L60-123

U.S. TREASURY PROBLEMS AND PROGRAMS

Honorable Julian B. Baird

NOTICE

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Reviewed by: Colonel Tom W. Sills, USA

Date: 10 March 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

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Reporter: Ralph W. Bennett

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GEN. MUNDY: One of the most serious economic issues being debated today is, Can we have sound economic growth without inflation? There are people who take both sides of this question. The President apparently believes that we can have inflation-free growth. He made this very clear in his program in his recent economic report to Congress.

Father Time will determine the answer to this. It involves both the private and the governmental sectors of our economy.

On the governmental side, perhaps the most significant role is played by the Treasury Department in financing the operations of the Federal Government and in managing the public debt. This morning we shall examine these as well as other programs and problems of the Treasury Department.

As our speaker today we are honored to have a man who has spent his entire professional career in the financial world. His connection with the Treasury Department began in 1957. The subject of his lecture is "The United States Treasury Problems and Programs." This is his first lecture at the College. I am pleased to present to you the Honorable Julian B. Baird, the Under Secretary of the Treasury for Monetary Affairs.

MR. BAIRD: General Mundy and Gentlemen: When I look over this very extensive curriculum that you undergo here in this institution, I think I ought to be a pupil here and learn something about it and not lecture about it.

I think you're finding that this big Government is a very complex affair. In fact, some of us wonder sometimes whether it isn't so complex that it's beyond human beings to properly run. The only thing we can say is that no one has devised a better system of government, with the checks and balances that afford it safety.

Now, the Treasury Department itself is a very complex organization, I have found in the two and a half years that I've been here. It covers a great gamut of activity--not only what we think of as the Treasury Department as being the central bookkeeper and the collector of revenue and the disburser of funds, but a whole gamut of activities from enforcement agencies like Narcotics, Secret Service, Customs; and manufacturing operations like the Mint and the Bureau of Printing and Engraving; a regulatory agency like the Comptroller of the Currency, who supervises all the national banks; and, not the least perhaps, a fair-sized military establishment in a special field--the Coast Guard.

I'm not going into any of those functional operations of the Treasury. From what General Mundy has told me, he'd like to have me talk on some of the policy considerations that enter into the three fields--fiscal policy, particularly tax policy; monetary policy; and the management of the debt. That I shall try to do.

First I would make this general statement, however: I think we can all agree that the first and foremost problem which all of us face in this country and which the free world faces is the correct foreign policy and that adjunct to it which is our military posture and how we carry it out, because, after all, military posture is just an extension of foreign policy when diplomacy fails. We all agree on that.

I would add to that at this point and reiterate a statement that Secretary Anderson has made on numerous occasions--that at no time will the Treasury Department--and Secretary Anderson spent a number of years in the Defense Department, as you know--that at no time will he or the Treasury Department attempt to interpose its judgment as to what is adequate or is not adequate for national defense. When the decisions are taken on the highest level, we think it's up to the Treasury Department to find the funds to pay the bills. Whether that is by taxes which we recommend to the Congress or by borrowing would depend on the particular circumstances.

Just parenthetically I would add one point there. Some of you will remember that about two years ago the front pages of the newspapers carried stories that a lot of bills of the Defense Department could not be paid, because of the debt limit. I want to scotch that finally and definitely. It was scotched by Secretary McElroy and Mr. McNeil and the civilian heads of the services. That was a mistaken story. At no time did the Treasury or will the Treasury ever say that we want contractors to sit on their bills and put them in their desk and not present them when they are due. It would certainly be a short-sighted Secretary of the Treasury who would let the credit of the Government of the United States suffer by not paying any bills that are due. So I just wanted to put that parenthetical word in.

Now, I said that the most important thing, of course, that we face is our posture versus the Soviets. No question about it. But I want to say with almost equal importance that that rests on a strong economy, and a sound economy rests on sound financial measures, and a reasonably stable dollar to support them. The defense posture in the whole free world would be weakened if we don't act prudently and responsibly in that field.

A sound dollar is not only essential to that international position, but we believe firmly in this Administration that it underlies any real, sustainable growth; that if we're going to put 13 million people to work in the next decade, additional people, and we have to raise something like 400 billion dollars to furnish the plants, the tools, the homes to house those workers, we've got to do it in one of two ways. We can do it by saving, or we can do it by printing money. There isn't any other way that we know of. And we think we have to have an economy that will develop those savings through these great financial intermediaries-- the insurance companies, the savings banks, the savings and loan, and all those institutions. And that ability to do that depends on our having a reasonably sound dollar.

During a war you can, as we did, do inflationary things. It's inevitable. We'll do it again if there's another war. And the public, when it's over, will charge that to the cost of the war and say: "That's too bad, but it's gone." But you cannot have the expectation among investors and savers that there's going to be any continuing inflation without warping their judgment and defeating the very purpose.

Now, I say there's no other way. There is one other way to do it. Russia does it. The president of the Russian bank which corresponds to our Federal Reserve was talking to Mr. Martin, Chairman of the Federal Reserve, here a year or so ago and he said: "We have no problems of inflation. We have none of those problems that you face." Of course they don't. It's entirely dictated. They take what they want for capital, and then they'll divide up the rest among the people.

Now, if we wanted to go in--and there are some economists, there are a few people in the Congress that I've been arguing with, who say that we ought to cheapen money and then put in controls--price controls and wage controls. Well, then it goes to allocation of capital. It goes the whole way.

Well, that's what we're fighting this whole thing about--is to have freedom. If we're willing to take Russia's method, maybe we'd better let them run it. They're doing a damn good job in Russia. But we prefer the free way of life.

Now, with that preamble, I'll come down to the three questions of policy--monetary policy, tax policy, and debt management. The first two I'm going to treat rather hastily and then spend more time later on the debt management.

First, on the policy question in the field of monetary policy, I have always felt that my title as Under Secretary for Monetary Affairs is a misnomer, because monetary affairs are not the responsibility of the Treasury. That's the responsibility of the central banking system, the Federal Reserve.

Now, it is very important that we work with them. They are, as you know, an independent agency. They are created by Congress. They are not part of the Executive Department. We do feel very directly the impact of everything they do, because we have to do our financing in the climate which they create. That requires the very closest coordination.

During a war we may dictate, and in World War II the Treasury did virtually dictate, monetary policy. It was necessary to do it. Bond prices were pegged in the market at a constant figure, which really made all Government securities very liquid and the equivalent of money. But we had wage controls, price controls, the allocation of materials, and all, so that inflation could not take hold during the war. When they were released, it did take hold; and we cut the value of the dollar way down as the result of it.

