FEDERAL DEBT MANAGEMENT, 1952 THROUGH 1956

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CHAPTER I

INTRODUCTION

The Growing Significance of the Federal Debt

In a little less than a half century the federal debt has grown from an item of little significance, to one of considerable importance. This growth has taken the form of an increase in absolute amount as well as a more complex composition.

Figure 1 is presented to aid in the realization of the absolute size growth pattern. Starting with the year 1916, the total gross debt amounted to one billion dollars.[1] While this was not an all-time low, the relative concern of the Secretary of the Treasury in regard to this amount is reflected by his very casual and brief mention of the debt in the Secretary's statement published in the _Annual Report_ for that year.[2] The expenditures of World War One brought a sharp, if temporary, increase in the total debt to a new balance of $26 billion on December 31, 1919.[3] From this

[1]U. S. Treasury, _Annual Report, 1956_ (Washington, 1957), p. 22.

[2]U. S. Treasury, _Annual Report, 1916_ (Washington, 1917), p. 184.

[3]U. S. Treasury, _Annual Report, 1956_, p. 22.

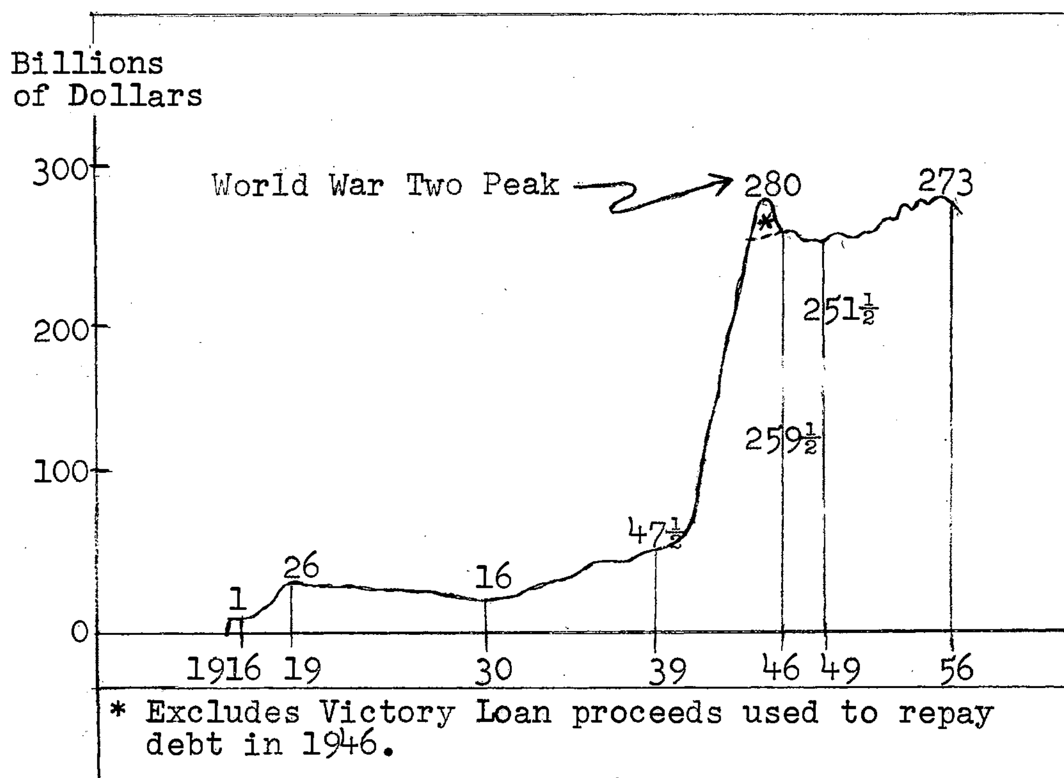

Figure 1. The growth of the federal debt during four decades. All yearly debt totals are for December 31 except as follows: 1949, April 30; 1956, June 30.
Source: U. S. Treasury, Annual Report, 1956 (Washington, 1957), p. 22.

peak the debt entered an eleven year period of gradual decrease reaching a low of $16 billion at the end of calendar year 1930. The eleven year period leading to the trough was followed by a similar period, in the sense of length of time and relatively gradual rate of change. On December 31, 1939, the debt stood at $47.5 billion representing the increased government expenditures designed to inflate the economy. The next seven years were witness to a very sharp increase in the debt resulting from the efforts to finance World War

Two. At the close of the war, the total gross debt stood at $259.5 billion on December 31, 1946. From this new peak the debt decreased slightly to the amount of $251.5 billion on April 30, 1949.[4] From this point the debt followed a general upward trend to today's (June 30,1956) debt total of $273 billion.[5]

Thus in a period of thirty-nine and a half years there has been a net increase of approximately $272 billion, many times its size in 1916. Convincing arguments deflating this increase can be made on the basis of price indexes, and increases in population or national income. The validity of these arguments is not challenged. The point presented here, and substantiated by the preceding data, is simply that the sheer absolute size of the public debt has been subject to very rapid growth in the past four decades.

As stated above, this growth in dollar amounts has been accompanied by an increase in the complexity of the composition of the debt. On page thirty-six of the Treasurer's Annual Report for fiscal 1916, the federal interest-bearing debt is itemized by security class. This listing consists of eight entries.[6] A similar listing appearing in the

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[4]Ibid., p. 393. This date is not cited because it is the exact low point, but because it immediately precedes the Accord between the Federal Reserve Bank and the U. S. Treasury which was published in March, 1951. This Accord will be thoroughly considered later in this report.

[5]Ibid., p. 22.

[6]U. S. Treasury, Annual Report, 1916, p. 36.

Annual Report for fiscal 1956 consists of twenty-three items.[7]

As the amount which the Treasurer is compelled to obtain continually increases, the more consideration he is compelled to give to the purchasers of government securities. This tailoring of funding and refunding operations may take the form of a greater variety of maturities, exchange privileges and variations in the rate of interest. In other words, the Treasurer must devise securities so as to fully utilize not only the potential of the ownership classes presently purchasing the securities, but also to induce new owner classes to place their money in government securities. An example would be the savings bonds which were authorized by Congress in 1935 in response to request by Secretary Morgenthau.[8] This bond offered two advantages: 1) It is a registered bond, i.e.--it will be replaced if lost. 2) It may be redeemed at any time after sixty days at par plus a predetermined return. Thus it provided a high degree of security for the "average citizen" who does not have the ability to protect himself against capital losses which may result from price changes in the open market. This example is only one of several which were to follow. In reference to the World War Two defense period,

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[7] U. S. Treasury, Annual Report, 1956, p. 398.

