THE ROLE OF THE TREASURY IN WAR FINANCE

4 December 1950

CONTENTS

Page

INTRODUCTION--Major General A. W. Vanaman, Commandant, ICAF...... 1

SPEAKER--The Honorable John W. Snyder, Secretary of the Treasury.. 1

GENERAL DISCUSSION.. 7

Publication No. L51-64

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

878

Honorable John Wesley Snyder, Secretary of the Treasury, was born in Jonesboro, Arkansas, on 21 June 1896. He attended Vanderbilt University until shortly before entering the Army in May 1917. He received honorary degrees of LL.D. from Ouachita College, George Washington University, and the University of Arkansas. He attended Officers' Training School and was commissioned a second lieutenant in the Field Artillery. He served with distinction in France and was discharged as a captain. After ten years in commercial banking, he entered the Federal service, aiding in liquidation of insolvent banks. Upon completion of the major part of the program of the Defense Plant Corporation, which he assisted in organizing, Mr. Snyder was awarded the Medal of Merit in 1947 for exceptionally meritorious conduct. Following the termination of World War II, he was engaged in helping business to meet the financial demands of reconversion. For almost a year prior to his present appointment, he served as director of the Office of War Mobilization and Reconversion. Since 25 June 1946 he has been Secretary of the Treasury. In addition to his duties as Secretary of the Treasury, Mr. Snyder acts as Chairman of the National Advisory Council on International Monetary and Financial Problems, is the U. S. Governor for the International Monetary Fund, and the U. S. Governor for the International Bank for Reconstruction and Development. He is a member of the Advisory Board of the Export-Import Bank of Washington and serves as a member on a variety of boards dealing with national and international financial activities.

THE ROLE OF THE TREASURY IN WAR FINANCE

4 December 1950

GENERAL VANAMAN: Gentlemen, over 100 years ago Clausewitz pointed out that a shooting war is only one phase in the life-and-death struggle between great nations. We are not in a total shooting World War III today; but we are, at this very moment--and have been for a few years past--in the midst of a great struggle, a struggle for our very existence and our very survival. Our lifeblood is the free-enterprise economic system.

A guardian and profound student of that system is honoring us today. He will discuss with us, "The Role of the Treasury in War Finance." I express to you, Mr. Secretary, a warm and very hearty welcome to the Industrial College of the Armed Forces.

Gentlemen, the Secretary of the Treasury, the Honorable John W. Snyder.

MR. SNYDER: General Vanaman, gentlemen: With your permission, General, today I am going to approach the subject of financing a war endeavor and military effort in a little different fashion. I would like to give you a sort of backdrop against which to enact our little drama this morning. Having given you that backdrop, if the members of this group, General, would like to ask specific questions that would more clearly bring out points of interest here, I think that we can do this rather complex and extensive job much more effectively. If that is agreeable, we will approach it in that fashion.

In the troubled international situation of today, one fact of supreme importance stands out. It is the great vitality and power for growth of the American economy. An economy as rugged and resourceful as the American economy is one weapon which a dictatorship can never produce; because to do so, a dictatorship would have to abandon autocracy for freedom.

The strategic position which the American economy occupies in international affairs is thus the most significant military and political fact in the world today. It is the most significant element in any program for mobilizing our resources in time of war. Therefore public policies in every field of domestic activity--fiscal and otherwise--must be so designed as to strengthen rather than weaken the sinews of our productive power. The policies must be planned in such a way as to avoid any steps or measures--however well adapted they may seem to a specific purpose--which would undermine the ability of the American economy to meet the tremendous demands which may be made upon it.

In the long records of history, it is comparatively new for military success to depend to any important extent on the continuing productive capacities of a nation's economy. During primitive times, when exchange of goods and services took place largely by barter, the problem of mobilizing the defensive powers of the community was relatively simple. In those early days, levies for defense and war were always in kind. Civilian and military needs were merged and the reward for services was survival--both for the individual and for the group.

Later on, when money grew in importance as a means of exchange, it became common to build up treasure chests for the use of the state. When danger threatened, these hoards of money and valuables made it possible to procure needed supplies and services quickly. This practice was common during Greek and Roman times and even persisted into the Middle Ages and later.

