in the neighborhood of $16 billion to $20 billion to finance their crop and livestock operations. Only a 1 percentage point increase in the rate of interest on these short-term loans would add from $160 million to $200 million to farm operating costs. The effect of interest-rate increases on the burden of the approximately $10 billion of long-term mortgage debt of farmers is apparent.

From 1956 to 1957 alone, the index of interest paid by farmers per acre has increased by 80 percent from an index 152 to 164 (1910–14=100).

Moreover, Federal policies that impose and promote high and rising interest rates have almost completely nullified and dried up the several insured farm loan programs established by Congress, such as the farm-ownership, farm-housing, and soil-conservation loan programs of the Farmers' Home Administration.

These high-interest-rate policies are seriously endangering the continuation of the rural-electrification and rural-telephone programs established by Congress which have operated so successfully for over 20 years.

But these direct and indirect handicaps imposed on farmers by high and rising interest rates are in a major sense the minor and not the major concern of farmers to bring about a reversal of these policies. The farmer is a citizen, too. He and his children and his children's children hope to live and prosper in a prosperous and democratic America. Some will be farmers; others will be in other walks of life. Farmers have a lively interest in the broad adverse implications of Federal imposition of high and rising interest rates, not alone in the specific crushing blows that such policies have been to farmers and that threaten to hit them even harder as sliding-scale farm policies drive them deeper and deeper into debt.

Democracy and freedom are weakened by Federal policies that impose and promote high and rising interest rates.

Ability to avoid national economic depression is weakened by Federal policies that impose and promote high and rising interest rates.

National economic growth required to fulfill great national priorities of need is slowed by Federal policies that impose and promote high and rising interest rates.

Economic justice is retarded and civilized ethics turned backward by Federal policies that impose and promote high and rising interest rates.

The struggle of farm people for parity farm income is handicapped and crushed by Federal policies that impose and promote high and rising interest rates.

High and rising interest rates gnaw away at the foundations of our way of life, of our aspirations, and of our Republic itself.

The bill before you is a part of this pernicious pattern of policies that endanger our freedom, weaken our democratic political system, stultify economic progress, and deny justice. We hope your committee will reject this piece of the pattern, small as it is. We strongly urge your disapproval of the bill before you.

(Mr. Baker's supplemental statement on bill S. 1533 follows:)

Legislative analysis memorandum No. 56–17 (Revision No. 2)

Yardstick Family Farm Credit Legislation

Alone among the farm organizations, Farmers Union invited the attention of the 84th Congress to the growing crisis of credit problems of family farmers. Our efforts resulted in significant improvements in the credit programs provided by Farmers' Home Administration and succeeded in blocking the destruction of the yardstick 5 percent interest rate set up in existing law. Its repeal was repeatedly recommended and demanded by Secretary of Agriculture Benson.

For current legislative and economic development on this subject see supplements Nos. 1 and 2, respectively to this memorandum and section 8 of Legislative Handbook.

A yardstick family farm credit bill (S. 3790, 84th Cong.), more nearly adequate to the current needs than H. R. 11544 was introduced in the Senate on May 7, 1956, by Senators Humphrey, George, Hennings, Kerr, Clements, Lehman, Mansfield, Morse, Murray, Neely, Neuberger, Scott, and Sparkman. Companion bill in House was introduced by Representatives Polk, Metcalf, and Knutson.

FARMERS UNION RECOMMENDATIONS

There is a developing farm credit crisis out in the country. We are in another of those eras that have come twice in the past 50 years when the Nation will and must make a major reform in its farm credit policy.

Growing awareness in the period 1908–14 of the basic disadvantage of farmers in the Nation's money and capital markets led to the establishment of the Federal land-bank system.

Later, the total failure of the then existing farm-credit institutions to cope with the 1921–33 farm depression led to the complete reform and improvement of national farm credit policy and institutions in 1933–34

NEED NEW CONCEPT OF YARDSTICK FARM CREDIT

Now, we seem to be in the middle of another era of broadening farm-credit concepts, an awareness brought on by the apparent inability of the now existing institutions and policies to cope with the problems of the growing farm depression and recurrent droughts, duststorms, floods, and falling farm income.

National Farmers Union continues to urge enactment of a comprehensive yardstick family farm credit bill, to expand and extend the excellent features of existing Federal yardstick family farm credit laws and incorporate needed improvements.

EXISTING LAW

Existing legislation covering direct and insured general family farm credit loans is provided mainly in: The Bankhead-Jones Farm Tenant Act, as amended; the Water Facilities Act, as amended; Public Law 38 (Emergency Loans), as amended; and Public Law 727 (Emergency Credit), as amended.

RECOMMENDED AMENDMENTS TO WATER FACILITIES

Soil Conservation Loan Act

The Water Facilities and Soil Conservation Loan Act of August 28, 1937, as amended (16 U. S. C. 590r–x), needs to be further improved and modernized.

This act has provided very much needed loan facilities during its nearly 10 years of operations. Its scope was broadened several years ago to cover the entire United States. It authorizes the Secretary of Agriculture to make direct and insured loans to farmers and stockmen and reclamation, irrigation and grazing associations for soil and water resource improvement and conservation purposes.

However, with increased costs of such measures, the loan limitations have gotten out of date. We recommend raising the limitation on indebtedness of drainage, irrigation, and grazing associations, other corporations, and agencies, as provided in section 8, from $250,000 to $1 million.

We also urge that the maximum rate of interest chargeable under this program be set at 3 percent per annum. If this should require Federal subsidy in a period of a general hard-money policy, we feel the difference is justified both by the generally deflated condition of the farm economy and by the general public welfare benefits derived from increased soil and water conservation on the farms of the Nation.

RECOMMENDED AMENDMENTS TO DISASTER LOAN ACT OF 1949, AS AMENDED

Public Law 38 of the 81st Congress, as amended, is the act of April 6, 1949, as amended (12 U. S. C. 1148a). This act makes provision for 3 percent interest on production disaster, economic disaster, and special livestock loans.

We recommend striking out both termination dates so the programs can be continued indefinitely without having to obtain periodic extensions by Congress. We continue to urge removal of the words "for $2,500 or more" from the language of the act since this provision was repealed by Congress in Public Law 175 within a month of its original passage. We find the idea of a minimum loan as repugnant now as did the Congress in 1953. This language should be cleared up.

We also urge the following amendments to this act:

Provision should be made in subsection 2 (c) to authorize the expenditure of the proceeds of these special livestock loans to repay existing indebtedness.

The repayment period should be made "10 years" instead of "3." The existing congressional limitations of not more than 3 percent per annum interest on these special livestock loans should be made explicit in the language of subsection 2 (c), as it is in subsections 2 (a) and 2 (b). This would mean deletion of the fourth and fifth sentences of this subsection.

RECOMMENDED AMENDMENTS TO EMERGENCY LOAN ACT OF AUGUST 31, 1954

This is the Emergency Loan Act of August 31, 1954. It expires on June 30, 1959.

We recommend the following amendments to this act:

1. Remove the prohibition against the refinancing of existing indebtedness in section 1.
2. Eliminate the termination date in section 1 and thus establish a permanent authorization for the program.
3. Eliminate the requirement for proclamation of emergency area in section 1.
4. Eliminate the size of loan limitation in section 2.
5. Eliminate the limitation on amount of total indebtedness in section 2.

In our considered judgment, there are a great many individual emergency situations outside of areas of widespread emergency. Moreover, when a fully adequate family farmer is in an emergency situation a loan no larger than $15,000 is often not enough to get him out of his trouble and enable him to get into a position to overcome his temporary emergency financial difficulty.

AMENDMENT TO BANKHEAD-JONES FARM TENANT ACT, AS AMENDED

Suggested improvements of the Bankhead-Jones Farm Tenant Act, as amended, consist of suggested additional titles, and suggested amendments to titles I, II, and IV.

RECOMMENDED FAMILY FARM DEVELOPMENT ACT

This would be a crash program to eliminate farm and rural poverty in the United States as was provided for in H. R. 4300, introduced by Mr. Wright Patman in the 84th Congress and incorporated in S. 3790.