[8] U. S. Treasury, Annual Report, 1935 (Washington, 1936), pp. 18, 23-25.

the chief of the International Monetary Fund's Financial Division of the Research Department stated, "During the defense period the Treasury made sweeping changes in its borrowing techniques...."[9]

While the market may exert the greatest influence on the Treasurer's debt management, his decisions are somewhat handicapped by rather arbitrary legislative requirements. These include maximum limits on the debt which the Treasurer may incur and on the interest rate which he may offer.[10]

Two primary factors, growth in absolute dollars and increase in complexity of composition, have provided the American economy with a debt which has continually become more difficult to manage. This is the situation irrespective of the manager's specific goals.

Intention of this Study

The intention of this study is three-fold. First, the reader will be provided with statistical elements of the federal debt for a time period consisting of five fiscal years, 1952 through 1956. Second, this data will be examined in respect to its effects on the American economy. These effects will include the probable as well as the evident.

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[9]Henry C. Murphy, The National Debt in War and Transition (New York, 1950), p. 31.

[10]Committee for Economic Development, Managing the Federal Debt (New York, 1954), p. 5.

Last, in conclusion of this inquiry, a summary of debt management over the entire five year period, including recognition of pertinent trends, will be provided. Following this summary, appropriate conclusions will be furnished.

CHAPTER II

DEFINITION OF TERMINOLOGY AND CLARIFICATION OF SCOPE

The preceding chapter stated that the United States federal debt has grown in size as well as complexity of composition. The intention of this study was identified as the examination and determination of the economic effects of the debt management. Before launching into the economic analysis, the next few pages will be devoted to defining the basic terminology and to clarifying the designed scope of this study.

Definition of Basic Terminology

Throughout this thesis frequent reference will be made to the Federal Reserve Banking System and to the United States Treasury Department. Since both designations are long and rather clumsy to use repeatedly, shorter designations will be used. The term Federal Reserve will denote the Federal Reserve Banking System. The word Treasury or Treasurer, when capitalized, will signify the United States Treasury Department or the Secretary of this department, respectively.

In the introduction, the terms federal debt and debt management were used without qualification or explanation.

The objective here is to present the connotations of these terms which are peculiar to this study.

The first term to be considered is the term: debt. When a debt becomes as large as that of the Federal Government's, it is represented by many different instruments. It is convenient to arrange this variety of instruments into various groups and identify them accordingly. Table I has been prepared to illustrate the composition of the classifications.

In this study, emphasis will be placed on the most volatile portion of the debt, the marketable issues which comprise approximately fifty-eight percent of the total gross public debt and guaranteed obligations. Consideration will also be given to the nonmarketable issues comprising twenty-five percent, and to the nonpublic special issues which total sixteen percent, of the total gross public debt and guaranteed obligations. The words "nonmarketable sector" or "nonmarketables", as used in the following chapters, will be construed to include the special issues.

In work of this type it is common to use the fiscal year rather than the calendar year. This is the accounting period utilized by the Treasury; the Federal Reserve uses the calendar year. While actual analysis in this report will be based on a fiscal year basis, it will be necessary to utilize the calendar year in certain instances in order to facilitate information obtained from the Federal Reserve's publications. This thesis will follow the established usage

TABLE I

COMPOSITION OF DEBT CLASSIFICATIONS AND CHARACTERISTICS OF DEBT INSTRUMENTS, FISCAL 1954[1]

Debt Classifications and Instruments[2]	Maturity (years)	Interest (percent)[3]	Amount[4] (billions)
Treasury BILLS	(5)	0.843	$ 19.5
CERTIFICATES of indebtedness	one or less	1.928	18.4
Treasury NOTES	1 to 5	1.838	32.0
Treasury BONDS	(6)	2.440	80.5
Total marketable		2.043	$ 150.3
U. S. SAVINGS BONDS	(7)	2.793	5.1
U. S. SAVINGS NOTES	2 or 3	2.377	58.1
INVESTMENT SERIES BONDS	18 or 29	(9)	12.8
Depository bonds	12	(9)	0.4
Total nonmarketable		2.751	$ 76.3
Total public issues		(9)	$ 226.7
SPECIAL ISSUES	(8)	2.671	42.2
Total interest-bearing		2.342	$ 268.9
Matured debt on which interest has ceased	(9)		0.4
Debt bearing no interest	(9)		1.9
Total gross public debt			$ 271.3
Total guaranteed	(9)		0.1
Total gross public debt and guaranteed obligations			$ 271.3

TABLE I (Continued)

[1]Fiscal 1954 was chosen merely as an example year.

[2]Words typed in capital letters designate short titles.

[3]Computed annual interest charge or interest rate.

[4]Items may not add to totals due to rounding error.

[5]May be issued for any period of one year or less, but generally issued for a period of approximately three months.

[6]Used for long-term borrowing, though may be issued for any period.

[7]Ranges from 9 years and 8 months to 20 years.

[8]Varies with particular issue. Generally, they carry no specific maturity date, but may be redeemed on demand after one year.

[9]Indicates data not available or not applicable.

Sources: U. S. Treasury, _Annual Report, 1954_ (Washington, 1955), pp. 471, 485-489, 566. Federal Reserve Bank of New York, _The Treasury and the Money Market_ (New York, 1954), pp. 18-20, 24.

of letting all reference to years mean the calendar year except those specifically designated as fiscal years.

The remaining term to be clarified is debt management. A comprehensive definition is provided by Charles C. Abbott in the initial pages of his book on debt management. His definition is:

> By management of the debt is meant the choice of debt forms and the proportionate amounts of the different types used, the selection of the pattern of debt maturities, the amounts of debt placed with different classes of holders, the decisions to repay or refund maturing obligations, the refunding terms offered, the treatment given different classes of debt and different types of bondholders, determination of the provisions attached to new bond issues, adaptation of new issues to the needs of prospective holders, policies pursued in the retirement or creation of new debt, and relative weights given to all these matters in the government's general fiscal policy.[1]

It is apparent that these two words take on special meaning when combined to designate care of the federal debt. At risk of loss of completeness, a shorter, more limited definition may be desirable in this case. Such a one is provided by Leon E. Krouse who describes debt management as:

> Debt management means making financial decisions as to the kind of securities to be used and their special features; the maturity and other terms of range of the debt; and ownership pattern of the debt--all of which are conditioned by economic implications, present and future.[2]

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[1]Charles C. Abbott, Management of the Federal Debt (New York, 1946), pp. 1-2.

[2]Leon E. Krouse, "Management of the Federal Debt" (unpub. Ph.D. dissertation, New York University, 1958), p. 65.

In general, then debt management is financial decisions which are conditioned by economic realities.