But it is obvious that treasure chests and direct levies were adequate only in times when warfare was comparatively inexpensive and armies were largely sustained by plunder. The invention of new and complicated weapons changed conditions of waging war. The true war reserve of the present day must be a productive capacity capable of conserving the essential energies of an entire people at the same time that all of the vast needs of a modern war organization are fully and promptly met.

World War I, and to a far greater extent World War II, demonstrated that effective military operations under conditions of modern mechanized warfare depend on a vast and continuing flow of supplies from the factories and mines and farms of the entire Nation. A treasure chest in any form--whether in money, in goods, or in earmarked services--adding up to the hundreds of billions of dollars needed to carry on a modern war for even a short period would be inconceivable. It is the unending flow of new services and new supplies which provides the necessary basis of victory for a modern defense force. And in the industrial economy in which we live, where the output of goods and services is highly specialized, money exchanges and credit operations are absolutely essential to this flow. The complex interchange of goods and services which makes up the production potential of the Nation depends at every stage on the smooth functioning of the monetary and financial system.

The importance of these facts is made strikingly clear by the present position of the United States as the leader and strongest partner among the nations enlisted in the cause of freedom. The aggressor nations are setting out on a world-wide course of domination. In the face of this challenge, our ability and our determination to preserve our freedoms will be tested many times. To meet such tests, wherever and in whatever form they occur, we must maintain our economic and financial strength. This must be the primary guide in solving current fiscal problems as well as the basic principle of financing a full-scale war, should that ever again be required.

We must ask ourselves how this goal of maintaining the strength of our economy can be translated into a specific program of war financing. Our past experience and the strategic position of the American economy indicate two supreme guiding principles.

First, we must pay for current expenditures out of current incomes to the greatest extent consistent with maintaining the well-being of the Nation. Second, we must implement this program in such a way as to make full use of the free institutions, the incentives to individual effort, and the inventive genius which built the American economy.

I believe that every American citizen has become clearly aware during the past decade of the desirability of a pay-as-you-go policy with respect to the Federal finances. This is an important rule of national economic health. Furthermore, in times of heavily mounting military expenditures, such as the present, a substantial part of both business and personal incomes must be diverted from the spending stream if we are to keep inflationary forces in check. Excessive price rises not only endanger our current ability to produce, they seriously jeopardize our capacity for maximum production. The first step in a successful war-financing program, therefore, must be a revenue system capable of drawing off the largest possible amount of currently accruing funds which may prudently be withdrawn from the total available for civilian spending.

While this objective is vital to the maintenance of our productive strength, we must nevertheless recognize that it is impossible in fact to cover all the expenditures of a full-scale military effort through taxation of current incomes.

Should there be a new world war--and we fervently hope there won't be--then the necessity of devoting all of our resources to defense will unquestionably be stronger than ever before. But no matter how great the necessity, the full total of personal and business funds in excess of those needed to pay for available civilian goods cannot be levied upon by taxation. A revenue system which tried to do this would cause great injustices and inequities, and could endanger our economic health.

In the case of individuals, living standards are different and are difficult to adjust quickly, thus too severe taxes would result in withdrawals from savings rather than reductions in spending. In the business world, individual enterprises must show a profit in order to exist. The very high rate of wartime taxation, while it could be borne by some, would drive other concerns out of business and thus defeat the aim of fostering maximum output. Consequently, in a system of free business enterprise such as ours, there is no alternative in war financing other than a combination of taxing and borrowing.

The successful blending of war taxation measures and war borrowing programs in such a way as to make the most effective contribution to the productive power of the Nation is one of the most difficult and most important problems on the domestic front during a war. We must bring to it all of our mature judgment, our resourcefulness, and our store of experience if we are to find a solution which is best calculated to advance the war effort and at the same time provide the foundations for a strong postwar peacetime economy.

In approaching this problem, there are many lessons which can be drawn from the experiences of World War II. I should like to take a few moments to discuss some of those which seem to me to have the most direct bearing on the new tasks which we shall have to face if we are once more called upon to mobilize our economy for an all-out effort.

As we look back over the five momentous years of 1941 to 1945, several factors stand out in bold relief.