Beginning with the Accord of 1951, which I imagine you have heard of or will from the Federal Reserve, the Federal Reserve System resumed its independence. It has carried it down to this day. The relations between the two agencies, the Treasury and the Federal Reserve, where they have to be intimate, are most cordial. We have to understand the other person's problems. We meet frequently. Mr. Martin, the Chairman, comes over every Monday and has luncheon with the Secretary and me and one or two other staff members. On Wednesday noon--this noon, for instance--four or five of us from the Treasury go over and meet with the Chairman, the Vice Chairman, and four members of the Federal Reserve staff and we talk intimately about the problems that we have in debt management; and we hear a good deal of their problems in monetary management. So there is a working coordination, with neither one of us dictating to the other, but reasonable men with the same object in view and respecting this idea of separation. We find that we can get on very well, at least we have. And you have read nothing in the newspapers about any conflict between the Treasury and the Federal Reserve. There isn't any.

Now, the Treasury has one responsibility, however, that is pretty close to monetary management, and that is in this question of gold and silver policy, where under the law the Secretary of the Treasury has a good deal of discretionary authority, particularly with respect to silver. So to that extent the Treasury is concerned with monetary policy.

I want to say just a word now,--and I won't go into detail now, because I understand you've had some discussions on it--about the balance of payments situation. That is a new phenomenon in this country in the last few years. During all your lifetime this country up to 1950 had a favorable balance of payments growing out of trade and services. It's only since 1950, where we set out deliberately under the Marshall Plan and other similar plans to set Europe again up in business as a going industrial concern for the strength of the free world. It was amazingly successful. They are a [illegible] series of strong economies and they are vigorous competitors. We accomplished that purpose. But in doing it we have brought on an adverse balance of payments.

Now, on the question of just trade and services, we just about broke even last year. What throws us out of balance is our foreign military expenditures, our mutual aid, our exports of capital, and some of those things that we think we must continue, confronting the Soviet as we do. It's part of the cold war to help these under-developed nations.

It does happen, if one wants to be a little cynical, that we seem to be more sympathetic to those nations that surround the Soviet Union than we do if they are farther away from it, such as down in Africa, for example. So it's part of the cold war. We must continue it. And yet it throws this balance of payments to a point where we had an adverse balance of payments this last year approaching 4 billion. The year before it was 3.4 billion.

Now, over a period of years that should be brought into some near equilibrium, because we have built up in the hands of foreigners, partly in central banks, partly held by individuals and business concerns, about 17 billions of short-term claims. We are performing the function of a banker in borrowing short and lending long. We have these short-term claims on us, and it means that we must conduct our affairs as any banker must to hold the confidence of those people who have demands on us, because the only chit that counts in settling those claims, if there is not confidence, is gold. And where we have half the world's gold still, and we have the confidence of the world, and the dollar is the reserve currency back of much, if not most, of the currencies of the western world, supplementing gold with them, it behooves us to act prudently and responsibly in the way we handle our affairs here domestically, the way we handle our budget, the way we handle our monetary system; or we will suffer the same thing that a banker will suffer if his depositors lose confidence in him. They will move their deposits to another bank.

How important that is I think is summed up in a statement that Erhardt, who was one of the architects of the great recovery of Germany-- he and Fauke were really the geniuses who brought it about-- told us here in Washington some 90 days ago. He made this statement and it burned into my memory--that if the dollar, the sun around which all the currencies of the western world revolve, should start to move, God forbid; the consequences on the whole free world are unthinkable. That's a foreigner's view, who holds a lot of these short-term claims on us and wants us to behave.

On tax policy I'm going to be very brief, because there's an old saying that you don't do much about taxes in an even-numbered year in this country. This is an even-numbered year. There is also this problem: that tax policy is usually initiated by the Treasury and the Administration. But when the opposition party is in control of those two powerful committees--Ways and Means and Senate Finance--which control taxes, it must be done as a cooperative venture. There's no use just sending up whole programs. They wouldn't even get consideration. We're trying to do it on a bi-partisan basis. The Chairman of the powerful Ways and Means Committee, Wilbur Mills, has made the statement that they think this whole tax program should be reformed by broadening the base and lowering rates up and down the scale. They conducted a lot of hearings last fall and say that next year they are going to try to bring out some legislation that presumably will improve that tax structure.

Well, it's a neat trick, because when you broaden the base, it means taking away a lot of exemptions that Congress has put in there for what they think are reasons of equity and they are very difficult to remove. When you try to cut rates, there's always a tendency to want to cut them in the very low areas, where they have a heavy impact. For example, if you change exemptions one hundred dollars in the individual bracket, you make 2 billion, 800 million difference in the revenue. On the other side, if you took no personal income taxes in any bracket above 50 percent, instead of the 91 percent that it goes up to, it makes a difference of only one percent in the revenue, or just about 780 million dollars on an estimate we made last week.

Or, taking it another way, to show where you have to get the taxes, where the masses of people have the income, if we were to confiscate everybody's taxable income over $10,000 for an individual, and over $20,000 for a husband and wife, confiscate it, the Government take it all, you would save only about 9 percent, or you would add only about 9 percent, whichever way you want to take. We would lose $6,800,000,000 of revenue, which would only give an advantage to all the rest of us, the t axpayers, of about 9 percent of their taxes. So you have to get taxes from the lower brackets. That's why that thing becomes so important.

So we hope there will be tax reform. One has to be a little bit skeptical about whether there will be any drastic reform that will both broaden the base and cut the tax bracket, because, for one thing, the biggest exemption is in this $600 per head and for dependents. That amounts to a tremendous sum of the total exemption. We have personal incomes approaching $400 billion, and the amount subject to tax is only $175 billion, and the great part of that is represented by these $600 items.

Now we come to debt management and I would like to introduce Mr. Robert T. Mayo, Assistant to the Secretary, who will present some slides as a graphic presentation. I think this presents a good base for starting that off. Mr. Mayo has been 18 years in the Treasury, and until he became my assistant within the last year, he was head of the Debt Analysis Division of the Treasury.

MR. MAYO: Gentlemen, we'll start right off with a slide that shows the history really of the public debt outstanding over the years. (Chart 1) Here we have a public debt of $291 billion at the end of December, 1959. All this represents is the simple fact that over a period of years the Government has had a net deficit to finance.

To get into what you might call astronomical figures--we haven't converted them into light-years yet, but we probably should--we have had in this country 1.3 trillion dollars of Government expenditures over the life of this country. Most of this was since the period shown on this chart. We have taken in a trillion dollars in taxes. The difference, about 300 billion dollars, 291 to be precise, represents the public debt of the United States.