We strongly urge that Mr. Patman's bill, in its entirety, be included in the comprehensive new law as a new title to the Bankhead-Jones Farm Tenant Act.

RECOMMENDED TITLE V ECONOMIC EMERGENCY REFINANCING LOANS

There is great need for a new title to provide a specific program of constructive rehabilitation credit to farmers, ranchers, and farm-related small businesses in rural areas who are heavily indebted as the result of the farm depression that is no fault of their own.

RECOMMENDED IMPROVEMENTS IN BANKHEAD-JONES FARM TENANT ACT

Farmownership and real-estate loans

Existing law contains Farmers Union proposal to authorize insured as well as direct loans for purpose of making "improvements needed to adjust farming operations to changing conditions." Follows Farmers Union proposal to make existing farm owners clearly eligible for such loans, and allows such loans to be made to farm owners and tenants who have had to seek outside sources of income to augment dwindling farm income, which must still be a substantial portion of the family income but need not be a major portion as in law prior to 1956.

Farmers Union recommendation to reduce interest rates on loans and eligibility requirements from 5 to 3 percent, has not been adopted, but law eliminates the 5 percent limitation as has been repeatedly recommended by the administration.

Existing law still provides that units financed must be of smaller value than "average value of efficient family-type farm units * * * in the county." Both Farmers Union and the administration have urged elimination of this limitation.

Authorized annual appropriation is only $50 million rather than $150 million as recommended by Farmers Union; nor has amount appropriated for insured-loan revolving fund been raised as recommended by Farmers Union. However, limitation on outstanding indebtedness in any one fiscal year on insured loans has been raised as Farmers Union recommended.

Elimination of 10 percent equity requirement as recommended by Farmers Union has not been adopted, except for refinancing loans. Administration recommended keeping equity requirement for all loans.

Payment by borrower of special fees and mortgage insurance premiums are not eliminated as recommended by Farmers Union.

"Until June 30, 1959," direct and insured FHA real estate or farmownership loans may be made or insured, as recommended by Farmers Union, "for refinancing secured and unsecured indebtedness of eligible farmers on farms of not larger than family size who are presently unable to meet the terms of their outstanding indebtedness and are unable to refinance such debts 'through private commercial channels' at rates and terms which they could reasonably be expected to fullfil."

This is done in a new section 17 added in 1956 to title I of the Bankhead-Jones Farm Tenant Act rather than as a new title V as was proposed by Farmers Union, but with following exceptions it does provide the real estate refinancing lending authority recommended by Farmers Union. Farmers Union proposed that, in addition to individual farmers the following also be made eligible for refinancing loans: "farm partnerships, grazing associations, irrigation companies, and the owners of farm-related small businesses in rural areas"; these latter are still omitted from eligibility.

Refinancing loans secured by farm real estate, can be made up to the amount certified by the county committee to be the "value of the real estate" plus the "reasonable value of the applicant's livestock and farm equipment"; this is in substantial agreement with Farmers Union recommendation, if administered according to intent of the House. Farmers Union had suggested a limitation of not less than $50,000 per farm.

Secretary Benson and the administration steadfastly opposed the provision of authority for refinancing of existing indebtedness as an approved purpose of any type of FHA loan, but the bill providing it was ultimately signed in 1956 and is now law.

If we would only look, I think we could find much more rewarding uses to make of any surplus farm population we may have in this country than to starve it off the land and into the unskilled labor pool in industrial centers. Look no farther back than to the recent past, when farm people enjoyed relative prosperity; there was then a remarkable volume of population movement out of agricultural employment.

Many of these people did not move beyond their home communities. Fairly decent farm incomes enabled farm families to start installing the household equipment that was long considered part of the American standard of living, for example. It was farm boys—and some ex-farmers—who connected most of the new electrical gadgets and wired the farm houses for REA, who piped in the running water, and dug the new well.

There is an enormous employment opportunity right at home in the rural communities all over America—if farm families were only given their fair share of the national income. These potential new jobs can employ farm people to serve farm families remaining on the land—and would do so without tearing off their social and cultural roots in flight to the cities.

I suppose that if American farm people were to enjoy full parity of income, we would immediately need a migration of people back into rural communities, to build and rehabilitate houses, to sell and install household gadgets, to service new farm equipment, to man new service trades in the small towns.

But even if we continue to accept subparity returns to our farm people, I think we can probably do better, from the standpoint of ultimate efficiency, to move jobs to where the people are, instead of demanding that people move to where jobs might be. There is a lot of tremendously valuable capital, including spiritual and social capital as well as material, invested in these rural schools and roads and governments, rural religions institutions, rural homes, rural community patterns, rural culture. In the most depressed farming areas, it is true, this capital is terribly inadequate and depleted. But at least the families have their roots planted firmly in that soil, ready to receive fertilizer if we choose to supply it.

Certainly it makes better sense to redesign some of our plans for industrial production expansion so it can be diverted into rural areas than to strain the bursting seams of our giant cities further and further. Certainly it would be efficient—in the ultimate meaning of efficiency—to spend some money and concern on improving the rural schools and churches where children already are, than to deal with juvenile delinquency and crime after families have been uprooted and cast spiritually adrift in the urban sea.

OTHER SPECIFIC OMISSIONS OF EXISTING LAW

Needed improvements in Water Facilities and Soil Conservation Loan Act have not been adopted.

Disaster Loan Act improvements have not been adopted, except inclusion in the report of the House Agriculture Committee of Farmers Union recommendation to direct the Secretary of Agriculture to make orchard distaster loans (such as for Oregon prune orchard freeze) with reasonable repayment terms.

Title I and title II of the Bankhead-Jones Farm Tenant Act still allow maximum interest rates on such loans at 5 percent rather than the 3 percent recommended by Farmers Union, and no provision is made for extremely long term farm-forestry loans.

There is no provision in existing law for aid to low-income farmers respecting employment services for off-farm employment, no provisions for additional vocational-education services, and no provisions for industrialization of low-income farming areas and other depressed areas.

Economic disaster loans

Farmers Union recommended that authority for this type of loan be made permanent legislation. Existing law extends the program through June 30, 1959. Interest rate is continued at 3 percent as recommended by Farmers Union. However, existing law still requires that area be designated before loans can be made; does not eliminate maximum size of $15,000 and maximum indebtedness of $20,000 as Farmers Union had recommended. Authorization is limited to $65 million, the total amount of such loans that may be made. Farmers Union recommends no maximum limitation. Such loans may not be made for refinancing of existing indebtedness; Farmers Union had recommended that such be permitted.

VOLUNTARY FARM DEBT ADJUSTMENT

Existing law includes Farmers Union recommendation for increased emphasis to Secretary of Agriculture to reactivate the voluntary farm debt adjustment program that was so helpful to debt-ridden farmers in their attempts to climb out of the farm depression that started in 1920 and hit bottom in 1932. Secretary Benson has not reactivated farm debt adjustment as a needed activity.

REESTABLISHMENT OF FULLY EFFECTIVE VARIABLE REPAYMENT PLANS

Existing law does not authorize reestablishment of authority for utilization of a fully effective variable repayment plan, without regard to previous excess payments. Farmers Union recommended that the Secretary be authorized to adjust repayments on all types of FHA loans to the net earnings and ability of the borrower to repay from year to year. Existing law, left unchanged by amendments adopted in 1956, allows such variable repayment adjustments only in cases where the borrower has gotten ahead of schedule in previous years.

OPPOSITION ARGUMENTS

Following is the official executive branch recommendation opposing enactment of S. 3790 which would greatly improve the "yardstick" family farm-credit program of Farmers Home Administration.

JULY 3, 1956.

Hon. ALLEN J. ELLENDER,
Chairman, Committee on Agriculture and Forestry,
United States Senate.