It is apparent, to begin with, that our spectacular wartime achievements in the field of science and technology were made possible by an environment particularly favorable to the development of inventive and productive genius. Our young people, more than in any other country in the world, are encouraged to think for themselves. They are encouraged to try out new ideas and to work with others in putting these ideas into practice. When the crisis came, it was this environment--so encouraging to bold and rapid action--which proved to be one of our most precious wartime assets.

In addition to the inventiveness and resourcefulness which was so important an element in our wartime strength, another factor of great significance also had its deep roots in the American tradition. That is the fact that we achieved a full employment of our resources, both material and human, with a minimum of reliance on propaganda, statutory controls, or penalties. This was an accomplishment which was unmatched in any other country.

We did not need propaganda to convince people of the values of the American way of living. These beliefs were as natural to Americans as life itself. The relatively few control measures which we adopted in the course of swinging the economy into war channels would have been powerless without a genuine spirit of cooperation on the part of the vast majority of our citizens.

The enforcement mechanism which would have been needed, for example, if our people generally had been unwilling to accept the restrictions of rationing and price control, would have been far beyond even our ability to supply. And the same thing holds true in another field--that of taxation. Our income tax system--which proved so flexible and so enormously productive under the strains of the war--is one of a mere handful in the world today which rests on voluntary self-assessment and payment on the part of the individual citizens. Without this cooperation the costs and burdens of enforcement would be next to insurmountable--while our tax revenues, in all probability, would be very much less.

In another respect, the incentives of our free-enterprise system operated to speed the processes required for converting our peacetime industries to war purposes. Our inventive genius and our production know-how were assured a free field of operation. The result was that new inventions and new products were constantly being put at the disposal of the military services. In addition, production schedules and quantity goals were outdistanced time and again.

We can see now that all these motivations acted together to put our great production machine into high gear and to keep it there until victory was assured. Our production achievements were not a miracle. They came about because we had full faith in our American way of doing things and in the institutions which had met the test of our own experience. It was the decision to use these institutions, rather than going counter to them, which was the true source of our wartime strength.

In the area of finance the same lessons were spelled out. Confidence was maintained in the credit of the Government, in our currency and in our bonds, in the banking system, and in our financial institutions generally. This was an achievement which was absolutely essential to the stupendous output of goods and services needed for war. If this confidence had been shaken--if people had begun to doubt the ability of our financial system to function effectively under war conditions--the effects on our production mechanism might have been damaged enough to alter the entire course of the war.

But financial expedients which might have had this result were avoided. Civilian morale was maintained and our people willingly accepted an enormous increase in taxation during the war years. In 1945 Federal revenue from all sources was eight times as high as it had been in 1940, largely as a result of greatly increased income and profits taxes. As you know, however, the requirements of the war still left our civilian population with a great deal more money after taxes than could be spent at current prices on available civilian goods. It was this money which was the objective of government borrowing policies.

Our wartime financial programs were successful in keeping inflationary tendencies under control and in promoting a smooth flow of goods and services into war channels. They were successful because of the fact that the individual citizens of this country were allowed a wide area of choice in deciding what use they would make of their wartime incomes. The result was willing cooperation with the Government in both taxation and borrowing programs.

Today, we are in a new period of world crisis. We know that both the spiritual faith and the material strength of America are on trial.

But we know, also, that our ability to meet the new threat to our own survival and to the peace of the world is greater than ever before.

Despite the upheavals and strains of the past 10 years, our traditional American institutions and our traditional American system of competitive enterprise have proved equal to all the demands made on them. Today, we can build up the defenses of our country with a national economy which is more flexible and more vigorous than it was 10 years ago or even 5 years ago.

Each year since the close of World War II there have been many who predicted economic disaster. There have been many who said that an economic system which draws its strength from the decisions and actions of millions of individual citizens was simply not capable of maintaining a high level of business activity without serious and prolonged interruptions. Year after year we were told that once the backlog of wartime demand had been fully satisfied, depression was sure to follow.

But, as you know, the many adjustments which were necessary in the course of reconversion and return to peacetime conditions of doing business were accomplished--one after another, with very little loss of business momentum. We were soon back in stride with the highest production that the Nation had ever known. We were soon back in the situation in which individuals were receiving incomes at an annual rate well above the previous peak, and when virtually the entire labor force was fully employed.