You can see how that has gone up over the years. It was only a billion dollars prior to World War I. We had then what seemed to be an astronomically sized public debt at the end of World War I. But through budget surpluses in the 20's we were able to pay it down. Interest rates went down during the 20's, even during prosperity, because we were able to pay it down. Came the depression and you can see what happened--trebling the debt. Then on up to a new peak in World War II.

A little bit of debt pay-off after World War II, but not very much. Then with the cold war and the Korean business, we got up to 281 billion at the end of '55. We thought we had turned a corner then. We had 6 billion dollars of budget surpluses and debt reduction in '56 and '57. But then came the recession. The debt went on up again, reaching a new peak of 291 billion dollars at the end of December.

Over in this little insert you can see that we think we're turning a corner again. We hope that it's a more permanent corner than the last one. We expect that the debt will go down seasonably mostly during these six months to offset the increase in the debt in the preceding six months, with a balanced budget therefore for fiscal 1960.

We expect, further, that even with a rise seasonably in the debt in July to December, 1960, it will be going down more next January through June than this year. So we will be back down to, say, 280 billion by the end of June, 1961.

We feel, therefore, that some progress has been made in this respect.

Now, as we look at the second chart (Chart 2), we can have a look here at what really has been the basis of most of the expansion of the debt over the years, namely, the financing of wars. We've done a fairly good job in this country in financing our wars out of taxes as we went along. We actually did a better job in World War II than either in World War I or during the Civil War, as you can see in the yellow bars on this chart. Forty-five percent of World War II was financed through taxes.

(Chart 3) Our next chart shows, however, that, as good as that job was, it was still not as good as the two allies which you might consider the most comparable, financially speaking, in the way they financed their World War II expenses. It was 52 percent in the United Kingdom, 57 percent in Canada, as against our 45 percent.

Now, no one is going to argue that you can have the entire financial burden of a war at the time that you are undertaking the job of winning a war. It is almost impossible to get the taxes up that fast without destroying part of the initiative necessary to run the war effort successfully. However, in the other wars we have had the experience of being able to reduce the debt after the war, to help make up for some of that. We have not been able to do that, as we just saw, after World War II.

(Chart 4) Our next chart takes on the public debt in its place in a growing economy. We have a public debt today, to try to bring it down to terms that we can all understand because billions are odd figures, of $1623 per capita for every man, woman, and child in the United States. That is really what this national debt burden adds up to today. That's an improvement over 1946, because our population has grown faster than our public debt. That's all to the good.

We have now a national debt that is equal to about 59 percent of our national output, our gross product. That is only half as big relative to gross product as it was in 1946.

Now, some of this improvement in the gross represents real improvement in terms of the fact that we have increased productivity in this country and have greater ability to carry a national debt. Some of the rest of it represents what you might call a precarious improvement, in that it's an improvement due to inflation. After all, Italy and various other countries don't worry about their national debt, because they have in effect paid off a lot of them through inflation and they are not the burden that they used to be. In a sense, then, we can actually be proud of the fact that we have a debt that we acknowledge as a real debt, not something we can slough off through debasement of our currency.

The right-hand side of the chart shows that the United States Government is the largest single borrower in the country. In fact, our 291 billion is almost as large as all of the debts of the corporations in this country put together. It's almost as large as the debts of individuals for mortgages and so forth and of State and local governments.

The debt here, the Federal debt, is a smaller proportion of the total public and private debt than it was at the end of the war. That's all to the good. But we don't use this chart as an indication that, well, you don't have to worry about the debt, because it's smaller than it used to be any way you cut it. We feel that it is still a terribly important problem. When you have one borrower accounting for over 30 percent of your debt, obviously he influences the markets in which he borrows. He's the largest single factor. Everybody watches him carefully as to what type of borrowing he goes into and so forth.

Also, when you get right down to it, to the extent that we have been able to actually reduce the dollar amount of the Federal debt, instead of having it increasing after the war, we would have permitted either of two things to happen or some combination of them. Either we could have had more private borrowing, more stimulus to the private economy, without more inflation; or we could have reduced the amount of inflation that we actually have.

(Chart 5) So you come right back to the budget position. We have here the budget surplus, which is the only way we can pay off debt in real terms. We have a budget surplus indicated for fiscal '61 of 4 billion dollars. But, as you can see, that 4 billion dollars is a fairly small part of the deficit that we had to incur in 1958 and 1959; and a deficit that for [redacted] fiscal policy reasons has many desirable aspects, because of the fact that we were in a recession at the time, but a deficit of, say, 15 billion dollars for those two years. So the 4 billion dollars surplus.

suggested by the President for this next year is only, therefore, about a quarter of that.

This again becomes the heart of the debt management problem, where the Secretary of the Treasury is in effect given a size of the public debt in the aggregate to work with; and his job, as we will see in the next slide coming up, is to take that debt and manage it in the best way he can within the total that he is in effect given.

(Chart 6) Here is the 291 billion, then, of the public debt at the end of December, 1959. Of that, 188 1/2 billion [redacted] is in the kind of debt that is traded freely in the Government securities market every day--bills, certificates, notes, and bonds--marketable securities. The rest of the debt is in nonmarketable form--savings bonds, investment bonds--in these special issues of this Government trust fund, which, of course, are run on straight insurance principles.

Now, on the marketable debt, we have 80 billion dollars of our marketable debt coming due within one year--80 billion dollars coming due in the calendar year 1960. We have to do something with that. Obviously we can't pay it off. We don't have budget surpluses of that order. We have to refund it.

All right. What happens if we refund it only within one year, in other words, just put out securities due in '61? Well, that yellow bar will continue to grow, because the passage of time will within the next four years or so bring another 61 1/2 billion dollars into the deficit in your under-one-year area. We have only 47 billion of our debt running five years and over.

(Chart 7) Now, we've made some progress, as we can see on this next chart, over the last few years in the way we handled this under-one-year debt. This yellow area is no larger than it was in 1953; and we think we can sustain in this country the liquidity or the 80 billion dollars or so as meeting essential liquidity needs. But we don't want this yellow area to grow.

What's been happening, then, is that this one-to-five-year area, the blue area, has, unfortunately, been growing rapidly, partly, as Mr. Baird will discuss some more when he is back at the podium, because we are restrained at the present time to under-five-year borrowing by congressional limits.

Our five-year-and-over debt is no larger now and no smaller than it was six years ago. But again, just to show what happens just with the passage of time as bonds get shorter and shorter, we have put out since 1953, 47 billion dollars of new securities running five years or more to maturity. Well, 47 plus 47 is 94. But of that, 47 billion has fallen down under the five-year maturity rate. So we're back exactly where we started. We have been barely able to keep even.