Scope of Study

Studies in the field of federal debt analysis may be directed so as to orient the work around one or more of the major facets of debt management. These sectors of analysis may be designated in the following manner. 1) The Empirical Framework of the Debt which is a historical study of the debt's composition over a period of time. 2) Treasury Debt Administration which seeks to determine how, and if possible why, the empirical framework was established. This entails a study of the various classes of securities issued during a given period. At this point, the analysis is similar to that which would be accomplished in the first approach. However, this approach goes further by endeavoring to learn why certain securities were issued. This requires an examination of economic forces which may have influenced debt management decisions. 3) The Administration of the Debt by the Federal Reserve and Its Interrelationship with the Treasury which is concerned, primarily, with the technical operations of marketing, funding, refunding, retiring, and servicing the debt. 4) The Market for the Debt which endeavors to determine what types of securities are most easily absorbed by the capital and money markets, together with the reasons why, thus providing guidance for future issues.

The above limits are rather arbitrarily assigned. By

no means are they mutually exclusive. This study will employ the second one as its point of emphasis. The remaining three will be involved in the analysis, but only as they facilitate the development of the Treasury's administration of the debt.

This report will be concerned with a five year period, fiscal 1952 through 1956. This period was selected on the basis of several considerations. The starting date of July 1, 1951, was selected because it marks the beginning of the first fiscal year following the Accord of March 1951. This accord is a bench mark in debt management history because at this point the Federal Reserve was relieved of the responsibility of supporting the Federal Government's securities in the open market.[3] In addition, debt management previous to this date has been thoroughly covered by prominent economists, leaving little of major significance to be added. The termination date of June 30, 1956, was chosen because essential data following this point is not available locally. The last consideration was the belief that this period of five years was sufficient to provide enough data for an analysis of this nature.

Stated Basis for Debt Management Policy

Essential to the next chapter is the intended policy

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[3]U. S. Congress, Senate Document No. 123, Monetary Policy and the Management of the Public Debt, 82d Cong., 2d Sess. (Washington, 1952), p. 74.

of the Treasury in respect to debt management. The Treasury's authority for fiscal action originates from the law which established the Treasury in 1789.[4] At that time the current debt of $75 million evidently was not considered to be of sufficient import to warrant specific mention of its management.[5] For this reason, later legislation is generally cited. During the past decade the Treasury, as well as the Federal Reserve, has considered the Employment Act of 1946 as its basic policy directive.[6] Before proceeding further, it may be helpful to review that purpose of this act as set forth in the preamble.

> The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including work and to promote maximum employment, production and purchasing power.[7]

The directive nature of this act is very general. It commits the government and its agencies to improve the

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[4]Ibid., p. 2

[5]U. S. Treasury, Annual Report, 1955 (Washington, 1956), p. 403.

[6]U. S. Congress, Senate Document No. 123, Monetary Policy and the Management of the Public Debt, pp. 2, 651.

[7]15 U. S. C. A. Sec. 1021.

welfare of the nation. In other words, it is in favor of things which are good. Policy of a more specific nature may be found in statements and speeches made by the Treasurer and his assistants. While it would not be pertinent to present a comprehensive compilation of the policy statements at this point, a few will be cited to exhibit their nature.

On March 10, 1952, Secretary Snyder set forth the following as being among the major economic objectives of the Treasury.[8]

> 1. To maintain confidence in the credit of the United States Government.
>
> 4. To direct our debt management programs toward (a) countering any pronounced inflationary or deflationary pressures (b) providing securities to meet the current needs of various investor groups, and (c) maintaining a sound market for United States Government securities.
>
> 5. To use debt policy cooperatively with monetary-credit policy to contribute toward healthy economic growth and reasonable stability in the value of the dollar.
>
> 6. To conduct the day-to-day financial operations of the Treasury so as to avoid disruptive effects in the money market and to complement other economic programs.
>
> 7. To hold down the interest cost of the public debt to the extent that this is consistent with the foregoing objectives.

A significant point in this statement is paragraph seven in that emphasis was placed on economic stability rather than a low interest rate. The significance is, of course, in

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[8]U. S. Congress, Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, *Monetary Policy and the Management of the Public Debt*, Hearings, 82d Cong., 2d Sess. (Washington, 1952), pp. 8-9.

the Treasurer's adherence to the policy established by the Accord of March, 1951.

On March 10, 1953, Secretary Humphrey made the following statements while appearing before the Subcommittee of the House Committee on Appropriations.[9]

> 1. That we pay a little down on our debt from time to time instead of rapidly borrowing more.
> 2. That we keep our credit good by properly managing the debt we already have.

Approximately five months later, while speaking at the Governor's Conference, Seattle, Washington, Secretary Humphrey confirmed the preceding policy and stressed the importance of lengthening the debt.

> The Treasury's main role is this business of keeping honest money lies in its handling of the public debt. That debt is now over $272 billion, and the manner in which refinancing and placement of new issues is handled can affect the entire Nation's well-being. The Treasury is trying to make the debt sounder by gradually extending the length of its maturities. Now nearly three-quarters of the debt matures within less than five years.[10]

This is the essence of the nature of published debt management policy of the Treasury. As the reader is aware, by this time, it is shrouded in generalities. Generalities which are often slanted to conform to the biases of the section of American society to which the Treasurer happens

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[9] U. S. Congress, House, Committee on Appropriations, Treasury-Post Office Departments Appropriations for 1954, Hearings, 82d Cong., 2d Sess. (Washington, 1953), p. 4.

[10] U. S. Treasury, Annual Report, 1953 (Washington, 1954), pp. 244-245.

to be speaking. This may be a necessity considering the complexity of the debt and the dynamism of the American economy. That is, a well-defined policy combined with rigid adherence might be disastrous. To pursue this point further would be an infringement on the purpose of the next chapter.

CHAPTER III

STRUCTURE AND ANALYSIS OF DEBT BY FISCAL YEAR

This chapter can be viewed as the heart of this study. It will contain a detailed examination of debt management for the period of fiscal 1952 through 1956 with the object of determining the effects of this management on the American economy. Before considering the debt as it is, it may be beneficial to consider how it reached its present state.

History of Debt till July 1, 1951

For the first one and a quarter centuries, 1790 to 1916, the debt amounted to less than one billion dollars, except for the Civil War period and a two year period at the turn of the present century. Beginning with World War One, the debt started on an increase which was fed by political and economic disorder, specifically the Great Depression and World War Two. At the end of World War Two, the debt had reached a new plateau of $269.9 billion on June 30, 1946, from which the variation has never exceeded a few billion dollars or percentage points of change.[1] It is interesting to note, that while the absolute amount of the debt has been

[1] U. S. Treasury, Annual Report, 1956 (Washington, 1957), p. 393.

relatively constant since 1946, the Gross Debt Per Capita has followed a definite downward trend.[2] A look behind the absolute size of the debt will reveal some influences, and changes in these influences, directing the management of the debt.