Moreover, during these five years since the close of World War II, American industry has moved steadily forward in the greatest investment program of its history. In this period, private industry has expanded its plant and equipment by close to 100 billion dollars. This is considerably more than double the amount expended for increasing the production potential of the Nation during the entire period of World War II--and during those years, as you know, we built the most efficient war production machine the world has ever known.

In these difficult times of unsettled international relations, it is particularly important--as I have emphasized--that we remain alert to any new developments which hold the threat of impairing our economic strength. That is why it has been necessary to institute immediate programs for greatly increasing our revenues and for restraining credit on a selective basis, as well as adopting other measures of proven effectiveness in holding inflationary tendencies in check. I have every confidence that our people will give whole-hearted support to these necessary measures for conserving the economic resources of our Nation in time of danger.

The achievements of our economy which I have stressed are well known. They are so well known as to seem commonplace, and for this very reason we are apt to miss their significance. We are apt to think of our achievements solely in terms of their outward manifestations; our great industrial potential; our financial system with its tremendous resiliency and strength; our technical competence.

All these things are vital to our survival as a free nation. But the central fact which I have tried to emphasize today is that the roots of our strength are not found in these material things. They are not found in the area of public policy. They spring from the multitudinous actions of free individuals--actions which add up to decisions of tremendous import in the life of the Nation. It is only by utilizing to the utmost our traditional American institutions and the stimulus which they provide to individual initiative and individual effort that we can take full advantage of the one unique weapon of the free world--the productive power of the American economy. It is only in this way that we can exert our full military strength without impairing the great peacetime objective of our Nation--a strong and growing economy at home, functioning as part of a prosperous and peaceful world.

Today, I have not given you a specific blueprint for action. I have not outlined particular war-financing measures. These must necessarily be worked out according to the circumstances and requirements of special or particular situations when they arise. It is vital, however, that we clarify ahead of time the broader issues which will govern our day-to-day actions during a time of crisis.

For this reason, I have emphasized what is to my mind the most important element in the entire financial picture if we should once more have to finance a total all-out effort. That element is the assurance, which I hope I have enabled you to share with me, that in case of such a supreme emergency the funds needed to pay for maximum effort on the military and production fronts will be provided. Furthermore, they will be provided without unduly weakening the financial institutions or the productive power of the American economy. Our strongest defense against aggression is the understanding and the willing cooperation of the individual citizens of this country. If we have the wisdom and the courage to heed the lessons of our own past, and to build our defense plans with due regard to them, we need have no fears of our ability to meet the responsibilities which our new position of world leadership may place upon us--now or in the future.

Thank you.

GENERAL VANAMAN: I am going to ask the first question, Mr. Secretary, if I may.

We realize that in order to finance a war it will be necessary to tax and to borrow. Now, a large number of our brokerage firms today will say, "Don't hold on to those bonds. Put your money into common stock; it will pay six to seven percent, whereas you are losing money every day that you hold those bonds."

If there is such a line of thought, how are we going to convince the people, from whom we want to borrow this money, that savings bonds are the best things for them?

MR. SNYDER: Thank you, General. That is a most vital question at this particular time in light of all the free advertising we have had in some of the financial columns. The total debt of the United States at this time is 257 billion dollars. Of that amount 58 billion dollars is in U. S. Savings bonds. As to whether or not those bonds still have the confidence of the people of this country, I will mention just one additional figure. There are today outstanding about 10 billion dollars more in U. S. Savings bonds than there were at the end of the war. During the war, U. S. Savings bonds were created for a number of purposes: As an anti-inflation measure--put your money away and don't try to put it in the spending stream; to build up something for the future for the individual; and to help in the war effort. We had all the emotionalism, patriotism, and that sort of thing back of the selling. The U. S. Treasury Department had around 2,200 paid employees to promote the selling of those bonds during the war.

We thought seriously in the Treasury as to whether or not we should continue the savings bond program after the cessation of hostilities. Before making a decision we first decided that if it was to be continued it must be on a strictly thrift basis. We then called in all the investment units in the country--the banks, insurance companies, building and loan associations, mutual savings banks--and we sat down and talked with them about it. We told them what our program would be if we continued. Without hesitation we were urged to continue to stay in the savings bond business.