DEAR SENATOR ELLENDER: This is in reply to your request of May 9, for a report on S. 3790, a bill to strengthen the Nation by providing auxiliary credit resources required to preserve the family-size farm, providing additional credit for farm enlargement and development, refinancing of existing indebtedness, expansion, and simplification of farm ownership and operations credit programs by amendment of the Bankhead-Jones Farm Tenant Act, and extension and simplification of emergency and disaster farm credit by amendment of the acts of April 6, 1949, as amended, and of August 31, 1954, and for other purposes.

The Department recommends that the bill not be passed.

The bill would amend the Bankhead-Jones Farm Tenant Act, the Water Facilities Act of 1937, Public Law 38, and Public Law 727. In addition, it would add two new titles to the Bankhead-Jones Farm Tenant Act; namely, title V, Rural Adjustment Credit, and title VI, Family Farm Development Act. The Department recognizes that some changes are needed in its existing credit authorities and is in agreement with some of the objectives of the bill, particularly those which would extend and improve the credit services available to farmers under titles I and II of the Bankhead-Jones Farm Tenant Act. The specific recommendations of the Department have been submitted to the Congress and are embodied in S. 3429 and S. 3559.

One of the reasons enactment of S. 3790 is not recommended is that this bill would change substantially the character of the credit services of the Department and make it directly competitive with private and cooperative lenders. This position would be in sharp contrast to the present status of the Department in the farm-credit field; namely, as a supplementary source of credit to be used only when applicants cannot obtain loans from other creditors at reasonable rates and terms. More specifically, the bill would provide that applicants who could not obtain credit for real estate and operating purposes from other sources at rates of not more than 4 percent would be eligible for loans under the Bankhead-Jones Farm Tenant Act. Since the going rate of farm loans, particularly operating loans, is more than 4 percent most farmers who need credit could establish their eligibility for assistance under the Bankhead-Jones Tenant Act. Increasing the loan limits on title II loans to $40,000, eliminating the 7-year continuous indebtedness period, as well as authorizing chattel and real estate loans up to $50,000 under title V of the proposed bill, would permit loans to farmers and stockmen whose operations are substantially larger than family size. At present, loans under the Bankhead-Jones Farm Tenant Act can be made only to farmers whose operations are not larger than family size.

The minimum 3 percent interest rate for insured loans specified in S. 3790 would make the insured loan authorities practically inoperative in the current money market. Our experience has been that at present a 3 percent interest rate is not sufficiently attractive to lenders to assure an adequate supply of funds for insured farm ownership and soil and water conservation loans. This provision, unless compensated for by increased direct appropriations, would curtail rather than expand the credit facilities available to farmers.

The bill proposes a number of lending authorities which are not directly related to extension of credit to bona fide farmers. Title V, for example, authorizes loans to "farm-related small businesses." This type of credit program should be administered by an agency other than the Department of Agriculture. Title VI includes loan authorities with respect to both farm and nonfarm aspects of a comprehensive rural development program. Since the Bankhead-Jones Farm Tenant Act is primarily a credit statute, this Department is of the opinion that the portions of title VI that pertain to phases of a comprehensive rural development program other than credit to farmers are not germane to the Bankhead-Jones Farm Tenant Act.

The bill, if enacted, would establish additional lending authorities under the various titles which would differ in only minor respects. These small differences with respect to elgibility, loan puropses, and terms of loans would be difficult to explain to farmers and would unecessarily complicate the administration of the Department's credit services. Furthermore, there would be considerable duplication of lending authorities under the various titles for chattel and real-estate purposes.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

TRUE D. MORSE,
Acting Secretary.

SUMMARY

Relating to the need for a comprehensive yardstick family farm credit agency, James G. Patton told the Senate Agriculture Committee on June 7, 1955:

"The credit needs of family farming are tremendous and growing. Credit should be available at the times needed and its terms and conditions should be adopted to characteristics of farming as a combined business and way of life.

"Much of the credit needs of family farming can be met by loans obtained from private individuals and such credit institutions as banks and insurance companies. Farmers themselves can meet other needs cooperatively through the institutions of the farm credit system. Together, it should be expected that these sources should supply the great bulk of the credit needs of agriculture. However, inasmuch as all of these must obtain their funds from commercial money markets and conduct their operations along traditionally conservative financial lines, they find themselves unable to perform the entire farm credit job. Such institutions find it difficult to pioneer in the meeting of newly recognized or newly emerging farm credit problems. They are not set up to use their credit resources in meeting the high risk needs of severe disasters and emergencies, economic or natural. They cannot afford to participate in credit operations when a relative high intensity of technical assistance and loan servicing are required to render loaning activities essentially sound from a strictly financial viewpoint. Moreover, all of these private individual corporate and cooperative institutions have a marked tendency in the absence of outside stimulation to become traditional, custom-bound, and increasingly restrictive in their credit policies.

"There is nothing morally wrong about this nor even economically unsound. It just means that the best interests of family farmers require a separate supplemental and yardstick credit operation. This can best and most efficiently be supplied to the Nation by the Federal Government. Such an agency should have the legal authority and sufficient funds to meet all of the family farm credit needs not filled on reasonable terms by private cooperative and other corporate lending agencies.

This is a problem not strictly of young farmers, nor of low income farm families, nor of disaster situations. It is a need that extends across the board. Such an agency would stand ready to meet any legitimate farm credit need not met by existing private agencies on reasonable terms. The agency would make both direct governmental loans and would insure loans of private lending agencies."

BIBLIOGRAPHY

1. S. 3790 Family Farm Credit Act introduced by Senator Humphrey and other Senators in 84th Congress.

2. Acts of Congress administered by Farmers' Home Administration Compilation.

RECENT LEGISLATIVE DEVELOPMENTS

YARDSTICK FAMILY FARM CREDIT

Legislative Analysis Memorandum No. 56–17 (Supplement No. 1)

(For current developments in Congress see section 8, Legislative Looseleaf Handbook and for background information on this subject see Legislative Analysis Memorandum No. 56–17, revision No. 2.)

ADMINISTRATION RECOMMENDATIONS

Neither Secretary Benson nor the President's state of the Union, budget, nor economic messages recommended any improvements in family farm credit legislation.

DEVELOPMENTS ON CAPITOL HILL

1. Development of major significance is introduction with broad sponsorship of a comprehensive yardstick family farm credit bill in both United States House of Representatives and United States Senate. Companion bills were introduced by Senators Humphrey (S. 1533) Murray, Kerr, Mansfield, Neuberger, and six others, and Congressmen Metcalf (as part of comprehensive H. R. 6024), Lester Johnson (H. R. 5890), Knutson, and others.

Explanation of provisions of this yardstick family farm credit bill following in the next section.

ANALYSIS OF PROPOSED FAMILY FARM YARDSTICK CREDIT ACT OF 1957

The proposed bill provides for improving amendments in the Bankhead-Jones Farm Tenant Act, as amended; the Water Facilities Loan Act; the Emergency and Livestock Loans Act (formerly RACC); the special Emergency Loan Act of August 31, 1954, as amended; directs the Secretary of Agriculture to reactivate the program of assisting farmers and creditors with voluntary farm debt adjustment procedures; and reinstitutes the policy of adjusting repayment schedules of loans to the net earnings of borrowers from year to year.

Section 2 of the proposed bill amends title I of the Bankhead-Jones Farm Tenant Act, as amended, providing for long-term loans to farm tenants and part- and full-time farm owners to buy farms or enlarge their units, as follows:

Reduces the rate of interest charges to the borrower from 5 percent to 3 percent.

Increases the authorization for annual appropriation for such loans from $50 million to $150 million, beginning in fiscal year 1958.

Increases mortgage insurance guarantee fund for insured private long-term farm loans from $5 million to $50 million.

Reduces interest rate paid to insured private lenders from 4 percent to 3 percent—this would involve the Government absorbing the cost of the loan insurance risk and administration of such insured loans—since under the amendment the borrower would be charged 3 percent interest on such insured loans and the entire payment would go to the insured creditor. Under existing law the borrower pays 5 percent interest and the creditor gets 4 percent, the Government taking the 1 percent difference.

Eliminates the existing requirement that only farms smaller than average size in the county can be purchased with proceeds of these loans.