Prior to the depression, public debt was considered to be a necessary evil associated with wars. During the depression, interest in deficit spending grew rapidly with the change in economic thought which followed the publishing of Keynes' General Theory.[3] Thus, at the beginning of the defense period preceding World War Two, the American economy possessed three important characteristics which were to be influential in shaping the forthcoming debt strategy. These three characteristics were high unemployment of the nation's resources, very low interest rates and a plentiful supply of loanable funds, and a federal debt of relatively small size.[4] With these factors conducive to debt creation, the Treasury was able to borrow fifty-six per cent of the $383 billion needed to finance World War Two and maintain the necessary cash balance.[5] This constituted a marked improvement over

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[2]Ibid., p. 392.

[3]Seymour E. Harris, The National Debt and the New Economics (New York, 1947), p. 4.

[4]Henry C. Murphy, The National Debt in War and Transition (New York, 1950), p. 7.

[5]Committee on Public Debt Policy, Our National Debt (New York, 1949), p. 54.

the seventy-five per cent which was borrowed in World War One. In order to avoid inflationary pressures, an effort was made to sell as much of the debt as possible to non-bank investors.[6] As a result the nonbank sector absorbed thirty-three per cent, the Federal Reserve six per cent, and the commercial banks seventeen per cent of the total need of the Treasury.[7]

To induce the commercial banks to enter the government securities market, special incentives were provided. In 1941, the Federal Reserve issued a statement committing itself to advance funds on Government securities at par to any commercial bank.[8] As the war continued, a pattern of rates--a rate for each type of security--was established and maintained by the Federal Reserve. While the Treasury hoped to keep knowledge of the precise rate from the investors, it was able to do so with only limited success.[9] The situation developed to the point that government securities approached a state of being interest-bearing money. Both instruments, securities and money, have value because they carry the guarantee of the United States Government. The characteristics of money which the securities lacked, such

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[6]William Withers, The Public Debt (New York, 1945), pp. 54-55.

[7]Committee on Public Debt Policy, p. 54.

[8]Board of Govenors of the Federal Reserve System, Twenty-eight Annual Report (Washington, 1941), p. 1.

[9]Murphy, pp. 90-103.

as medium of exchange, could be quickly remedied by presenting the securities at any bank for conversion to cash at par. Thus some persons felt that it was not entirely equitable to pay interest on a security which involved no risk of loss of value.

Irrespective of the merits or costs of pegging the interest rate it was considered to be a necessary part of the war borrowing program. This program was generally considered a success on the grounds that it enabled the nation to mobilize the necessary resources at low interest rates while keeping inflation below World War I and Civil War levels, even though these wars employed less resources.[10] This, of course, does not deny the value of other factors such as price controls and rationing.

After the war, a question arose as to whether interest rates pegged at low levels were compatible with the American economy as it made its transition to peacetime activity. Opposing points of view were taken by the Treasury and the Federal Reserve. The Treasury felt, as expressed by Under Secretary Bell during an address at a meeting of the Association of Exchange Firms on November 19, 1945, that continued low rates would prove advantageous to all members of American society.[11] This view was strengthened by Secretary Snyder's

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[10]Ibid., p. 287.

[11]U. S. Treasury, Annual Report, 1946 (Washington, 1947), p. 289.

opinion that higher interest rates would not serve to dampen inflationary pressures.[12] The counter-argument was presented by the Federal Reserve who felt that pegging the interest rates stripped them of any control over the commercial banking system and therefore made monetary policy futile.[13]

Passage of time did not reconcile the disagreement between the two government agencies. On December 1, 1949, Mr. Eccles, Chairman of the Board of Governors, told a Congressional Subcommittee that the Federal Reserve was no longer able to implement the responsibilities delegated to it under the law.[14] As the condition continued to grow worse, the

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[12]U. S. Treasury, Annual Report, 1951 (Washington, 1952), pp. 266-267. Secretary Snyder's defense contained the following essential points. The nation's primary objective of producing military and defense goods necessitated some credit expansion. General credit restraint would not be effective due to large volume of liquid assets throughout the economy. The pent-up demand for goods and services steming from the shortages during World War Two and Korea was the primary cause of any current inflation. That a stable government securities market was essential to successful financing of the debt.

[13]Board of Governors of the Federal Reserve System, Thirty-third Annual Report (Washington, 1946), pp. 1-8. The Federal Reserve's position was based on the following arguments: That pegging the interest rate on government securities at a low level tended to keep all interest rates lower than would normally be the case; that commercial banks could expand credit at will since government securities could be liquidated without loss; the Federal Reserve had to purchase the securities to preserve stability in the market. These two factors, low interest rates and expansion of credit, prompted increase in spending not matched by increases in real output. The result was inflation.

[14]U. S. Congress, Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report, Monetary, Credit, and Fiscal Policies, Hearings, 81st Cong., 1st Sess. (Washington, 1950), p. 223.

necessity of some sort of definite agreement became apparent. In the forepart of 1951, representatives of the two agencies met to work out a compromise. This compromise took the form of an announcement published jointly on March 4 by the Federal Reserve and the Treasury and has since become known as the <u>Accord of March, 1951</u>. This agreement reads as follows:

> The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt.[15]

The Federal Reserve Open Market Committee was now free to engage in countercyclical monetary controls leaving the Treasury to manage its debt without the support of the Federal Reserve.

The government securities market began to fall on March 5 and within two weeks the price on all bank restricted issues had fallen below par. In response to these new market conditions, the Treasury initiated some changes in its debt management. An example would be the Investment Series B Bonds which were issued during March.[16]

This brings the summary to the eve of the period to be given detailed examination in this study. It is hoped that the preceding has briefly acquainted the reader with the conditions which prevailed prior to the beginning of fiscal 1952.

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[15] U. S. Treasury, <u>Annual Report, 1951</u>, p. 271.

[16] Charles C. Abbott, <u>The Federal Debt</u> (New York, 1953), p. 107.

Debt Management, 1952

Fiscal 1952 was the first year in which the Treasury was compelled to manage the debt by its own wits and without the guarantee of the Federal Reserve. Due to the new conditions, the Treasury instituted three principal changes in its debt policy. First, it increased the weekly offerings of bills. The second phase took the form of reorganization of the Savings Bond Program. Effective May 1, 1952, the maturity period on all Series E Bonds was shortened from ten years to nine years and eight months. In effect this raised the yield to three per cent, if held to maturity, and provided similar increases in premature yields. In addition, these bonds were allowed to earn three per cent, compounded semi-annually, for ten years following maturity. A new bond, Series H, was placed on the market during the first of June. This was a current income bond with interest being paid via semi-annual check. The final change in the Savings Bond Program consisted of discontinuance of the Series F and G Bonds. This series was originally offered in March of 1951.[17]

To facilitate recognition of changes in the debt structure during this period, Table II has been prepared. A brief examination will reveal some significant changes.

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[17]Federal Reserve Bank of Richmond, "Treasury Launches Deficit Financing Program," Monthly Review, June, 1952, p. 5.