(Chart 8) We do our marketing, of course, in a real environment. It's just like marketing Wheaties or anything else. You have to sell Government securities to customers who want Government securities. You have to make them attractive to those customers or they will prefer some alternative investment or one of your own securities that is outstanding in the market, where they can read the price in the paper any day and buy it at that price if they don't like what you are putting out for new ones.

Therefore, there's a great similarity between--let's just take for the moment--the two top curves on this chart--long-term Treasury bonds in the black curve, and corporate bonds, over which, of course, the Government has no control whatsoever in the rates that are paid.

Our short-term rates also follow along a very definite pattern in relation to the discount rate. Or I should say that basically in more recent years the discount rates pretty much follow along where short-term rates are, in terms of more wide fluctuations than in long-term rates, particularly in recessions such as '54 and '58.

(Chart 9) Our next chart shows the counterpart of the structure of the public debt chart. Here's the 291 billion dollars, broken down as to who owns it--53 billion by Government investment accounts--Social Security funds, and so forth; 26 1/2 billion by the central banks; and 59 1/2 billion by commercial banks.

Now, we would rather sell our securities to non-bank investors than we would to the banks, because basically the securities we sell to banks are very close to printing money in their inflationary impact. We would rather sell longer securities to non-bank investors than short securities, because those short securities, even in the hands of non-bank investors, are pretty close to money. Most of the red area there and the olive-green area, 50 billion in total, represent non-bank investment in short-term obligations. We would rather, therefore, expand the holdings of savings institutions and individuals in Government securities, because they are more likely to be permanent structurally.

(Chart 10) Our progress during the postwar period on this score has been not so good in certain respects. We have sold to non-bank investors as against banks. That's fine. We are at a new high on non-bank holders of Government securities. But it's mostly in this yellow area on the top here that the expansion has taken place--a doubling of short-term security holdings by non-bank investors--short-term investors, corporations, and so forth--since the end of the war. Foreign accounts alone account for a large chunk of that.

On savings institutions and on individuals other than the E and H bond program, which I'll come to in a minute, the green and blue areas have been going down hill since the end of the war. We have lost about a quarter of our holdings by savings institutions and more than that on the individuals ~~other than~~ in the larger bracket. Again, why should an individual who's in an upper tax bracket buy a Government security if he can get a State and local tax-exempt security at even just a little bit lesser yield to him, before-tax yield?

We have had some of that in our E and H bond program, our savings bonds; and that has increased. These are the savings held by some 35 million Americans. We have 8 million Americans buying on payroll savings right now, including a great many throughout the Armed Forces, as you know.

We got an increase in that program since the end of the war that has been substantial. It leveled off in '59, and, as you know, we got permission from the Congress to change our rates last year to make that a more attractive program.

(Chart 11) Our increase in savings bonds, though, in the yellow area in the upper left-hand corner of this chart has been a very modest one, when you compare it with the other types of savings that are basically competitive with savings bonds. Commercial bank savings accounts have gone up 61 billion during the period shown on this chart, which is a much more rapid growth than in the case of the E and H bonds. Mutual savings bank deposits have grown also. The most tremendous growth of all has been in savings and loan associations shares.

Our rates are competitive with these institutions, even with savings and loan, where the average actually paid by savings and loan associations [redacted] is still under 4 percent. Ours, as you know, is 3 3/4. As you know, there's actually a 3 percent limit on commercial bank savings accounts. Most mutual savings bank pay around 3 1/2 percent.

(Chart 12) Just to finish up, let's go back to a more basic problem, that Mr. Baird has been discussing, and that's the problem of inflation, the problem of prices. I just use this one price index to illustrate, because it goes back over a long period of time.

We had throughout the 19th century basically a level price structure. We had big increases of prices during the war of 1812 and the Civil War. We had it again in World War I. But after each of these wars there was a substantial decline in prices, somewhat as a result of Government surpluses. And, of course, after World War I we also had the depression, with that big dip in early 1930.

After World War II, with the cold war situation and so forth, we have not had a decline in prices. That doesn't mean that our goal should be to cut prices in half or anything like that. You can't roll the clock back. That's all there is to it. That is not our intention. But with prices as high as they are, historically speaking, we have a pretty important duty here to see that the average American has a feeling that the value of his dollar has some good chance of being protected in the years ahead. Otherwise we cannot have the level of savings that is necessary to permit us to expand our economy the way it should be.

Thank you very much.

MR. BAIRD: We hope that gives you a sort of broad sweep of what the problems of debt management are. Now I'll just add a few points here.

One objective of debt management, which I think Mr. Mayo touched on somewhat, is to get a better maturity distribution, not just as an end in itself, but because this excess liquidity in the short area is inflationary. It's the next thing to money; and if we let that increase too much, we put pressure on the price level.

Also we don't want to have to finance too often. We have too much rolling over in the short-term area. We're in the market too often. We interfere with monetary policy. And we interfere with the orderly marketing of corporate and municipal bonds, because they have to stand aside every time we have one of these big financing jobs, as we had last week.

Another one, we want to keep out of the banks, as Mr. Mayo said, because putting Government securities into the banks is adding to the money supply.

And, third, we have to consider the broad effects of our operations on the economy. There are several theories there. Some say that we should only sell long-term bonds in times of business activity and only sell shorts in times of recession, to operate in the same direction the Federal Reserve is going. Time has proven and experience that that just doesn't work. You have to get some extensions when you can. You can't just work on a pure theory.

And, of course, the last objective is that we always want to get our money as cheaply as we can, as any borrower would. And we certainly try to do that. But we have to operate in a real market. We can't risk failure of our issues.

Now, the basic problems in debt management I would say are these: Why is it that, with the best credit in the world, which is what a U.S. Government bond is, there is any problem in placing our securities? Well, first, we have had over the last generation a very rapid increase in individual tax rates. The tax-free bonds issued by our States and municipalities have gone from 12 billion up to over 64 billion since the war. That's an enormous increase. The Administration tried to get rid of that tax exemption in '42 and got nowhere with it. We don't think it's politically possible to do it. And yet that is what has driven the average individual of any means out of the Government bond market. Mr. Mayo's chart showed how the individual holdings have gone down.

The other thing is the competing Government instruments. Since the war we have increased enormously guaranteed mortgages, FHA and the GI mortgages. We have increased these various agency accounts. The public has come to believe that they are just about as good as Governments. They enjoy a more and more active market, until that has grown from a total of less than 15 billion in the aggregate at the end of the war up to about 64 billion now. Those securities all pay more than U.S. Governments, and the public increasingly has the feeling that they're just as good.