As a result of the wonderful cooperation of all segments of the savings community, through voluntary sales effort, the furnishing of covered wagons, Liberty bells, the giving of dinners and luncheons, the putting on of these programs--the Advertising Council alone gave us 40 million dollars of free advertising--and with an actual paid force in the Treasury of less than 500 today (that has been true for about four years now), we have built up our total of savings bonds to over 10 billion dollars more than they were at the end of World War II.

Now, someone believes in those bonds. The volunteer salesman is doing it for nothing. He is not being paid a commission. There is no incentive for him to sell more. These bonds were sold with no emotionalism, no patriotism, but simply because it was a good thing. Thrift was a good thing. Someone's thrift, after all, furnished the funds with which to build this great Nation--our great steel industry, our railroads, our oil; someone's thrift did that. The people furnished the funds.

We get down now to where you are the holder of some of those securities. In the first place, close to 50 percent of the total outstanding "E" bonds--34 billion dollars of total savings bonds--is in bonds of $100 or less. Think of that! Fifth percent of that total is in bonds of $100 or less. Will you tell me what a man with $18.75 or $37.50 or $75.00 is going to do going into the stock market? Of course, after you have saved up some funds, you are going to be solicited to reinvest those in better securities--they should say "more hazardous" securities.

Our stock market is strong today. Some stocks have maintained a high level all the way through our ups and downs. But the truth of the matter is that the man who is saving "E" bonds for thrift purposes has no business getting into the stock market. The man who saves "E" bonds is saving because he wants to be sure that he is going to get his dollars back when he needs them. If he had put his money savings into A, B, or C stocks, today he would have a great accrual of paper profits. If you were to stop the average man on the street who has U. S. Savings bonds and say, "What would you have done with your money if you had not put it in U. S. Savings bonds?", you will find he would have spent it. He wouldn't have a thing in the world today to show for his savings.

We have to measure what the piece of merchandise is we are talking about. It is the same piece of merchandise that is the foundation of our banking system, our insurance system, our mutual savings bank system, our building and loan associations. It is the same piece of merchandise in U. S. Savings bonds that it is in all the normal savings operations of our country. It is only when you assume the powers of crystal gazing and try to make an investment for speculative purposes that you are going to leave the savings bond area for something you hope is going to be a lucky gamble.

Most of you perhaps are too young to remember, but an old man like myself remembers what can happen to stock market investments. Now I am not taking issue with stock brokers. They have a useful purpose and I certainly do want them to stay in business. I am a strong supporter of the system of orderly markets, such as are maintained by the New York Stock Market. But we are talking about two different things. We have to be sure what we are talking about. That is what I think the brokers have forgotten when they go out to try to unsell a citizen of the United States on his holdings of U. S. Savings bonds and then try to get one to reinvest in some more hazardous speculative investment.

But the real thing today--and you gentlemen sitting right here can have this answer on the end of your tongues, "You, Mr. Broker, don't hesitate to have your Congressman pass a draft law that will send every boy of 18 and above, who is physically able, out to serve you, to protect your investments. You, Mr. Broker, are just as entitled to do your part and help provide the funds to do that job as that boy who is drafted without his consent to go out to try to protect the investments with which you are bidding against United States Bonds."

I think that is your answer.

QUESTION: Mr. Secretary, in our reference reading we have read that at the end of the last war our public debt was said to be around 278 or 279 billion dollars. However, we have noted recently--and also from your own remarks here this morning--that it is down to 257 billion dollars.

I wonder if you could explain, somehow, the process whereby it came down that much?

MR. SNYDER: Yes, I will be glad to explain.

At the end of the war most of us were anticipating that it would be several years longer before Treasury expenditures would decline very much. In the Treasury Department, of course, we had kept fully abreast and kept revenue coming in, and kept borrowing coming in, and new money coming in so as to be ready to meet any emergency. Therefore, the sale of government securities had been pushed right up to December 1945. This resulted in the Treasury having at that time almost 26 billion dollars in cash balances, which was an unusually large amount of funds for a peacetime operation of the Treasury.

Now, to show you how out of gear that was with the normal peacetime requirements, I have been running the Treasury for the last two or three years on a cash balance that on some occasions has been as low as 2.5 to 3 billion dollars. So that gives you an idea of what had happened. We suddenly closed off the war which left a backing up of a large cash balance. As soon as we were assured that hostilities had definitely ceased, we immediately used a majority of those funds to retire the debt which was at the peak about 280 billion dollars.