Eliminates the existing requirement that the borrower be charged initial service fees for inspection, appraisal, and other service charges, and also eliminates the requirement that the borrower pay the 1 percent annual mortgage insurance charge.

Section 3 of the proposed bill amends title II "Farm operating loans" of the Bankhead-Jones Farm Tenant Act, as amended, as follows:

Raises the permissible maximum amount of an initial loan from $10,000 to $25,000 and the permissible size of total indebtedness from $20,000 to $40,000.

Reduces rate of interest charged the farmer borrower from 5 to 3 percent.

Eliminates the 7-year maximum period of indebtedness which existing law allows the Secretary to set aside up to 10 years.

Note.—The proposed bill does not change any other provisions of existing farm ownership and farm operating loans titles of the Bankhead-Jones Farm Tenant Act; of special note is that the proposed bill does not either raise or lower the requirement in existing law that a borrower leave the program whenever he can obtain other commercial credit at not to exceed 5 percent per annum; nor does the proposed bill change the requirement that a potential borrower shall have exhausted all other possible sources of obtaining needed credit at not to exceed 5 percent interest before being considered eligible to apply for loans under these programs. The proposed bill neither raises the yardstick 5 percent interest figure of existing law nor lowers it.

Section 4 of the proposed bill raises from $5 to $15 the permissible maximum per diem payments of county Farmers' Home Administration committeemen when engaged in public business in connection with their official duties under the law; and reduces from 5 percent to 3 percent the maximum interest rate the Secretary may charge to farmers under provisions of the Bankhead-Jones Farm Tenant Act.

Section 5 of the proposed bill raises the maximum permissible size of water facility loans to cooperatives, irrigation districts, and municipalities from $250,000 to $1 million, and eliminates requirement that water-facility borrowers pay certain mortgage insurance and service charges and fees; and establish 3 percent per annum as the maximum rate of interest that the Secretary of Agriculture may require the borrower to pay for water-facility loans.

Section 6 of the proposed bill amends the Production Disaster Loan Act (Public Law 38) as follows:

Eliminates the July 14, 1959, termination date of the special livestock loan program and eliminates from the language of the act the already repealed provisions prohibiting such loans of smaller than $2,500.

Adds refinancing of existing indebtedness as a permissible purpose for special livestock loans.

Raises the permissible repayment period of special livestock loans from 3 years to 10 years.

Eliminates requirement that large loans be personally reviewed and approved by the Secretary and reduces the maximum chargeable rate of interest from 5 percent per annum to 3 percent.

Authorizes a special loan-in-kind program allowing Secretary to extend all or parts of proceeds of special livestock loans from Commodity Credit Corporation stocks of feed grains and also allows repayment in kind. These special feed loans must be repaid within 3 years at 3 percent interest.

Section 7 of the proposed bill amends the special emergency loan act approved August 31, 1954, as amended, as follows:

Eliminates the June 30, 1959, termination date.

Eliminates the $65 million aggregate limitation of total loans of this type that may be made during life of the law.

Eliminates the $15,000 maximum amount of any one loan and the maximum of $20,000 indebtedness to any one borrower of such loans provided in existing law.

Keeps existing maximum interest rate of 3 percent on such loans.

Eliminates requirement that a prospective borrower live in an area that has been designated as a disaster area.

Section 8 of the proposed bill adds a new title V to the Bankhead-Jones Farm Tenant Act, as amended, which new title would require the Secretary of Agriculture and the Secretary of Commerce or the Administrator of the Small Business Administration to establish a new rural adjustment credit program to provide a sounder system of credit in rural areas to ameliorate the effects of the agricultural recession and adverse situations caused by conditions beyond the control of farmers and stockmen. Farm related small businesses in rural areas as well as farmers and farmers' cooperatives would be eligible to participate in the program established by the title. Eligibility for loans would be limited to those unable to obtain adequate credit on reasonable terms from other sources. Banks and other existing creditors of eligible borrowers would be eligible to sell evidences of indebtedness to the new credit program. New title provides for both direct governmental and Government-insured loans which vary in terms and conditions in accordance with the purposes for which the loan proceeds will be used.

Section 8 of the proposed bill also adds a new title VI to the Bankhead-Jones Farm Tenant Act, as amended, which new title VI provides for the establishment of a family farm development program in not to exceed the 500 most poverty-stricken rural counties of the Nation. The family farm development program established by this new title provides (a) direct and insured loans and technical advisory assistance to farmers and stockmen to encourage and facilitate their development of economically-adequate full- and part-time family farms: (b) strengthening of the services of the State employment services in cooperation with the United States Department of Labor to facilitate and ease the economic adjustments of farm people who wish to obtain part- and full-time off-farm employment; (c) directs the Department of Health, Education, and Welfare to provide special augmented adult vocational training in both farm and nonfarm work in the designated counties; and (d) provides that agencies of the Executive Branch shall provide technical advisory and service assistance to encourage more rapid industrialization of the low income rural areas in the designated counties.

Section 9 of the proposed bill prohibits the Secretary of Agriculture from requiring the borrowers, or the lenders in insured programs, under any of these farm loan programs to pay fees or make other payments for insuring or servicing of the loans.

Section 10 of the proposed bill makes mandatory the existing discretionary authority of the Secretary of Agriculture to reactivate the voluntary farm debt adjustment program formerly conducted by the Farmers' Home Administration and its predecessory agencies.

Section 11 of the proposed bill authorizes and directs the Secretary of Agriculture to establish with respect to all loans authorized by the act variable repayment plans with payments adjusted, without regard to previous ahead-of-schedule repayments, to the net earnings and debt-paying capacity of the borrower from year to year. Existing law permits the Secretary to establish such a variable repayment schedule only if the borrower has previously gotten ahead of schedule on his repayments.

OTHER DEVELOPMENTS

2. Senator Allott, of Colorado, has introduced a comprehensive recodification of existing family farm credit legislation. Allott bill makes some improvements but has the grievous defect of completely eliminating the yardstick 5 percent interest rate feature still contained in existing law.

3. Senator Ellender has introduced (by request of executive branch) a bill to extend the life of the special livestock loan for grain for a couple of years.

[S. 1533, 85th Cong., 1st sess.]

A BILL To strengthen the Nation by providing auxiliary credit resources required to preserve the family-size farm, providing additional credit for farm enlargement and development, refinancing of existing indebtedness, expansion and simplification of farm ownership and operations credit programs by amendment of the Bankhead-Jones Farm Tenant Act, and extension and simplification of emergency and disaster farm credit by amendment of the Acts of April 6, 1949, as amended, and August 31, 1954, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act shall be known as the "Family Farm Yardstick Credit Act of 1957."

SEC. 2. (a) Subsection (a) of section 3 of the Bankhead-Jones Farm Tenant Act, as amended, is amended by striking out the second sentence of such subsection.

(b) Subsection (b) (2) of section 3 of such Act is amended by striking out "5 per centum", and inserting in lieu thereof "3 per centum".

(c) Section 5 of such Act is amended by striking out "$50,000,000", and inserting in lieu thereof "$150,000,000"; and by striking out "June 30, 1947", and inserting in lieu thereof "June 30, 1957".

(d) Subsection (a) of section 11 of such Act is amended by striking out "$25,000,000", and inserting in lieu thereof "$50,000,000".

(e) Subsection (c) of section 12 of such Act is amended by—

(1) striking out in paragraph (4) "4 per centum", and inserting in lieu thereof "3 per centum"; and

(2) by striking out paragraph (5) and inserting in lieu thereof the following:

"(5) loans insured under the provisions of this section shall not be in excess of the amount certified by the appropriate county committee to be the fair and reasonable value of the farm;".

(f) Subsections (d) and (e) of section 12 of such Act are repealed.

SEC. 3. Subsections (b) and (c) of section 21 of title II of the Bankhead-Jones Farm Tenant Act, as amended, are amended to read as follows:

"(b) No loan shall be made under this section for the purchase or leasing of land or for the carrying on of any land-purchase or land-leasing program. No initial loan to any one borrower under this section shall exceed $25,000 and no further loan may be made under this section to a borrower so long as the total amount outstanding, including accrued interest, taxes, and other obligations properly chargeable to the account of the borrower, exceeds $40,000.