Now, we can always get the money if we want to bid the rate; but when we do, we force the whole rate structure up, if we just went out to get individuals, say, into our Government bonds.

Now, the savings bonds have been the area where we have been conspicuously successful. There are about 150 billion dollars of comparable savings in those three classes of savings institutions that Mr. Mayo showed you. We think savings bonds should be compared, not with marketables--they're a different kind of animal--but with savings deposits in the banks and the shares in savings and loan associations. And, as he said, we think we are competitive in them. And that for the unsophiscated investor is what he should buy, because he can get his money when he wants it, and he knows what he can get.

It's always sad, and we get letters from many people who bought marketable bonds at some time and thought they could always get the price they paid for them. We get these pathetic letters that they have to take a big discount now because interest rates have fallen. We don't think it's a public service to encourage the unsophisticated investor to get into marketable bonds. If he knows what he's doing, fine.

Incidentally, I might say to you men that the Defense Department has done a beautiful job on this payroll savings. There are 1,700,000 military and civilians in the service that are on regular payroll savings. The deductions amount to an average of about $25 a month. They amount to over 500 million dollars. And, incidentally, they have a little effect on our balance of payments, because a lot of these servicemen are abroad. If they hadn't signed up when they went in the service for payroll savings, they would probably have spent it abroad and put more burden on our balance of payments. And it's hard to say how many hundreds of thousands of new homes have been built in this country by the servicemen and others who have come out of the service and found they had a nest egg of $500 or $1000 with which to make the down payment on a house, where otherwise they couldn't have gotten married and gotten set up in life. So we think there's a great education program there and a great public service in that savings bond program.

Now, our immediate problem, and a very pressing one, is this interest rate ceiling. The history of that is that it was put on in 1918. Carter Glass, as Secretary of the Treasury at that time, begged the Congress not to put that 4 1/4 percent ceiling on. Within a year it proved to be an error, because the Victory Loan in the First World War had to be financed in the five-year area at 4 3/4 percent; and 27 times within two years the Treasury had to go out selling in the up-to-five-year area at rates from 5 to 6 percent.

Then for a long period the thing became a moot question, because, in the first place, the Mellon regime paid off a lot of the debt in the decade of the 20's; reduced it from 26 billion to 16 billion, which was a lot of money in that economy; and that kept rates down.

We went into the depression and money was made artificially cheap for the whole decade. There wasn't any demand for money. The deficit piled a lot of indebtedness into the banks and created a money supply. So that money was almost worthless in the short-term area during that decade.

Then we came to the war and for good and valid reasons there had to be a pegging operation, which meant that the Federal Reserve supported the market, and did so up to 1951, when we came to the Accord which I have referred to earlier.

So you had about three decades where we had artificial conditions; and we are now experiencing for the first time the combination of three factors. One is a free market, which we have had since 1951. The second is a peacetime period. The third is a period of expanding business. I could say, a fourth, where the redundant reserves that had been created out of war and recession have been soaked up.

So we're going to have a different pattern from here on. We're going to have much wider fluctuations in rates, depending on the condition of the economy at the time. And a great many people who are not students in this subject rather think that the level of rates which persisted for nearly thirty years under those three conditions I mentioned are normal and that this is abnormal.

Now, it's very difficult to get that idea over. It's very difficult to get that idea over up on the Hill. And now we have had, on top of the rising business, to finance as we come out of this recession this 15 billion dollars of deficits, or about 8 billion of it in this last year--not finance in the recession, where it would have been easy, but as we have come out. So we've had this enormous demand on the market that either has to be met by savings or by printing money; and we have tried to let the market mechanism regulate it and tried to encourage it by encouraging savings and transfer of idle capital into Government bonds.

Now, these limitations became really effective late last spring, when the rate dropped over 4 1/4 percent. So we have been forced to borrow ever since in the five-year area. Mind you, we have freedom for to five years, but not beyond. The result is, the debt is going to get shorter and shorter and shorter. We now have an average term of the marketable debt of four years and three months, which is the shortest in the history of this Government. It certainly is in this century. We haven't done any research back, but I suspect that it is shorter than it has ever been. And it's going to get very much shorter if we don't do something about it.

Now, strangely, taking off the ceiling--and this will sound like a paradoxical statement--will operate to lower rates [redacted], not raise rates. That is one of the difficult things we are having to explain to people on the Hill.

The reason is this: that in any market it's the marginal demand that creates the price. When we force this tremendous amount of financing into this very short area, as we are having to do, it is driving that price up considerably beyond what it needed to be. That's what hits our budget quickly when we roll over 80 billion. That's what hits all bank rates that they currently are lending at, because they lend in the short-term area. The impact is enormous. And that spills out to the whole rate structure. Whereas if we could judiciously and prudently have taken a very few billion dollars in the last year from this short area and sprinkled it out, mostly in the five to ten, a little out beyond, the whole structure of rates would have been lowered. I'm not alone in that. I think any competent financial adviser--and we've consulted lots of them--would say that the ceiling has operated to raise interest rates.

The legislative history of this is this: The President sent up a special message--he's now sent three of them--in which he has said that the most important piece of legislation before the Congress is this one. It's important particularly for this reason: that the fight is not really on the Treasury and its debt management policy. The fight that is developing on the Hill is for those advocates who, for whatever motive, are for cheap money. It sounds like the old Populist campaigns of the nineties, if you read your history, coming up again. It may develop into the great domestic issue that we have ahead of us. It should not be. It should be a bi-partisan matter.

Just as our foreign policy is too important to play politics with, so the soundness of the dollar and our monetary policy is too important to have it get into politics. And we are trying to keep it bi-partisan. But if the party which controls both houses of Congress chooses to make it a political issue in this campaign, I'm afraid it may rival the campaign of 1896, when free silver was the great issue, because we're not playing for marbles in this game. As the world banker, as the great economic power of the world, we cannot as a nation embark on a policy of cheap money.

This is a public record. The advisory committee of the majority party in Congress ~~committee~~ met in New York and came out and said that the platform of that party should carry a cheap money plank. They didn't call it that. They called it "low interest rates," but it's the same thing. Four out of five of the Presidential aspirants in that party have made public statements that they are for low interest rates, which means cheap money. None of them have presented any program where you can lower interest rates without increasing the money supply--not one. We have challenged them and challenged them, and they don't do it.

Now, why is that the case? I think a great deal of it is lack of information. It's a very intricate subject, this monetary subject. It's lack of information. I'm afraid there's some political temptation, in that it sounds pretty well to be for low interest rates. It's the old arguments of the Populists in the nineties. I've been reading some of the speeches made at that time. I think some of them are just using them verbatim.