In addition to that, in two years (1947 and 1948) we had surpluses. During the first year it was about 750 million dollars, and in the next nearly 8 billion 400 million dollars. Both of those were applied. So that is where the debt really was reduced down to approximately 251 billion dollars at its lowest period. But then when we had the tax-reduction bill, that removed the revenue at the wrong time. The debt has built back up to 257 billion dollars.

It will be interesting to you folks to know, with all the talk that is going on, that the size of the debt today is about where it was three years ago. So there hasn't been a great all-out tumble into an inflationary operation by the Federal Government. I think that is a vitally important thing because many people in this country are convinced we are just simply head over heels in debt beyond anything we have ever been before. It isn't true. Our total debt, as of this minute, is approximately what it was three years ago.

QUESTION: Mr. Secretary, I wonder if you would give us your views as to whether it is a healthy thing to carry such a large public debt, and if not what are the plans for the ultimate retirement of that debt?

MR. SNYDER: Well, our definite plan had been, up until this recent crisis, to get the budget in balance and to have a surplus which would be applied regularly against the outstanding total of the debt.

You folks just stop to think about this: Every year since 1946 you have read in the headlines of our newspapers that we were "going to the dogs." In 1946 they were saying, "The war is over. Every time in the past we have had a period of readjustment. We can't turn this great wartime production machine back into a peacetime production machine without having great dislocations to our economy." That was preached from one end of this country to another.

In 1947 they said, "Here it is 15 months after the war. Of course, we can't go any longer. We're already beginning to fill up the backlogs. We're beginning to find that there is unemployment throughout the country. Different industries are beginning to readjust." The textile industry, I think, was among the first. There was unemployment in New England and some other places. Of course, that was the signal. It's on the way. We're headed for a depression. But we weren't.

Nineteen hundred and forty-eight came; well, of course, that was to be the year. We couldn't possibly continue to go along. You never saw an election year yet that didn't have an economic upset. We just can't go on. Here we are two and a half years after the war. Things are going to pot. People are restless because the political situation is beginning to catch up with things. Our markets abroad are beginning to slack up. Our war production machinery has been completely demobilized. Therefore, this is the year.

Well, as you folks know, 1948 turned out to be a particularly successful year for our economy--and for our politics, too!

But, anyway, along came 1949. We were making great adjustments in our economy. We just thought: Well now, we can't get by with all this. But we did.

And then in 1950 you know when they began to adjust inventories and other things, no one believed we were going to pull through. And even before Korea we were already on the way back up. We were surpassing every day all the peaks of the past. We had an average income paid to individuals--this was prior to Korea--of over 217 billion dollars per annum. Think of that, gentlemen! Today it is up to 230 billion dollars.

But before Korea, before the impact of inflationary pressures, we had already built back that average income of individuals per annum to 217 billion dollars.

As I told you folks last year, I believe--it was either this group or one over in the War College--we had 200 billion dollars in savings. That did not mean your stocks and bonds on the market. It did not mean the investment in your house. It did not mean the cash value of your insurance policy. It meant cash in the bank, a savings account in the bank, investment in U. S. Savings bonds or in government bonds. We had actual cash savings of 200 billion dollars.

Now, when you measure that against where we were back in the thirties, you can see that even in spite of an all-out war, the greatest we have ever known in the history of the world, in four short years we had, by our dynamic economy, built ourselves into a position of great strength in spite of the fact that we were trying to help the nations of the world re-establish their own economies as both a humanitarian and an anti-Communistic effort.

I hope that this, in some measure, will give you the reasons why we can reasonably hope that we could manage this debt of 257 billion dollars and progressively reduce it to a more manageable form.

I will remind you that in all this period of readjustment, until all this excitement of the stock market spiraling up, the most stable market in the United States was the government securities market. I think that ought to be reassuring to all of us.

QUESTION: As I understand your remarks, Mr. Secretary, you do not believe any change is necessary now in terms of the "E" bonds in order to provide an incentive for people to turn their bonds in for new ones, or to invest in additional bonds.