"(c) The rate of interest on loans made under the provisions of this title shall not exceed 3 per centum per annum."

(b) Subsection (d) of section 21 of such Act is repealed.

SEC. 4. (a) Subsection (b) of section 42 of the Bankhead-Jones Farm Tenant Act, as amended, is amended by striking out "$5", and inserting in lieu thereof "$15".

(b) Subsection (b) of section 44 of such Act is amended by striking out "5 per centum," and inserting in lieu thereof "3 per centum."

SEC. 5. The Act of August 28, 1937, as amended (16 U. S. C. 590r–590x, is amended—

(1) by striking out in section 8 "$250,000", and inserting in lieu thereof "$1,000,000";

(2) by striking out subsection (a) (4) and subsection (c) of section 10 of such Act; and

(3) by adding at the end thereof a new section as follows:

"SEC. 11. The rate of interest on any loan made or insured under the provisions of this Act shall not exceed 3 per centum per annum."

SEC. 6. Subsection (c) of section 2 of the Act of April 6, 1949, as amended (12 U. S. C. 1148a–2), is amended—

(1) by striking out in the first sentence "For a period of four years from July 14, 1953, loans for $2,500 or more", and inserting in lieu thereof "Loans";

(2) by striking out the second sentence and inserting in lieu thereof the following: "Loans to such producers and feeders may also be made under this subsection for the purpose of refinancing any existing indebtedness incurred for purposes for which loans may be made under this subsection.";

(3) by striking out in the third sentence "three years", and inserting in lieu thereof "ten years";

(4) by striking out the fourth and fifth sentences and inserting in lieu thereof the following: "Loans made under the provisions of this subsection shall bear interest at a rate not to exceed 3 per centum per annum and shall be made on such other terms and conditions as the Secretary shall prescribe."; and

(5) by adding at the end of subsection (c) a new sentence as follows: "The Secretary is authorized to make advances of Commodity Credit Corporation owned wheat and feed grains to farmers and stockmen, who are unable to obtain loans from other sources on such terms and conditions as they could reasonably be expected to meet, for the purpose of furnishing the feed needed by such farmers and stockmen to preserve a breeding stock of cattle, hogs, work stock, and poultry. Such advances shall be repayable in kind or money within a period of three years and shall bear interest at a rate not to exceed 3 per centum per annum."

SEC. 7. The Act entitled "An Act to provide emergency credit," approved August 31, 1954, as amended (68 Stat. 999), is amended—

(1) by striking out the first section and inserting in lieu thereof the following: "The Secretary is authorized to make emergency loans for any agricultural purposes and for refinancing existing indebtedness to farmers and stockmen when there is a need for such credit which cannot be met from commercial banks, cooperative lending agencies, the Farmers' Home Administration under its regular programs or under the Act of April 6, 1949, or other responsible sources";

(2) by striking out clauses (2) and (3) of section 2;

(3) by striking out in clause (4) of section 2 the words "for such area or areas"; and

(4) by renumbering clauses (4) and (5) of section 2 as clauses (2) and (3), respectively.

SEC. 8. The Bankhead-Jones Farm Tenant Act, as amended, is amended by adding at the end thereof the following new titles:

"TITLE V—RURAL ADJUSTMENT CREDIT

"SEC. 60. The Secretary of Agriculture is authorized to make loans to encourage, assist, and provide a sounder system of credit in rural areas to ameliorate the effects of the agricultural recession and adverse agricultural situations caused by conditions beyond control of the farmers and stockmen.

"PURPOSES OF LOANS

"SEC. 61. Loans made under the provisions of this title shall be made for the purposes of—

"(1) refinancing, consolidating, renewing, or extending all or part of the existing debts of eligible farmers, stockmen, farm partnerships, grazing associations, and irrigation companies and to the owners of farm related small businesses in rural areas;

"(2) assisting eligible farmers and stockmen, with special emphasis on family-sized farms and smaller than family-sized farms, to acquire additional land if the acquisition of such additional land—

"(A) will improve the economic status of the farmer or stockman;

"(B) will aid in a planned program for preventing erosion;

"(C) is for the purpose of retiring land from its present use to a more suitable use;

"D) will facilitate the improvement of farm land through soil and water conserving or drainage facilities, structures, or practices;

"(E) will facilitate the improvement of farm-soil fertility, establishment of improved permanent pasture, sustained yield afforestation or reforestation, or other erosion preventatives, and other similar or related measures; or

"(F) will fulfill any other agricultural purpose consistent with the overall purpose of this title;

"(3) financing or refinancing general farm operating and subsistence expenses; and

"(4) assisting eligible farmers and stockmen to purchase stock in irrigation companies or grazing associations.

"LIMITATIONS ON LOANS

"SEC. 62. Loans made directly by the Secretary under the provisions of this title, and loans made by private credit sources and insured under provisions of this title, which are secured only by chattel liens shall be repayable within the normal useful life of the chattels or within fifteen years, whichever period of time is the shorter. In the case of an individual farmer or stockman, no loan so secured shall be for an amount in excess of $50,000, and in the case of a grazing association or irrigation company, no loan so secured shall be for an amount in excess of $1,000,000. Loans made or insured under the provisions of this title and secured by real estate shall be repayable in not more than forty years and shall not be for an amount in excess of $50,000 in the case of an individual farmer or stockman, or more than $1,000,000 in the case of a grazing association or irrigation company. Direct or insured loans made to any farm partnership of two or more farmers or stockmen shall not exceed the total amount all such farmers and stockmen would be entitled to receive as individual farmers or stockmen under the provisions of this title. In the case of any farm related small business, no loan secured by a chattel lien only shall be made for an amount in excess of $250,000, and no loan secured by real estate shall be made for an amount in excess of $1,000,000. The rate of interest on direct or insured loans provided for under the provisions of this title shall not exceed 3 per centum per annum.

"PERSONS ELIGIBLE

"SEC. 63. (a) Loans made directly by the Secretary under the provisions of this title, and loans made by private credit sources and insured under the provisions of this title, shall be made only to established farmers and capable beginning farmers, part-time farmers, stockmen, whether tenants or owners, farm partnerships, grazing associations, irrigation companies, and to owners of farm related small businesses in rural areas—

"(1) who are unable to repay their existing indebtedness in accordance with present repayment schedules;

"(2) who are unable to secure financing through private or cooperative sources on terms and conditions which they could reasonably be expected to meet and the rejection of such credit was not due to the lack of repayment ability under normal conditions, or character or lack of managerial capacity of the applicant;

"(3) who are certified by the appropriate county committee in accordance with subsection (a) (3) of section 44 of this Act;

"(4) with respect to whom the appropriate county committee certifies and the Secretary finds there is a reasonable expectation that, with the assistance provided hereunder and other resources available to such applicants, they will be able to repay the loans and continue their farming or ranching operations or their business operations; and

"(5) who have total principal indebtedness not in excess of the normal market value of their farms or ranches or businesses and the market value of their chattels, which have security value, less the outstanding balance of any liens not refinanced hereunder.

"PROVISIONS WITH RESPECT TO INSURED LOANS

"SEC. 64. To effectuate the program provided for in this title the Secretary is authorized to make commitments to insure loans made by private credit sources to eligible farmers, stockmen, farm partnerships, grazing associations, irrigation companies, and farm-related small businesses in rural areas. To qualify for such insurance, loans shall be made upon such terms and conditions not inconsistent with the provisions of this title, as may be prescribed by the Secretary.

"SEC. 65 Any loan insured under the provisions of this title shall be an obligation guaranteed by the United States as to principal and interest and incontestable, except for fraud or misrepresentation of which the holder has actual knowledge.

"SEC. 66. The aggregate amount of principal obligations on loans insured under the provisions of this title shall not exceed $300,000,000 in any one fiscal year.

"SEC. 67. (a) The Secretary shall require that all loans insured under the provisions of this title shall be administered and serviced by him.