TABLE II

ESTIMATED CHANGES IN OWNERSHIP OF FEDERAL SECURITIES[1]
BY TYPE OF ISSUE, FISCAL 1952

(In billions of dollars)

Type of Security	Total Changes	Changes accounted for by--			
		Private nonbank Investors	Government investment accounts	Banks	
				Commercial	Federal Reserve
Marketable:					
Bills	3.6	1.4	*	2.3	-0.1
Certificates	18.9	5.6	*	4.6	8.6
Notes	-16.8	-6.3	*	-3.7	-6.9
Bonds	- 3.2	-2.7	-0.3	-0.5	0.3
Total	2.5	-1.9	-0.2	2.8	1.9
Nonmarketable, etc.:					
Savings Bonds	0.1	0.1	*	*	--
Savings Notes	-1.2	-1.1	*	-0.1	--
Special Issues	3.1	--	3.1	--	--
Investment Series Bonds	-0.5	1.0	0.5	*	-2.0
Other	-0.1	-0.2	--	0.1	--
Total	1.4	-0.2	3.6	*	-2.0
Total Change	3.9	-2.2	3.4	2.8	-0.1

[1]Gross public debt, and guaranteed obligations of the Federal Government held outside the Treasury.

*Less than $50 million.

Source: U. S. Treasury, Annual Report, 1952 (Washington, 1953), p. 83.

The total debt increased by $3.9 billion. This change was accounted for by an increase in the short-term issues with a corresponding decrease in the long-term issues. This shift is prevalent in the commercial bank, Federal Reserve and private nonbank investor classes. This shift to the short end is in agreement with the eleven month decline in the average length of the debt as recorded in Table III. In addition, there was a transfer of debt from the nonmarketable to the marketable sector. The only exception is government investment accounts. These changes are a matter of fact. The next few paragraphs will discuss their causes and effects.

Most easily explained are the changes in the government investment accounts. Of the total absolute change, seventy-nine per cent was in special issues. Approximately two-thirds of the special issues were absorbed by the federal old-age and survivors insurance trust fund. Significant amounts were also sold to the civil service retirement account, railroad retirement account and the unemployment trust fund.[18] As the economy continues to grow and unemployment remains relatively low, these funds will continue to increase as they have for the past decade.[19] This increase mainly reflects the growth of the American economy.

A shift which is apparent in the remaining ownership classes is a substantial decrease in notes and a like increase

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[18] U. S. Treasury, Annual Report, 1952 (Washington, 1953), p. 597.

[19] Ibid., pp. 560-561.

TABLE III

AVERAGE LENGTH OF THE MARKETABLE INTEREST-BEARING PUBLIC DEBT[1]

End of Fiscal Year	Average Length		Change In Length (Months)
	Years	Months	
1951	6	7	
1952	5	8	-11
1953	5	4	- 4
1954	5	6	2
1955	5	10	4
1956	5	4	- 6

[1]All issues classified to final maturity except partially tax-exempt bonds which are classified to earliest call date.

Source: U. S. Treasury, Treasury Bulletin, January, 1959, p. 21.

in certificates. This does not necessarily represent a preference on their part. It was probably the result of the Treasury's policy of refunding maturing notes into certificates.[20] The Treasury's opinion, expecially in the first half of this period, was that expansion of plant and equipment to meet the defense program and loans to veterans for housing were sufficient to absorb the long-term money available. The Treasury felt this opinion was verified by the limited response given the nonmarketable, long-term Investment Series B Bonds.[21] This aids in explaining the decrease in the non-marketable sector as well as the Treasury's preference for short term issues.

[20]Ibid., p. 83.

[21]Ibid., p. 199.

The remaining significant change was a shift fron non-bank to commercial bank owners. The exodus of the private nonbank investors was attributed by the Treasury to a greater supply of higher yielding mortgages and corporate securities.[22] This opinion is substantiated by the Federal Reserve which shows insurance companies, one of the major nonbank investors, diverting $5.2 billion to corporate securities and $2.0 billion to mortgages accompanied by a net decrease of $0.2 billion in Federal obligations during calendar year 1952.[23] No one specific reason is available to account for the commercial banks' increased holdings. However, a few plausable reasons will be presented. First, there is the natural tendency for banks to keep their excess funds in short-term securities so they may be liquidated quickly. This allows them to make loans with a minimum of delay. Secondly, the Treasury was willing to float part of the debt by accepting demand deposits at the commercial banks as payment for the securities, rather than transferring the funds to its account at the Federal Reserve. In the latter case, the commercial bank must have excess reserves equal to the amount of the securities. In the former case they only need enough excess reserves to cover the normal requirement for demand deposits. Such an operation involving approximately

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[22]Ibid., pp. 79, 768.

[23]Board of Governors of the Federal Reserve System, "Summary Flow of Funds Accounts," Federal Reserve Bulletin, XXXXIII (1957), p. 378.

one billion dollars occurred in the week ending March 19, 1952.[24]

Thus, for the year as a whole, the debt not only became more concentrated in the shorter issues, but a larger portion was owned by the commercial banking system. Either of these trends is generally considered inflationary.[25] The inflationary bias stems from the following possibilities. Short-term debt may be readily converted to cash for spending on consumption or investment or loans by the commercial banks. While, technically, debt creation is deflationary since it withdraws money from the economy, it becomes inflationary when the government spends the money. After the money is spent it tends to return to the commercial banks in the form of private demand deposits. Not only is the money supply enlarged, but the commercial banks have additional excess reserves for credit expansion. The inflation is the result of an increase in the money supply without an increase in real output. The probability that the United States Government will spend the money it has borrowed may also be taken for granted.

Indication of inflationary pressure during this period may be found in the price indexes as published by the U. S. Department of Commerce. The purchasing power of the dollar

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[24]Federal Reserve Bank of New York, "Money Market in March," Monthly Review, XXXIV (1952), pp. 45-47.

[25]National City Bank of New York, "Treasury Financing," Monthly Letter, July, 1952, pp. 78-79.

for calendar year 1951, as measured by wholesale prices and consumer prices, fell 5.9 and 6.2, respectively. During the following calendar year there was a 2.5 rise and a 2.0 fall.[26] a probable cause of the 2.5 increase as reflected by wholesale prices is revealed by noting the real changes in gross private domestic investment. This item shows a continuous downward trend for calendar years 1951 and 1952. According to the U. S. Department of Commerce, this decrease in gross private investment resulted from a decrease in the rate of business inventory accumulation. Other segments, producers durables and new construction, remained constant or made slight gains.[27] This liquidation of inventories could be a possible cause of lower wholesale prices which would increase the purchasing power of the dollar spent on wholesale goods. The point here is that the increase in the purchasing power of the wholesale dollar during calendar year 1952 may not be a valid representative of the over-all economy.

The information above has established two premises. First, the debt management was such as to give it a potential inflationary bias. Second, the American economy suffered some inflation during this fiscal period. However, from the point of logic, it may not be conclusively concluded

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[26] U. S. Department of Commerce, Business Statistics (Washington, 1957), p. 32.