When you think of it, we have this International Monetary Fund. We are the most powerful nation in it. We preach sound money to all these countries around the world, these under-developed countries that have had these terrible inflations that prevented their growth, prevented the formation of capital. We preach all these sound principles. And then a great party in this country is toying with the idea of standing on a platform of cheap money. It really shocks a lot of us, and it shocks the majority of the economists of this country, a vast majority of the economists of this country, college professors and everybody else, right down to the bone.

Whether they will finally take that on, I don't know. But we go to hearings next Monday before the Ways and Means Committee, and there's no telling how we will come out of this. We in the Administration feel from the bottom of our hearts that this is the great issue on the domestic side. It is very, very important, we think, for the national defense. Over a period of time we may be in a cold war, for a generation. Sure, if we're going into a war tomorrow, we'll forget all rules of monetary policy; but if we want to maintain our position as the support of the free world, its economies and its currencies, we must stick to sound financial measures.

As American citizens, all of you, and as our nation's military leaders, I would hope that you would wish us success in that fight.

Thank you very much.

COL. HARVEY: Gentlemen, the Secretary has been kind enough to bring sufficient copies of a speech by Secretary Anderson entitled "Financial Policy for Sustainable Growth" so that you can each have one. It supplements many of the remarks made by the speaker today. They will be distributed in the mail room. We are now ready for questions.

QUESTION: Mr. Secretary, I'd like to make an observation. You pointed out that capital is created by people working, times a productivity factor, which will vary with the state of the technology of the particular country involved. Today in the United States we have several people unemployed. I believe it's around three million. We have a large share of our productive capacity lying idle. I refer now to the steel industry, the aluminum industry, the aircraft industry, the railroads, petroleum, coal, all basic industries, and the base metal industries. This means that not only the investors are suffering because the products of their investments are not at work, but also the Government is suffering because the Government in effect is paying a depreciation cost on unused capital. This means also that the tax base which the Government operates on is decreased, because instead of getting money from people through taxes, they are paying out to people through unemployment insurance and so forth. This means in effect high overhead and low productivity, which in turn causes inflation. Why, then, don't we spend more money for some of the things in this country that everybody says we need--more education, more defense? Why argue the point? As my father used to tell me when I was small, we seem to be starving to death with a ham on our shoulders.

MR. BAIRD: It seems to me that's a speech that involves about three points. I think it poses about three questions. In the first place, why with some unused resources and some idle hands, don't we put them all to work?

I would question that there are a great deal of idle resources in steel today, for example. You started out on that. They're running 95 percent of capacity. I don't believe they will be able to maintain that very long, but it's a very high percentage.

When you come to the unemployed, you understated it a little. You said it is three million. I think it's three and a half. Of that three and a half million you can say that two and a half million is an irreducible minimum in this country. When we've had the biggest kind of a boom, you don't get those all employed. They are shifting from one job to another. They're women who register as unemployed, but they only work part of the time. If somebody offered them just the job they want, they would take it. And most economists would agree that somewhere from two to two and a half million is the irreducible minimum.

Well, how about the other million? A good chunk of that is structural unemployment in certain localities that no boom of any proportion in this country will put to work. For instance, take the coal mining industry of West Virginia. The older people are just going to stay there until you bring an industry in to hire them or they move out, and the younger people will. The same thing is true of the Lynn area of Massachusetts. It's true in Wilkesbarre. It's true to some extent in Detroit because of the desire of the motor manufacturers to put more of their work out of that area, which is not an efficient area to operate in compared with some others.

So you've got those structural things. Our people don't move around too freely in this country. And no amount of boom is going to take some fellow who's sitting in his house up here in West Virginia and get him to move to Jersey City to take a job.

So, until we can solve that--and this Administration is supporting measures for re-education of particularly the younger people in those communities--and trying to get industries to go into those areas, but you have very great difficulty in the Government doing that. We can't as a government go and try to transfer an industry from one locality to another. You can only try to start a new industry there. Neither can we go into a community and try as the Government to move people out. We can educate them so they will look for a job and move out. But you're going to have that structural unemployment in a country with a rapidly changing technology for a long time; and no boom conditions will overcome it.

Now, you can get inflation where you have areas of the economy that are not fully used, because we have free choice of what people want. But if you get too much bidding in areas that they do want, the price structure gets into those wages and those costs and then spreads out to the others. You can't raise an economy uniformly. There are always going to be soft spots in it as long as there's freedom of choice and a rapidly changing technology.

QUESTION: Mr. Secretary, I'm almost afraid to start on my question, but I would like to explore this dilemma that happened a couple of years ago, that you mentioned in your speech, when we were told that there were not sufficient dollars in the Treasury to pay our bills if we continued to do our procurement business in the normal fashion, and as a result we were required to go into this incremental funding situation, wherein we had to let a considerable number of more procurements than we would normally let in order to get the same amount of goods and services. We in the Air Force estimated that we wasted hundreds of millions of dollars through this increased overhead and also the fact that we had to buy in smaller quantities, not in bulk purchases, in other words. I'm sure that if you hinted that the reason was not because we didn't have enough dollars, I wonder what the real reason was, and how we can justify doing our business in this inefficient manner.

MR. BAIRD: Well, I was right in the middle of that experience. I sat with Secretary Anderson over in the Defense Department and Secretary McElroy, Comptroller McNeil, and the civilian heads of the three services; and at no time, I repeat, did the Treasury say, "We will not honor, because of a debt ceiling, bills that are due."

Now, at that time there were certain things that the Defense Department wanted to phase out. There was also a desire, particularly in the Air Force, to have smaller progress payments as a matter of future policy.

But the statement that came out and that was in the newspapers that a billion and a half dollars of bills that were due, the Treasury wouldn't pay and that the airframe companies particularly would have to finance through their banks, simply wasn't true. And after this meeting, a directive went out, if you remember, in the three services and straightened this matter out and said that any contractor who had a due bill could send it in and it would be paid.

QUESTION: Well, yes, that's true. But the reason that it could be paid, as we understood it, was because we were not allowed to contract for any longer than a period of one quarter, rather than contracting for a year--

MR. BAIRD: That was a question of your budget, not a question of the Treasury not paying the bills. No Secretary of the Treasury, I repeat, would think of being responsible for the injury to the credit of this country that would be involved by saying that if a man has a bill and presents it, we won't pay it. Keep it in the desk for a while and present it next month. It was a question of budget at that point, not a question of whether completed contracts were paid.