"(b) Any loan insured under the provisions of this title shall be made subject to the right of the Secretary to purchase such loan, whether or not in default, on such terms and conditions as he may prescribe.

"(c) The Secretary is authorized to purchase loans, which could have been made under the provisions of this title, from banks, or other credit institutions in areas where the Secretary determines that additional funds and terms of loans are necessary to improve rural credit sources, such loans to be referred to the Farmers' Home Administration by the credit institutions within the designated area. The amount advanced against such loan shall not exceed the value of the security as determined by the representative of the Secretary and shall not exceed the maximum amounts set out in this title. Loans obtained directly from the bank or credit institution can upon request by the borrower be renewed, extended, or amended in line with the terms established in this title.

"GENERAL PROVISIONS

"SEC. 68. The Secretary shall require loans to be repaid as provided in subsection (c) of section 44 of this Act if he determines that the borrower is able to obtain a loan from a production credit association, Federal land bank, or other responsible cooperative or private credit source at rates and terms which the borrower can reasonably be expected to meet.

"SEC. 69. For the purpose of carrying out the provisions of this title, the Secretary shall utilize the insurance fund established by section 11 of this Act. Notes and security acquired by the Secretary for loans insured under this title shall become a part of such fund. The notes may be held in the fund and collected according to their terms, or may be sold and, if necessary, reinsured. All proceeds from such collections, including the liquidation of security, and sales of notes shall become a part of such fund.

"SEC. 70. The provisions of section 51 of this Act shall be applicable to this title, and the Secretary may utilize the insurance fund for the payment of taxes, insurance, prior liens, foreclosure expenses, and any other expenses incident to action taken by the Secretary under such section. The provisions of subsections (b) and (c) of section 13 of title I of this Act shall be applicable to this title also.

"RULES AND REGULATIONS

"SEC. 71. The Secretary is authorized to make such rules and regulations and such delegations of authority as he may deem necessary to carry out the provisions of this title.

"APPROPRIATIONS

"SEC. 72. There are authorized to be appropriated to the Secretary such sums as the Congress may from time to time determine to be necessary to carry out the provisions of this title.

"TITLE VI—FAMILY FARM DEVELOPMENT ACT

"This title shall be known as the 'Family Farm Development Act of 1957'.

"FINDINGS AND POLICY

"SEC. 81. The low income, poor living standards, and insufficient economic opportunity for efficient employment of their full capacity of a large part of the rural population denies the Nation the benefit of greater productivity in agriculture and in local rural manufacturing and service industries, slows down national economic growth and reduces standards of living. The Congress recognizes that rural poverty and low rural productivity can and must be remedied in order to bring the Nation up to maximum strength and that through this example of strengthening democracy at home by providing additional opportunities to low-income rural groups, democracy in other parts of the world also will be strengthened. It is the policy of the Congress to provide practical assistance to low-income rural families who desire to increase their productivity, income, and standard of living.

"DETERMINATION OF LOW-INCOME COUNTIES

"SEC. 82. The President is authorized to determine from time to time, from the latest official statistics available to him, the counties or areas of the United States, not exceeding five hundred in number at any one time, having the largest low-income farm population and to inaugurate and maintain in such counties a program to effectuate the purposes and policy of this title.

"ELIGIBILITY

"SEC. 83. (a) The President, through existing agencies of the Federal Government, may render special assistance to low-income families or single persons living in rural areas who apply for such assistance if (1) the applicant is recommended by the appropriate county committee (established under section 8 (b) of the Soil Conservation and Domestic Allotment Act); and (2) such county committee finds that the applicant, with the assistance provided for herein, will develop a farm and home management or family employment plan for increasing his productivity and income that has a reasonable chance to succeed.

"(b) In exploring the most feasible and practicable methods for increasing his productivity and income the applicant, with the assistance of the appropriate county committee, will determine whether the cause of low income is due to physical handicaps of the family: the lack of available credit to make needed shifts in farming methods and employment of labor resources of the family: the practice of inefficient farming methods or practices; lack of practicable diversification in the farming operation; lack of sufficient land; lack of outside employment opportunities to fully utilize the labor of the family in ways that enable it to earn an adequate return at least equal to the established national minimum wage. To assist in the analysis of the needs and in developing the plans with families, the Secretary of Agriculture shall make available to the families and the county committees the services of the local and State offices of the agencies of the Department of Agriculture to provide the advice of technicians in such fields as soil conservation, and supervised agricultural credit for agricultural production and for farm enlargement and development. The advice and assistance of other Federal agencies shall be made available, and the cooperation of State and local agencies, including the State agricultural extension services and the State employment service, and the cooperation of private individuals and organizations shall also be solicited.

"DEVELOPING ECONOMICALLY ADEQUATE FULL-TIME AND PART-TIME FARMERS

"SEC. 84. In case of eligible applicants who wish to remain on the farm now occupied or to become established on another farm in the area, either on a full-time farming basis or in conjunction with off-farm employment of one or more members of the family, the Secretary of Agriculture is authorized and directed to provide the following services through the county committees:

"(a) Employ such full-time employees as may be required to carry on the purposes of this title.

"(b) Make a complete analysis of the farm and farm operations and supplemental employment opportunities to determine the most promising ways by which family income and productivity in combination with whatever off-farm employment may be planned can be raised to an adequate level. After completion of such a farm and home plan, the Secretary through the county committee shall render every assistance possible to the applicant and his family in putting the new program into effect, including technical assistance on improved farm and home practices, and assistance in obtaining needed credit from private, cooperative, or governmental sources to put these practices into effect.

"(c) To effectuate the purpose of this title, the Secretary of Agriculture is authorized, upon such conditions as he shall prescribe, to insure and make loans for periods not to exceed twenty-five years, and at a rate of interest not to exceed 3 per centum per annum for the purpose of financing the enlargement and development of owner-operated family-type farms by (1) the acquisition of additional land, (2) the establishment of improved pastures and sustained yield woodlots, (3) the construction of adequate farm buildings and structures (including drainage facilities, irrigation facilities, and other facilities for the use, conservation, and improvement of soil and water), and (4) such other related farm improvements as will increase the income-producing ability of the farm unit to a more nearly fully adequate family farm.

"(d) (1) To make or to insure three- to fifteen-year loans at a rate of interest not to exceed 3 per centum per annum advanced by production credit associations and by private lenders for non-real-estate capital investment purposes; (2) to make loans up to fifty years at a rate of interest not to exceed 3 per centum per annum to eligible applicants to acquire and manage on a sustained-yield basis additional forest or cutover land; (3) to make loans for periods up to ten years at a rate of interest not to exceed 4 per centum per annum to enable an eligible applicant to acquire needed logging equipment; (4) to make loans of not more than five years at a rate of interest not to exceed 4 per centum per annum to eligible applicants to purchase capital stock of and pay membership fees to existing or new supply, service, or marketing cooperatives, including timber marketing and processing cooperatives; and (5) to make loans to refinance existing indebtedness incurred for any of the above purposes on terms and conditions applicable to loans for such purposes: *Provided*, That creditors will enter into voluntary agreements to make needed adjustments of outstanding indebtedness to realistic income possibilities of the collateral for the existing mortgage or mortgages: *Provided further*, That the Secretary of Agriculture shall establish a variable repayment schedule for all of the foregoing types of loans such that the repayment of interest and principal in any single year shall bear a reasonable relationship to the income of the participating family in that year.

"PART- AND FULL-TIME OFF-FARM EMPLOYMENT

"SEC. 85. Whenever the family determines to seek part-time or full-time farm or nonfarm employment off the farm, the problem shall be presented to the nearest farm labor placement center of the State employment service cooperating with the Department of Labor. Information concerning farm labor opportunities also shall be made available to the family by the State and county committees.

"VOCATIONAL EDUCATION

"SEC. 86. The Secretary of Health, Education, and Welfare is authorized to provide a program of adult vocational training in the low-income counties designated pursuant to section 82, both in farm and home management and in such other farm and nonfarm activities as the family plans of eligible applicants indicate are needed to maximize family income and productivity of family labor within the area.