[27] U. S. Department of Commerce, "National Income and National Product in 1952," Survey of Current Business, XXXIII (1953), p. 5.

that the debt management was the sole or partial cause. The New York Federal Reserve Bank states that the rise in prices could have been due to rising costs of production, increased demand stemming from defense spending, as well as the method in which the government deficit was financed.[28] The cause was possibly a composite of many factors. The best conclusion which may be made is that the Treasury's debt management so changed the structure of the debt that it was capable of being a contributing factor in causing inflation.

Debt Management, 1953

Fiscal year 1953 marked the first period of debt management of a new administration. The Republican administration, which took office during the middle of this fiscal period, had pledged itself to the task of stabilizing the dollar.[29] One of the means to this end was a proposed change in debt management policy. Specifically, placement of the debt in long-term issues and reduction of commercial bank holdings were cited by Secretary of the Treasury Humphrey as the two principal objectives.[30]

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[28]Federal Reserve Bank of New York, "The Pressure on Prices," Monthly Review, XXXIV (1952), pp. 145-146.

[29]National City Bank of New York, "Protecting the Dollar," Monthly Letter, December, 1952, p. 135.

[30]U. S. Treasury, Annual Report, 1953 (Washington, 1954), p. 4.

During this fiscal year the total debt increased by $7 billion. Examination of Table IV will reveal the composition of this increase and those changes which warrant further explanation.

The nonmarketable sector remained relatively constant with the increase occurring in the marketable securities. Within the nonmarketable sector, a significant increase is present in special issues, while a similar decrease prevailed in savings notes. Among the marketable securities, certificates declined sharply with compensating increases occurring in the remaining security types, but primarily in notes. Of the total absolute change by class of owner, private nonbank investors accounted for thirty-seven per cent, government investment accounts for twenty-eight per cent, Federal Reserve for fifteen per cent, and commercial banks for twenty per cent. The latter was the only one reporting a net decrease. Cause and effects of these changes will be reviewed in the following paragraphs.

The increase in special issues absorbed by the government investment accounts was, as in the previous year, due to the growth of these accounts.[31] The other prominent change in the nonmarketable sector was the $2.2 billion decrease in savings notes. These securities are primarily designed to give businessmen a safe security in which to

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[31]Ibid., pp. 40, 45.

TABLE IV

ESTIMATED CHANGES IN OWNERSHIP OF FEDERAL SECURITIES[1]
BY TYPE OF ISSUE, FISCAL 1954

(In billions of dollars)

Type of Security	Total Changes	Change accounted for by-- Private nonbank Investors	Government investment accounts	Banks: Commercial	Banks: Federal Reserve
Marketable:					
Bills	2.5	2.6	0.1	-1.2	1.1
Certificates	-12.6	-3.0	*	-2.7	-6.8
Notes	11.5	3.1	*	0.1	8.2
Bonds	5.6	3.6	0.4	1.5	0.1
Total	6.9	6.2	0.4	-2.3	2.6
Nonmarketable, etc:					
Savings Bonds	0.2	0.2	*	*	---
Savings Notes	-2.2	-2.1	*	-0.1	---
Special Issues	2.8	---	2.8	---	---
Investment Series Bonds	-0.8	*	*	*	-0.7
Other	*	-0.1	---	0.1	---
Total	*	-2.0	2.8	*	-0.7
Total Change	7.0	4.2	3.2	-2.3	1.8

[1]Gross public debt, and guaranteed obligations of the Federal Government held outside the Treasury.

*Less than $50 million

Source: U. S. Treasury, Annual Report, 1953 (Washington, 1954), p. 46.

place funds being held pending tax payments.[32] During this period businessmen tended to favor the increased yield on marketable notes and bills as a temporary investment for their tax reserves. Realizing that a net liquidation was occurring in the savings notes, the Treasury replaced the existing series A with series B. This new series yielded 2.47% as contrasted to 1.88% of series A. However, this action was not taken until May 15, 1953, which evidently was too late to stem the tide for this period.[33]

In the marketable sector a shift form certificates to notes is evident. By referring to Table II it may be noted that this is the opposite of the change which occurred in fiscal year 1952. This was the result of the Treasury offering higher yielding notes and bonds in exchange for maturing certificates. During this period, the Treasury offered a thirty-year, 3 1/4%, bond. While this bond probably attracted the most attention, the majority of the funding from the point of dollar value was in fourteen month, 2 1/8%, notes and seventy-one and one-half month, 2 3/8%, bonds.[34]

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[32]Federal Reserve Bank of New York, "Cash Borrowing of the U. S. Treasury: Nonmarketable Issues," Monthly Review, XXXV (1953), p. 28.

[33]Federal Reserve Bank of New York, "Treasury Financing in Fiscal Year 1953," Monthly Review, XXXV (1953), p. 126.

[34]U. S. Treasury, Annual Report, 1953, pp. 32-35.

The increase registered by the private nonbank sector was significant because it represented a reversal of the trend for the past few years. This increase was primarily due to individuals and state and local governments who made new purchases of $1.7 billion each; rather than nonbank financial institutions.[35] This change of preference may have been due to improved yields which served to make the government securities more competitive with private investment.

Contrary to the pattern established by other owner classes, the commercial banks decreased their holdings of government securities. Where the other owners apparently exchanged their maturing certificates for notes, the commercial banking system did not. In addition, they liquidated part of their bills so that the total decline in these two instruments totaled $3.9 billion. A probable cause may have been to obtain excess reserves to meet increased demand for credit which was the result of suspension of Regulation W by the Federal Reserve on May 7, 1952.[36] The effect of the Federal Reserve's action was to remove the down payments for home repair and modernization and for all items costing less than $100.[37] In addition, easier credit and downpayment

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[35]Ibid., pp. 42-43.

[36]Board of Governors of the Federal Reserve System, Thirty-ninth Annual Report (Washington, 1953), p. 82.

[37]Ibid., pp. 5-6.

requirements were provided through suspension of Regulation X on September 12, 1952.[38] The Federal Reserve reports that short- and intermediate-term borrowing by consumers increased sharply in May, 1952, after a relatively constant year.[39] While the above statement did not pertain solely to commercial banks, the Federal Reserve did state in its next Annual Report that demand for bank credit underwent considerable strengthening in late 1952 and early 1953. The liquidation of bills by the commercial banks will be explained in the following paragraph. The increase in holding of bonds may reflect, in addition to the improved yields, the transfer of three issues; 2¼'s of 1959-62, 2½'s of 1963-68, and 2½'s of 1964-69, from the bank restricted to the bank eligible category.[40]

The changes in the Federal Reserve's portfolio of bills and certificates was likely due to refunding operations described above. The net increase in total holdings may have been the result of implementation of its credit controls. For instance, the open market committee resumed purchasing of bills in May, 1953, with increased purchases in June. The purpose was to supply reserves to the commercial banks.[41] Reference to Table IV will reveal that the net liquidation

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[38]Ibid., pp. 86-87.