QUESTION: Mr. Secretary, I think you said that one of the reasons for the interest rates going up was because you had to float such a vast amount of short-range securities. I noticed that in the last month the short-range interest rate has dropped about a percentage point, and that also in the long-term securities the trend has changed; in other words, the interest rate is going down. Now, how do you account for that, particularly when you have a 12 billion dollar decline in defense work?

MR. BAIRD: Well, that was a refinancing and put no strain on the market at all, the February.

There is never a simple answer to these questions. There are a number of forces that come into play. We are talking about the short-term market now. I would say that there was an undue pessimism in December--and markets are apt to overdo those things--that there was going to be a tremendous boom and surge in accumulating inventories in the first quarter of this year, tremendous demands on the banks, and that interest rates were going to go higher. That was overdone.

The fact is, the progress of the economy is more orderly. Bank loans went down more in the first quarter of this year than in the first quarter last year, to the surprise of people. So there has not been the pressure on the market there.

There are two other factors. We rounded the corner the first of the year where the Treasury, instead of taking money out of the market, 15 billion over the last two years, we're going to put 6 billion dollars into the market up to June, because our heavy tax payments will come in next fall. Therefore for the short-term market, we are feeding funds into the market.

I think that one factor that affected the intermediate and long-term bond was that, if you want to look at your quotations, they started to improve the day after the state of the Union message, where, to the surprise of everybody, the President said we were going to have a four billion dollar ~~deficit~~ surplus and would balance in this fiscal year.

That allayed inflationary fears to a great extent. Markets in intermediates and longs are largely determined by expectations. In short-term markets it is the amount of money that is available and demanded right at the moment. If you want to use some money three months from now, you're not going to sit on it three weeks to see whether the rate goes down. You're going to put it to work today. That is a very sensitive market and subject to the supply and demand at the time.

But when you come to longer markets, they are based on expectations. If you're going to tie your money up for 25 years, and you've had a feeling, as it was in the summer of '58, that inflation was inevitable in this country--buy nothing but stocks, dollars going down and down--you just don't want to make 25-year fixed-interest-rate investments.

If you see what there is now, that stocks are yielding far less than bonds, and that there is a real determined effort in this Government to bring about some stability in the future value of the dollar, and you can get a pretty good rate, you think: "Well, I'm willing to reach out and extend my debts for ten or fifteen years." But that confidence factor is what people think, gentlemen, in investment markets that counts. Some college professor can sit in an ivory tower and say what they ought to think, but the markets are made by the people who make those decisions by the hundreds of thousands every day on what they think; and that's what counts.

MR. MAYO: I want to add one thing on the figures cited. You are correct in stating that the short-term rate has gone down a full percent, but that is the 90-day bill rate and the 6-months bill rate. As far as even the one-year rate is concerned, it's down only about a quarter of one percent and only about an eighth in the five-year area.

QUESTION: Mr. Secretary, I believe you stated that the Administration desired the elimination of the rate ceiling and that such elimination would ultimately result in a decline in the interest rate.

MR. BAIRD: From what it otherwise would be.

QUESTION (continued): You also stated that there were certain Congressmen, who weren't too knowledgeable necessarily, that desired a low interest rate, were in favor of a low interest rate, and that this would result in cheap money. Now, it seems to me--and I don't know too much about this--that the Democrats want what the Administration is going to get if you eliminate the interest rate ceiling.

MR. BAIRD: We all want low interest rates if they can come about as a result of the natural forces in the market. The only kind of low interest rates that hurt are those that are artificially created by support of the bond market by the Federal Reserve Banks, in which they create reserves, which result in expansion. If rates were one percent in a natural market, it isn't inflationary. It isn't the low rates per se; it's artificially creating low rates by pumping in money that is the evil.

COMMENT: I think one of the reasons why the Treasury Department had that conference was because almost all of us are very unhappy with the United States Government on your savings bonds at this point. I for one at this moment would like to go on record as saying that I don't think you could ever sell me another savings bond as part of your Treasury operations, because I can go any place in the United States and buy, put my money down on a fixed basis, and collect more interest that is guaranteed by the United States Government than I can get from one of your bonds. I think the people are finding this out.

I further resent basically that the Defense Department will permit their people to put their money in and do this thing when this situation exists. I for one have told my people very definitely, when your bond issues have come out, that I don't think this is a proper way for them to save their money, when they can get a 4 or 4 1/2 percent guaranteed by the Government bond. I think you're going to have to get competitive with your own people on your savings bonds.

MR. BEARD: Our real competition, sir, is not with marketable bonds. And there are some areas of the country where savings and loans are paying 4 1/2 percent. The average rate on savings and loans in the United States, as near as we can estimate it at the end of the year, is about 3 7/8 percent. There is very little difference. As I say, there are 60 billions of money that the people are putting in the commercial banks, and it's limited to 3 under the regulations; and the mutual savings banks are 35 billion at about a 3 1/2 average.

But don't forget that this is a hybrid instrument that we are selling. You get that institution to guarantee you for seven years and nine months that they will pay you the same rate. Try it. They won't do it. You've got a demand obligation in a U.S. savings bond, and you've got a commitment we can't abrogate for seven years and nine months. And you've seen in the last five years where rates have been cut in savings institutions, and yours could be cut.

We don't apologize at all. We think that for the average man in the street a U. S. savings bond today is as good an investment on the average as he can make. We have no apologies for it. We think it does a great thing besides financing 20 percent of the publicly held debt for the Treasury. We think it's a great educational program in starting people on thrift, because firms, corporations, and the U.S. Government can urge its people to sign up for it. A lot of those people would not have the intestinal fortitude to save out of their pay check and walk into that institution and deposit.

There are millions of people who have been converted to saving by that. In a country that is dependent on developing thrift, if we're going to make the progress that we should in the next decade, if we're going to do it non-inflationary, it's very important that there be this mild duress scheme of getting people started on saving. It's a service to them. They will accumulate money that they wouldn't accumulate in any other way. And they are getting a rate comparable to the rate they're getting where they voluntarily go and put their 150 billion dollars in other savings institutions. I think you're completely wrong. on that.

QUESTION: Mr. Secretary, as Mr. Mayo's charts went by, there appeared to be a coincidence in the one that dealt with the debt, the way it went up and was reduced in those periods. It appeared that either attempts to pay off the national debt or reduce it caused recessions or were coincident with them, or that the recessions were created in order to be able to pay off part of the national debt. With reference to the four billion that is being suggested in the 1961 budget as surplus, I wanted to ask, first, Are we expecting a recession? Or are we planning one? Or do we find that there are other forces at work now that might enable us to reduce the debt by this amount, in other words, that might offset a recession?