"INDUSTRIAL DISPERSION

"SEC. 87. To provide for the national defense, to promote interstate commerce, and to improve the general welfare by assisting in the sound economic growth and development of the country, it is the policy of the Congress to encourage and stimulate the establishment of new, or the expansion of existing, private industrial, commercial, or service enterprises in widely dispersed rural areas as may be required to reduce vulnerability to modern war risks, and in which, over an extended period of time, because of the number of under-employed persons in rural areas with excessively low incomes, the number of existing industrial, commercial, or service enterprises and the available markets and resources, there are reasonable prospects for successful operation of additional private enterprises which would more fully utilize available manpower in rural areas. To effectuate this policy of industry dispersal, the departments and establishments in the executive branch of the Government shall be utilized and coordinated to—

"(a) provide technical aid and assistance to, and consult and cooperate with, farmers, businessmen, workers, cooperatives, civic organizations, clubs, and committees, community study and planning groups, and local and State governmental agencies;

"(b) prepare and distribute technical, defense, and economic information on opportunities in and necessities of private enterprise in various industries and areas in order to aid individuals, business firms, civic organizations, and local units of government in developing new or expanded industries best suited to local conditions, and the requirements of civil defense;

"(c) assist new or expanding industries in finding adequate private financing through local capital or otherwise, and where such financing is found to be unavailable, extend Government loans or guaranties under existing authority; and

"(d) use all appropriate means and authority to encourage and stimulate the maximum expansion in private employment and private enterprises consistent with the needs for national defense, with a sound, growing national economy, and with the necessities of civilian defense.

"APPROPRIATION

"SEC. 88. There are hereby authorized to be appropriated such sums as may be necessary for carrying out the provisions of this title."

SEC. 9. (a) No provision contained in this Act or in any of the following Acts shall be construed as authorizing the Secretary of Agriculture to make charges against either the borrower or lender for the insuring or servicing of loans insured by the Secretary under the provisions of such Acts: (1) The Bankhead-Jones Farm Tenant Act, as amended (7 U. S. C. 1001); (2) the Act of August 28, 1937, as amended (16 U. S. C. 590r); (3) the Act of April 6, 1949, as amended (12 U. S C. 1148a–1); and the Act entitled "An Act to provide emergency credit," approved August 31, 1954, as amended (68 Stat. 999). Any expenses incurred for the insuring and servicing of such loans shall be borne by the United States.

(b) The provisions of this section shall not apply to any such charges accrued prior to the date of enactment of this section.

DEBT ADJUSTMENT

SEC. 10. The Secretary shall arrange to assist borrowers under any of the provisions of this Act in the voluntary adjustment of their existing indebtedness with creditors directly in cooperation with State, Territorial, and local agencies and committees engaged in such debt adjustment.

VARIABLE REPAYMENT

SEC. 11. The Secretary is authorized and directed to establish, with respect to all loans authorized by this Act, variable repayment plans with payments adjusted, without regard to previous excess payments, to the net earnings and ability of the borrower to pay from year to year.

Mr. BAKER. The bill that you have under consideration is a bill which provides for a sizeable increase in the rate of interest on Government bonds. If enacted it would be another step backward that would further unbalance our already dangerously unbalanced national economy. Recognition of the restricted subject matter of the bill should not delude you into believing that it is harmless.

The policies of which this bill is another phase have, in net, increased the burden of interest payments on the economy by 4.5 billion dollars. The bill before you would become a part of a pernicious pattern of policies that are gnawing away at the foundations of freedom, democracy, progress, and justice.

Our organization—and we take it the Nation—seeks to maintain and improve the health of our democracy within our Republic, to enhance rather than destroy the freedom and ability of our people to exercise their democratic rights. To do so requires that everyone in the Nation have an adequate opportunity to earn sufficient income under such working conditions that they possess the substance as well as the form of individual liberty and political freedom.

Federal policies that impose and promote high and rising rates of interest weaken democracy and cause concentration of political as well as economic power.

High and rising interest rates destroy democracy and enthrone financial oligarchy.

Another of our great national priorities is to prevent the development of economic depressions and the disfigurement and withering of human lives that depression brings.

Federal policies that impose and promote high and rising interest rates establish the preconditions of national depression, and they do that irretrievably. Even though future cuts in interest rates—after the damage has already been done the economy is left weakened beyond the ability for those future cuts in interest rates to repair the damage.

Another of our great national goals is to promote and attain a rate of national economic growth that will maximize the annual increase in per person standards of living of which we are capable. To do less is stupid, unworthy of our heritage, and in the nature of our economic and political system, it is dangerous. As the world's richest and most powerful Nation we must share our blessings with the less fortunate or we shall lose them.

Our population is growing by almost 2 percent per year. The cold war imposes upon us a regime of enforced dedication of resources and manpower to the otherwise economically unproductive and unrewarding military expenditures. This means that the growth of the national economy must be at a great enough rate to absorb the increasing military budget, to provide for increased rather than decreased exportation of capital and foreign economic assistance, provide a living for the increased population numbers, and still provide for enough growth to allow for improvement in per person real incomes. This is a large order. But it is a must. Federal policies that impose and promote high and rising interest rates are by design, according to official pronouncements of the Treasury Department, the Federal Reserve Board, and the White House, devoted to the purpose of dampening down, rather than encouraging, national economic growth.

High and rising interest rates reduce economic growth to a snail's pace even when total depression and regression can be avoided. High and rising interest rates make the Nation incapable of meeting its needs for more and better schools, for more and better means of communication and transport, incapable of meeting its moral obligations to our weak and unfortunate, the aged and disabled in our own country, and incapable of meeting the world responsibilities we cannot afford to shirk. High and rising interest rates promote rising isolationism; they kindle the flames of national egocentricism that will be both self-defeating and self-destructive, if history teaches us anything.

We seek to promote and improve economic justice in our own and other lands. We seek conditions of widespread and ethical distribution of economic opportunity, partly because this is a necessary condition of political democracy and freedom, a necessary condition to prevent development of national depressions, and necessary condition for economic growth. But we seek widespread and uniform conditions of economic opportunity because it is an essential element of the substance of our national belief in the dignity of the individual, of our concept of fairness, justice and the Golden Rule which is the central element in the ethical principles of all the world's religions.

Federal policies that impose and promote high and rising interest rates make the rich richer and the poor poorer. High and rising interest rates take money away from those whose economic bargaining power is relatively weak in our highly organized administered economy and funnels these funds into the hands of those whose economic bargaining power is already very strong.

High and rising interest rates reduce the economic opportunity of those who have the least economic opportunity and, at least temporarily, expand the economic opportunity to those who already have the most. Federal policies that impose and promote high and rising interest rates increase injustice and deny justice. High and rising interest rates work contrary to the Golden Rule; they are regressive in an ethical sense; they do not make the world more civilized but less so.

Senator LONG. You have a statement here, in connection with your text, that farmers have to borrow between $16 billion and $20 billion a year in order to finance their crops.

Mr. BAKER. That is correct.

Senator LONG. Further, that therefore an increase of 1 percent on farm loans takes from farmers somewhere between $160 million and $200 million.

Mr. BAKER. That is a very important increase in direct costs of farm production, Senator Long.

Senator LONG. My impression is that for most farm loans the increase in interest rates has been about 2 percent. Is that correct?

Mr. BAKER. That is true in the private sector; yes, sir.

Senator LONG. I suppose there are certain Government agencies which do a lot of lending?

Mr. BAKER. Those institutional rates have not risen as rapidly, partly because Congress has kept the lid on.

Senator LONG. What would be your estimate of the average increase in interest charges on farmers as of this date?

Mr. BAKER. The index of interest payments by farmers per acre has risen 108 percent since the 1947–49 average, and has somewhere close to doubled since the 1952 average. That is the index published by Mr. Benson's Department of Agriculture.

Senator LONG. Could you give me the gross figures on an annual basis since 1952?

Mr. BAKER. I do not have that figure with me.

Senator LONG. Can you give us a guess on how much it might have been?