[39]Ibid., p. 8.

[40]U. S. Treasury, Annual Report, 1953, p. 32.

[41]Board of Governors of the Federal Reserve System, Fortieth Annual Report (Washington, 1954), p. 5.

of bills by commercial banks is nearly equal to the Federal Reserve's net purchases.

During this fiscal year, two principal changes occurred in the debt structure. The rate of reduction in the average length of the debt had been retarded and a portion of the debt had been shifted from commercial banks to private non-bank owners. These results were in accordance with the Treasury's intention, though the reduction of commercial-bank-held debt may have been as much a result of Federal Reserve credit policy as Treasury debt management.

The results discussed above have both inflationary and deflationary potentials. The current deflationary effect of debt creation from nonbank sources would be negated by the subsequent government spending. Retirement of the commercial bank held debt would be expected to be inflationary since the excess reserves were probably used to expand credit. Thus, every liquidated security could technically bring a multiple expansion in the money supply, the multiple being equal to the reciprocal of the reserve requirement. The lengthening of the debt would tend to stabilize the debt, making rapid expansion of credit by banks or spending by individuals difficult. This would tend to prevent inflationary surges in the economy, though the effect may be overtime, rather than the current period, depending on the length of the debt.

Another potential deflationary effect of this year's debt management was its effect on the rate of interest.

When the Treasury offers to borrow money, this increases the demand for money which may cause the price of money, that is the rate of interest, to rise. In addition to this direct effect, there may be an indirect effect stemming from businessmen's anticipation, and subsequent discounting, of the direct effect. A major funding operation by the government is of sufficient magnitude to place a heavy, though temporary, strain on the money market. Businessmen who are anticipating a bond issue of their own will try to enter the market at a time when it is not under any abnormal strain. This may require them to borrow in advance of their need or postpone a bond issue. Similarly, lenders may demand a higher rate on the belief that the future interest rate will be higher due to an increase in demand resulting from a government funding operation. The result is a process of arbitrage which may, indirectly, tend to even out flucuations in the price of money. Such an indirect effect was prevalent during the latter part of this period, according to the Federal Reserve. Businessmen, in an effort to beat the Treasury to the market, borrowed in advance of their needs. The result was a continued strong demand for money which helped create moderate increases in the interest rates during the forepart of this fiscal year. After mid-April, 1953, a sharp increase occurred with the rate reaching calendar year highs in May and June.[42] The higher rate of interest could

[42] Ibid., p. 23.

possibly have had a dampening effect on investment spending and, if so, a deflationary effect.

To determine the net effect of preceding possible deflationary-inflationary influences is not within the ability of this writer. Neither is a positive conclusion available by observing the changes in the price level. The purchasing power of the wholesale and retail dollars increased 1.4 and decreased 0.5, respectively.[43] It would appear, however, that the variables in the economy, of which debt management is one, were such as to retard inflationary pressures.

Debt Management, 1954

At the beginning of this fiscal year a truce was established in Korea. During this fiscal year the United States made a transition from a hot-war economy to a cold-war economy.[44] The resulting decline in business activity brought changes in Treasury debt management, as well as Federal Reserve monetary policy. As to the debt management, two principle problems claimed the Treasury's attention. First, the Treasury wished to avoid countering the Federal Reserve's policy of easing credit. Second, the total debt was approaching the $275 billion limit set by Congress.[45]

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[43] U. S. Department of Commerce, Business Statistics, p. 32.

[44] Federal Reserve Bank of New York, "Treasury Finance in Fiscal 1954," Monthly Review, XXXVI (1954), p. 108.

[45] U. S. Treasury, Annual Report, 1954 (Washington, 1955), pp. 412-413.

An examination of Table V will aid in detecting the significant changes in the debt structure during this period. The debt increased by the amount of $5.2 billion. Except for the special issues sold to the government investment accounts, the changes were primarily located in the marketable sector. The most prominent change among the marketable securities was in those of longer terms and was, primarily, associated with an increase in commercial bank holdings, and a decrease in private nonbank holdings. The following paragraphs will be devoted to a discussion of the possible causes and effects.

Government investment accounts increased their purchases of special issues by $1.7 billion; however, this was $1.1 billion less than the net increase of the previous fiscal year. Examination of data published by the Treasury will show that the total receipts of these accounts increased $0.226 billion, but their expenses increased by $1.600 billion during fiscal year 1954. The result was a $1.374 net decrease in net receipts for this fiscal year. The increase in expenses were largely attributable to the federal old-age and survivors trust fund and the unemployment trust fund.[46] This increase in expense would appear to be in agreement with the recessionary state of the economy.

As stated above, the Federal Reserve was observing a policy of easing credit during the fiscal year. This was

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[46]U. S. Treasury, Annual Report, 1954, p. 447.

TABLE V

ESTIMATED CHANGES IN OWNERSHIP OF FEDERAL SECURITIES[1] BY TYPE OF ISSUE, FISCAL 1954

(In billions of dollars)

Type of Security	Total Changes	Change accounted for by--			
		Private nonbank Investors	Government investment accounts	Banks	
				Commercial	Federal Reserve
Marketable:					
Bills	-0.2	-0.6	-0.1	-0.3	0.9
Certificates	2.6	0.4	*	0.5	1.6
Notes	1.5	1.3	*	1.0	-0.7
Bonds	-0.8	-3.2	0.1	3.7	-1.4
Total	3.0	-2.2	0.1	4.9	0.3
Nonmarketable, etc:					
Savings Bonds	0.2	0.2	*	*	---
Savings Notes	0.6	0.6	*	*	---
Special Issues	1.7	---	1.7	*	---
Investment Series					
Bonds	-0.5	-0.5	---	*	---
Other	0.2	0.2	---	*	---
Total	2.2	0.5	1.7	*	---
Total Change	5.2	-1.7	1.8	4.8	0.3

[1]Gross public debt, and guaranteed obligations of the Federal Government held outside the Treasury.

*Less than $50 million.

Source: U. S. Treasury, Annual Report, 1954 (Washington, 1955), p. 39.

done by lowering reserve requirements, lowering the discount rate, as well as performing appropriate open market operations.[47] This action by the Federal Reserve would provide commercial banks with excess reserves which they might otherwise obtain by liquidating government securities. They may assist in explaining the presence of only a slight decrease in bills as well as the increase in the longer term issues by the commercial banks. Another factor relevant to the commercial banks, might be a reluctance on their part to loan to business during a recession. Instead, they might prefer the safety of government securities for their funds.