MR. BAIRD: You have several questions there. In answer to your first one, Do we expect a recession? I'll answer it in a way that will shock you, and then I'll explain. Yes; we expect a recession; and not only one, but many. In a free economy the only way you can ever keep the thing in balance when things get out of line is by corrections.

Now, the timing is another thing. There'll be a recession in the next three years sometime. We hope it'll be mild, of the order of the last three, instead of going back to the depressions that spiraled on themselves. Recessions are wholesome things if they don't go too far, because they get rid of some extravagances and abuses that creep into a private enterprise system. And I hope we always have recessions of a measure. When it will come we certainly wouldn't sit here and predict.

Now, whether this four billion dollars of taking money out of the stream in the next year will create a recession--I would say that will be far more than offset by expansion of credit in other areas. As long as it is, it's not deflationary. There is a school of thought that says that because there is that correlation between recessions and payment of the debt, which comes first, the hen or the egg, they think that paying off the debt causes the recession. I don't think you'll find very many economists that will believe that. It's the total expansion of credit or decline in credit that determines the state of the economy. The total credit that is being extended is increasing and will in spite of our retirement of six billions in these six months. Then next fall we will come in and have to borrow several billion for seasonal purposes again, even though we have a surplus.

QUESTION: A previous speaker suggested that the Federal Reserve Banks should be a part of the Government operations rather than separate. As Under Secretary of the Treasury responsible for fiscal and monetary matters, what do you think of this?

MR. BAIRD: I think most financial opinion in this country, most economists, believe in the separation. The world is replete with examples of countries where the central bank has been dominated by the Treasury. Just take France for example. When it got a little tough to give the salary raises and everything or to expand some industry, what did they do? They went to the central bank and got the money. The result was, they knocked their currency out. The bad financial policies of France and other countries grew out of an unstable political situation; but, anyway, their financial management has been bad. That is one of the reasons that France sits in the middle of Europe with the most productive resources in the way of agricultural land and with its strategic situation and ought to be the leader; and it has fumbled along. And it's done it exactly on that basis, of a domination of the central bank by the Government.

Every country in which the Treasury, with changing political complexion, has been able to dictate an expansion of the money supply usually runs into difficulties, in almost every case. There is more pressure on a political group. They try to create the Federal Reserve more like a court. They have a 14-year term. They overlap. They are not subject to the same day-to-day pressure that a Cabinet officer is.

I think we have at the present time a Cabinet officer there that would be entirely immune to it. But we've had times when they weren't and we'll have them again. I think that separation, just like we separate the judiciary, is a very necessary thing in the interest of long-term stability.

QUESTION: Mr. Secretary, before I ask my question, I'd like to say that I have a small kitty of E bonds and I'm going to hang on to them. My question has to do with the last chart that was on the screen which showed wholesale prices over the last hundred years or so and showed that we are now at a new high. I believe Mr. Mayo said there is no rolling back of prices to former levels; that we're going to try to hold the level to about where it is. Well, this is fine insofar as domestic concerns in the United States are concerned, but I wondered if you feel that is ever going to get us back into the foreign market again.

MR. BAIRD: You have raised a very tough question. In some areas we've priced ourselves out of world markets. We think that with the technological genius of this country, we'll always be creating products that with aggressive salesmanship we can keep our exports up. But it is a problem; and if we were to let our prices run up and if we were to pay labor on the average more than its increase in productivity, which is the real driving force there, I think, we are headed for some trouble.

Now, it partly depends on how fast the wage levels of some of these competing industrial countries increase and how much they are forced upward in comparison with our own. You hear a very delicate problem--that we would be better off if it were possible to hold wages and lower prices, because it would make us more competitive. We have to recognize that in a real world, with the rigidities that we have in here in the two great costs--labor and taxes--in our system, we probably can't accomplish any actual lowering overall.

Now, certain industries will seek to lower as technology improves, while some others will go up. It's very hard to lower prices in the service industries, because technology doesn't improve them much. Your barber isn't any more efficient now than he was 25 years ago. On the other hand, aluminum prices have gone down to about 20 percent of what they were 25 years ago. It's a tremendous drop where the technology has permitted that and the expanding market.

So what we hope is that some industries will be able to lower prices and others will not. The service industries probably will not. And service industries are getting to be a larger and larger proportion. You've got to remember that only about a third of the economy is manufacturing. The rest is service industries and agriculture, and the service part is growing all the time, as we want more travel and more entertainment and all those things instead of just more things.

QUESTION: Mr. Secretary, I had a little article come to me in the mail yesterday from the American Institute for Economic Research, in Massachusetts, and it talks about the increased level in purchasing media versus the reduced level of gold reserves not subject to foreign trade. It is titled, "How to Cope with the Financial Crisis Ahead." It recommends that hundreds of thousands of Americans buy stock in well-regulated gold-mining companies in South Africa. I'd just like to read this one sentence: "There is every reason to believe that the Treasury will be forced within a few years and possibly within a few months to suspend payments in gold. When that time comes, the more gold that is owned by American citizens and the less that is owed to foreign claimants, the better off it will be for the United States." Would you comment?

MR. BAIRD: I read the whole article. I can cite you one from

Houston, Texas, that's much wilder. You'll probably find that those fellows also will recommend that you stick to the gold stocks to buy, and that perhaps they have an interest in the thing. I'm not sure of that, and perhaps that's going too far. I retract that statement.

But, yes, you can create alarms that we're going to mismanage our affairs, just as a lot of other countries have; that in spite of the fact that we have half of the world's gold, we're going to let it all drain out; that we're not going to do the right thing; that we are going for cheap money; that we're not going to have balanced budgets;that we're not going to keep our cost levels within reason. And if that's true, all sorts of dire things can happen. But some man isn't going to save his skin just by an investment in some shrewd stock. The whole world is going to be in a state of shock then. There are no easy ways to beat a demoralization on a world scale which would come by a devaluation of gold.

Let me hark back to 1933. Gold was devalued by the Administration at that time. Whether it should or should not have been--I will not enter into that discussion. There is quite a story on that. It was. And the argument for doing it was that agricultural prices and other prices were so low that it would bring about an inflation of prices. They were trying to deliberately inflate prices.

If there was any effect on it, it certainly was inflationary. Now we're fighting inflation all around the world. What will it do to the world if the anchor currency of the world was to be devalued? It would bring a shock over the world, every other country would devalue at the same time, and we would have an inflationary cycle that would destroy a great deal of what we have built up through a century, in my opinion.

COL. HARVEY: Mr. Secretary, on behalf of the Commandant and the College, I should like to express our appreciation for a very lucid discussion of the fiscal policies of the U. S. Government, and Mr. Mayo for your explanation of the management of the public debt. Thank you very much.

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