I wonder if you would comment on the possibility that, if that does not prove true, you might make some modification, possibly to fix a definite percentage rate per year after a 10-year period, or perhaps to provide that the Secretary will establish a certain percentage of increase based on the increase in the cost of living, provided the bonds are retained only for taxation purposes and go to the Collector of Internal Revenue. In that case, they would be allowed a higher percentage.

MR. SNYDER: A little over three months ago I set up a committee in the Treasury consisting of Assistant Secretary Graham and Fiscal Secretary Bartelt to make an exhaustive study of the best approach to our maturing savings bond program. The "E" bonds start maturing next year. We will have about a billion "E" bonds maturing in that year. The following year approximately 4 billion. Then it steps up to where, I think, the highest in any one year of maturity will be in the neighborhood of 5 or 6 billion dollars.

We are undertaking at this time to get the best approach in handling those maturities. The item problem is tremendous, that is, just handling those back and forth.

We must remember there is one thing that is necessary to keep in the mind of the public: If the people want their money, the dollars are available to them upon maturity. They can cash their bonds if they want to. That must stay paramount in their thought if we are to maintain the highest standing of our credit.

And yet, on the other hand, we know that many of the people who own those securities would like to continue in the ownership of them; that is being given consideration, as to what is the best mechanical process of leaving those bonds in the hands of the present holders and giving them the benefit of the income increase on the interest in the future. Incidentally, the question of interest rates is also being given very careful consideration.

But there is one thing we must all remember: If you are operating a business, if you are aggressive and want your business to succeed, and you want to put it on a sound basis, you are not going to pay any more rent on your facilities than you have to in order to get the proper type of facilities. And you are not going to pay any more "rent" on the funds that you use to operate that business than is absolutely necessary in order to maintain the health of your business.

That is the problem that faces the Secretary of the Treasury. I cannot in all good faith pay one-eighth of one percent more interest on government borrowing than I must and at the same time maintain the stability of our economy. I would not want, under any circumstances, to starve the money market. But when you look at the earning rate of all the lenders of money today you will find there is no money market being starved because of the present rate of interest being paid by the Government. So far, we have been able to maintain a very high respect for the integrity of the government security market.

In spite of all the excitement we have had in the papers about this, that, and the other, the Federal Reserve System still holds only a relatively small amount of the government securities--about 2 billion more than it held over a year ago. That certainly is evidence that the people who are the holders of government securities are holding on to them; they are evidently satisfied with the earning rate because otherwise, with the free open market in the Federal Reserve for their securities, they would be unloading them. That has not been the case.

However, getting back to your question, we hope within a relatively short while to announce exactly what the refunding program will be and what the terms of that refunding will be.

I might tell you one thing more about savings bonds right now. We are not having any all-out sales program this fall, but we are having stimulation of the Payroll Savings Plan. I will give you one example to show you it is alive and awake and is not a diminishing process.

The Carnegie Illinois Steel Corporation last June had 18,000 participations in the Payroll Savings Plan. That meant 18 percent of the employees of that great industry were investing regularly out of deductions from their pay roll in U. S. Savings bonds. Today, after an intensive drive has been in operation for a few weeks, they have over 80 percent participation. That shows people are still interested. That was all voluntary. There was only one Treasury man in that whole program. The corporation believed in it and put their men to work on it. Labor believed in it and put their men to work on it. As a result, in a few weeks time we have built up the participation of one industry from 18 percent to 80 percent today.

QUESTION: Mr. Secretary, we have had several speakers here who have suggested that the excess-profits tax was something bad in itself because it penalizes expanding businesses. I am curious to know why we cannot, or whether we have tried to, incorporate a provision in this tax we are considering that would avoid penalizing expanding businesses?

MR. SNYDER: Excess-profits tax is a misnomer, in the first place. But we are confronted today with the necessity of raising additional revenue. One of the first places we ought to look for a part of that increased revenue is to those abnormal profits which have been generated by the impact of the Korean situation. We have seen corporate profits mount tremendously since June. It is evident that something brought that about and without doubt it was the price spiral immediately succeeding the beginning of the Korean incident. That is the first place, it seems to me, we should give attention in connection with the raising of revenue.