Mr. BAKER. There are $10 billion of real estate debt, and there is in the neighborhood of $16 billion, to take the smaller figure, of short-term operating loans in a year's time, over a year's time. That would be say $25 billion, to use a small round figure. One percent of $25 billion is $250 million. One-and-a-half percent would be $370 million.

Senator LONG. Against that group of farmers you have 4 million farm families, as I understand it, so based on your estimates here that would mean a reduction of about $50 a year by just a 1-percent increase in interest rates on the average farm.

Mr. BAKER. That is correct. It would be about 5 percent of net total farm income in the United States. Just the increase.

Senator LONG. Just a 1 percent increase?

Mr. BAKER. Yes.

The net income of farm families in 1956 was $11.6 billion. This would be——

Senator LONG. So a 1-percent increase in interest rates on farmers works out to a reduction of their net income of 5 percent. Is that correct?

Mr. BAKER. A 2-percent increase in interest rates.

Senator LONG. Two percent increase in interest rates would do that?

Mr. BAKER. Yes, sir. One percent it would be 2½.

Senator LONG. Thank you.

Mr. BAKER. That is even more of a crushing burden, Senator Long, when you realize that in 1956 farm families in the United States were able to earn only about 44 percent of what you might call the parity farm income.

This is an illustration of the fact that it is the marginal groups in the economy, marginal in the sense of having the least bargaining power, it is upon them that the hard money policies push down the hardest.

There is another and even more significance from the long-range standpoint affecting farmers more than the direct cost of increase in interest charges, and that is that increased and high interest rates feed the political power of farmers' antagonists in the political and legislative sphere, and weakens the positions of farmers' allies on the legislative process.

As vested interest groups in the economy acquire more and more money through higher and higher interest rates, that money is available for whatever political use those groups care to make of it, and one of the uses that they have historically made of it is to oppose improved farm legislation. This is an indirect, not immediate, but continuous effect of high and rising interest rates. It goes back, Senator Long, to the same thing that Andrew Jackson was fighting about and that Carter Glass was fighting about. If you are going to maintain democracy and if you are going to maintain the political position of the farmers, you can't set up economic policies that give all of the economic power and the political power that economic power provides, to the groups that are opposing legislation that farmers need.

To summarize the statement, I want to say that I knew that your other witnesses would go into the statistical and detailed economic discussion of this problem. I have intentionally omitted most of those from my statement and have instead put the emphasis on what you might call the ethical, philosophical, and religious aspects of this problem that your committee is considering.

These are aspects that are deeply fundamental to our American way of life.

Democracy and freedom are weakened by Federal policies that impose and promote high and rising interest rates.

Ability to avoid national economic depression is weakened by Federal policies that impose and promote high and rising interest rates.

National economic growth required to fulfill great national priorities of need is slowed by Federal policies that impose and promote high and rising interest rates.

Economic justice is retarded and civilized ethics turned backward by Federal policies that impose and promote high and rising interest rates.

The struggle of farm people for parity farm income as you pointed out, Senator Long, is handicapped and crushed by Federal policies that impose and promote high and rising interest rates.

High and rising interest rates gnaw away at the foundations of our way of life, of our aspirations, and of our Republic itself.

Mr. Chairman, that is a considered judgment and opinion on our part, that over the long pull it would be impossible to maintain the kind of political legislative system established by the Constitution of the United States, if we continue in the trend we have been going at such headlong speed in the last 2 years.

The bill before you is a part of this pernicious pattern of policies that endanger our freedom, weaken our democratic political system, stultify economic progress, and deny justice. We hope your committee will reject this piece of the pattern, small as it is. We strongly urge your disapproval of the bill before you, and that you give your early and very considered and sustained attention to the broader aspects of national policy that is involved, of which this bill is only a very minor aspect.

Mr. BAKER. There is one other point, Mr. Chairman; and that is that Congress has enacted a number of very fine farm credit programs: The rural electrification program; the various programs of the Farmers' Home Administration, every one of which is endangered by the existing Federal policy to impose high and rising interest rates.

Senator LONG. There is another thing to be considered in connection with that. When the Government advances its interest rates beyond 3 percent, and it is lending money to farmers at three percent, the Government loses money on those loans.

Mr. BAKER. That is correct.

Senator LONG. That increases the cost of Government.

Mr. BAKER. And the pressure immediately is there. Like the bill before you, you take step 1, and unless you can abolish step 1 you have to take step 2 and then 3.

Senator LONG. With regard to REA loans and many other loans out to help farmers with their problems, to make credit sufficiently available to tide farmers over the crop year, these increases in interest rates will make those a major burden on the cost of Government, whereas at the present time they are no burden.

Mr. BAKER. That is correct.

Senator LONG. The Government in effect can borrow money at a rate that it charges the farmers. But the pressure will immediately be on the Government to raise its interest rates on its loans to farmers in the event that the cost of the money the Government has advanced is increased beyond the cost at which the Government loaned money to the farmers.

Mr. BAKER. That is correct. And in relation to various of the other real-estate and farm-improvement loans of the Farmers' Home Administration, the large bulk of the funds for several years came from insured private loans, not direct Government loans.

Senator LONG. Some of the same people who come in here criticizing legislation to assist farmers with their problems on the theory that we are subsidizing the farmers, some of the same people clamor for these increased interest rates. And as sure as the sun rises tomorrow, if we go along with this they will say we are subsidizing the farmers by loaning them money at low interest rates.

Mr. BAKER. The interest rates you might say is what the loaner of funds gets for his product. The Federal policy establishes what the interest rate shall be. The interest rate, as you know, and as has been brought out in these hearings, it three times as high now, for example, on prime commerecial paper 4 to 6 months notes, than it was only 2 years ago. Farmers, with the price-support program, would be quite willing to settle for any such change for wheat, cotton, or sugarcane.

Senator LONG. I am sure they would. I have no further questions. Thank you very much.

The CHAIRMAN. Thank you very much.

Senator GORE. It was an able statement. I wish personally to thank you for your contribution.

Mr. BAKER. Before I leave the stand, Mr. Chairman, may I also commend the junior Senator from Louisiana for having been one of the sponsors of this very outstandingly good yardstick family farm credit bill, which has been introduced by Senator Long, Senator Kerr, members of this committee, and various other Senators.

Senator LONG. This committee doesn't have jurisdiction over that bill.

Mr. BAKER. No, sir. That is in the Agriculture Committee.

The CHAIRMAN. This will conclude the hearings.

(By direction of the chairman, the following is made a part of the record:)

UNITED STATES SAVINGS AND LOAN LEAGUE,
Washington, D. C., April 2, 1957.

HON. HARRY FLOOD BYRD,
Senate Office Building, Washington, D. C.

DEAR SENATOR BYRD: The purpose of this letter is to express the views of the United States Savings and Loan League and its 4,300 member savings and loan associations on the subject of the interest rate on savings bonds, which question is now before the Senate Finance Committee.

When the Treasury first announced its desire to increase the rate on savings bonds it requested that it be given discretion to set the rate subject only to a 4½ percent ceiling. The United States League communicated with the House Ways and Means Committee its apprehension that such a high ceiling would have a very unsettling effect on private institutions which accumulate savings. As you know, the House passed the Bill with a 3½ percent ceiling.

Should there be any proposal to your committee to increase the ceiling beyond 3½ percent, we urge that you reject it. As a matter of fact, there is much to be said for setting the ceiling at 3½ percent, which is the rate the Treasury intends to use at this time. Also, we think it would be well to make it clear that in case prevailing interest rates drop the Treasury has the authority to lower the rate.

I am sure you understand that a high rate of interest on savings bonds leads to higher dividend and interest payments to savers in private institutions. In turn this means higher interest rates charged to borrowers and in the case of savings and loan associations this means higher interest rates on home loans.

We hope that your committee will give consideration to these questions, and we particularly urge against any liberalization of the bill as now drawn.

Sincerely,

STEPHEN SLIPHER,
Staff Vice President.

(Thereupon, at 12:55 p. m., the committee adjourned.)