Now, how do we do it? In peacetime I am strongly in favor of an orthodox tax program on corporate profits. In wartime the entire scene shifts. But as you gentlemen well know, in a war movement the tactical situation changes hourly. That is the same way in the financial picture. We shift from one condition to another. We have to think in new terms. Therefore, when we tried to approach the problem of how to go at these abnormal profits and at the same time not upset the man who had been making normal profits on his business, we had to devise some sort of gadget such as the corporate profits approach.

However, having still nursed the scars and wounds of the previous excess-profits tax, the Treasury Department went to work to try to find some way of modifying the World War II excess-profits tax structure so as to make it less onerous on business, to reduce the hardship cases and to remove the necessity for relief applications. In World War II we had over 54,000 applications for relief because of hardship in the application of the excess-profits tax on the profits of corporations.

The Congress has issued a directive to come back and pass an excess-profits tax. We wanted to be helpful to Congress, so we made some suggestions. We suggested that instead of the $10,000 exemption of corporate profits that there should be a minimum credit of $25,000. That move alone removed from exposure to excess-profits tax three-quarters of the corporations of the United States. We have a few over 400,000 profit-making corporations operating in this country. That would remove about 300,000 from the necessity of paying an excess-profits tax. That, of course, was a big step forward because it was in that area that most of the hardship cases came up.

Then, as a base, instead of selecting a four-year period, as 1936 to 1939 was in World War II, we suggested this approach: Take the period 1946 to 1949, inclusive, pick out the best three years of that period, average those and that, less 25 percent, would be your base. Now that permitted a company to throw out a bad year, if they had experienced one. If it had a very bad year, then it did not average that into the base for figuring the excess-profits tax.

Those two devices come nearer answering your question than any of the rest. There are numerous specific items that are under consideration for specific, unusual cases, such as types of industry that have had different levels of earnings, and things of that sort. Those are more specific items. But, in general, those two approaches will come nearer to ironing out those inequities to which you referred than any other.

QUESTION: Mr. Secretary, would you care to comment on the Federal sales tax?

MR. SNYDER: Well, that has been approached and broached and suggested ever since I have been in Washington. That has been a good many years. I have been down here, back and forth, ever since 1939. I have never yet seen a Congress that even got within flame distance of a sales tax. They just seem to have an allergy to all the reasonableness we may think is inherent in a sales tax. They invariably refuse to talk about it because they say it is shifting the burden of taxation to the little man. We cannot even open that up for discussion except to mention it and then have a rally of protests from all the committees. So, if we want to stay on good terms with the committee we must steer away from that.

QUESTION: Getting away from the subject of individual borrowing over to the subject of individual taxation, I suppose there is quite a bit of room for changes in the income tax to make it stiffer for individuals and also to increase and broaden the scope somewhat. But is consideration being given also to other types of personal taxes like perhaps the excess-profits tax, or the imposition of a surtax on what the individuals spend in order to try to get them to increase their savings.

MR. SNYDER: The present tax bill that is being considered on the House floor today--hearings will start in the Senate Finance Committee meeting in a few minutes, as soon as I get up there--is to round out the tax program for the calendar year 1950. In January or February, no doubt, we will have to make another study of the program because as you know the President sent up a request for an additional 18 billion dollars for the defense program for fiscal year 1951. We know that with the events today in Korea and in the other parts of the world we are facing a pretty stiff defense program. Therefore, we are going to have to face it realistically. In order to do the job, as I suggested in my presentation, to the greatest extent possible out of current revenue without paralyzing our economy, I think it will be necessary to come up the first of the year in the new Congress with another revenue bill which will approach all types of incomes. This present bill is simply to round out and make more unbalanced the corporate and individual income taxation for this present year. A broader look will, of necessity, have to be taken when the new Congress convenes the first of the year.

GENERAL VANAMAN: Mr. Secretary, the college is greatly indebted to you for taking your time this morning to discuss this very important problem with us. I thank you very much, sir.

MR. SNYDER: Before leaving, I just want to give you a little illustration. You know, an illustration so many times helps to keep a principle in mind.

I want to caution you against overdeveloping rumors and gossip. A man came home the other night unexpectedly and found his wife entertaining a strange man at dinner. He was shocked for a moment and just stood there. Before he had a chance to say a word she jumped up and said, "It'll be just like you, you big old gossip, to spread this all over town."

(13 Feb 1951--650)S.