In view of the foregoing conditions, the Treasury designed its debt operations so as to absorb funds from the commercial banks leaving private capital for the private investment needed to provide a higher level of economic activity.[48] Furthermore, the debt operations were designed to attract the commercial banks' intermediate- and long-term funds. This was accomplished by offering holders of maturing obligations a choice between a one-year or a long-term security. The new money funding also avoided use of short-term securities.[49]

The policy and circumstance discussed above may explain

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[47]Board of Governors of the Federal Reserve System, Forty-first Annual Report (Washington, 1955), pp. 5-6.

[48]U. S. Treasury, Annual Report, 1954, p. 35.

[49]Ibid., p. 22.

the gains registered by the commercial banks and the losses by the private nonbank investors. In addition, they explain how the Treasury was able to accomplish the two-month increase in the average length of the debt as exhibited in Table III.

Another consideration of the Treasury was the statutory debt limit. During the forepart of this fiscal period, Secretary Humphrey began initiating action to raise the $275 billion statutory limit.[50] The total gross debt subject to this limitation, amounted to $265.5 billion on June 30, 1953.[51] While this was nearly $10 billion below the maximum, he felt action should be taken immediately because of the Treasury's policy of keeping a $6 billion cash operating balance, a thirty-day supply, and because it required approximately sixty days to prepare for a major funding operation. He felt that a temporary extension to $290 billion would provide sufficient margin, though not excessive, and should be allowed immediately because of a $5 billion funding operation due in September or October.[52] Senator Byrd of the Senate Finance Committee represented the opposing point of view. His contention was that the debt, of itself, was too large at present and that a $6 billion cash operating balance was more

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[50] 31 U. S. C. A. 757b.

[51] U. S. Treasury, Annual Report, 1953, p. 382.

[52] "Will the Government Run Out of Money?", U. S. News & World Report, August 7, 1953, pp. 31-33.

than was actually required.[53] Whatever the merit of the preceding arguments, the debt limit was not extended during this fiscal year. Due to the narrow operating margin, the Treasury deemed it necessary to suspend issue of savings notes. This was done on October 23, 1953.[54] This explains the small increase in this security despite the improved yields instituted at the close of the preceding fiscal year.

For the fiscal year, as a whole, there were two primary changes, in addition to the net increase, in the composition of the debt. A shift of the debt from private nonbank investors to the commercial banks and an increase in the average length of the debt. The debt creation and subsequent spending could be expected to be inflationary as additional money was added to the economy. However, if the spending served to employ idle resources, then the addition to national product would offset the increase in the money supply and tend to dampen the inflationary pressures. The creation of debt from the banking system might be deflationary if it were short of excess reserves. In view of the Federal Reserve's monetary policy, it would appear likely that the commercial banks had sufficient excess reserves. Specifically, the excess reserves of Federal Reserve member banks exceeded their borrowings by the beginning of fiscal

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[53]"Senator Byrd Warns U. S.: Debt is Too Big Already," U. S. News and World Report, August 21, 1953, pp. 37-39.

[54]U. S. Treasury, Annual Report, 1954, p. 201.

1954. The margin of excess reserves over borrowings continued to increase throughout this fiscal year.[55] The liquidation of debt held by investors in the nonbank sector would provide these persons with funds for private investment. The investment spending, if it occurred, would be similar to government spending; that is, the economic effect would depend on whether unemployed resources were activated.

In addition to the effects of investment and government spending considered above, consideration may be given to changes in the various interest rates. Assuming no increase in the supply of money, debt creation might be expected to raise the interest rate since the demand for money would be increased. The assumption that the money supply did not increase must not be lightly made. The Federal Reserve's easy money policy would tend to add to the money supply. Even with a constant supply of money, a fall in income would decrease transactions demand which would make more money available for lending and investment. A survey of the market interest rate shows a decline during this period. The monthly average yields on corporate bonds fell from 3.61% for June, 1953, to 3.16% for June, 1954. Similarly, yields on Treasury bonds fell from 3.09% to 2.54% for the same period.[56] The average bank rate on business loans for nineteen

[55]Board of Governors of the Federal Reserve System, Forty-first Annual Report, pp. 27-29.

[56]U. S. Department of Commerce, Business Statistics, p. 98.

selected cities fell from 3.73% in June, 1953, to 3.60% in June, 1954.[57] From the above reasoning and data, a hypothesis that the debt management did not deter the monetary policy seems evident.

Inflationary-deflationary forces, as expressed by the price indexes, seem to have been self-compensating with the inflationary pressure slightly the stronger. The purchasing power of the consumer's and wholesaler's dollar fell 0.4 each for the fiscal year.[58] While this may not correspond with a recessionary economy, it may be remembered that the economy was commencing the recovery phase around the end of this fiscal year.

The net effect of the debt management is difficult to isolate due to other economic influences. These influences include the active participation of the Federal Reserve plus the slump and then recovery in economic activity. To make the convenient assumption of "ceteris paribus" in this case seems too unrealistic. However, some appraisal of the Treasury's objectives may be made. The Treasury desired to lengthen the maturity of the debt; this was accomplished. The Treasury wished to avoid interfering with the Federal Reserve's monetary policy. In view of the economic recovery which was in progress at the end of this fiscal period, the least that may be said is that debt management did not prove too great a handicap to monetary policy if it did not help it.

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[57]Ibid., p. 82.

[58]Ibid., p. 32.

Debt Management, 1955

The Treasury's twin debt management goals of lengthening the debt and inducing economic growth, contributing to neither inflation nor deflation, were reaffirmed by Secretary Humphrey before the Congressional Subcommittee on Economic Stabilization.[59] Other administrative decisions concerning the debt and its management pertained to the debt limit and the limitation on purchase of bonds by the commercial banks. At the beginning of this period the total debt, subject to the statutory limitation, stood at $270.8 billion, though it had come within $0.3 billion of the $275 billion limit during fiscal 1954.[60] On August 24, 1954, Congress approved a temporary increase of $6 billion to expire on June 30, 1955.[61] However, on June 30, 1955, Congress extended the increase for another year.[62] In regard to the bank restricted bonds, on January 1, 1955, all Treasury bonds were declared elgible for purchase by commercial banks.[63]

The total federal debt increased, as recorded in Table VI, by the amount of $3.1 billion during fiscal year 1955.

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[59]U. S. Treasury, Annual Report, 1955 (Washington, 1956), pp. 290-291.

[60]U. S. Treasury, Annual Report, 1954, pp. 412-413.

[61]68 Stat. 895.

[62]69 Stat. 241.

[63]U. S. Treasury, Annual Report, 1955, pp. 186, 515-516.

TABLE VI

ESTIMATED CHANGES IN OWNERSHIP OF FEDERAL SECURITIES[1]
BY TYPE OF ISSUE, FISCAL 1955

(In billions of dollars)

Type of Security	Total Changes	Changes accounted for by--			
		Private nonbank Investors	Government investment accounts	Banks	
				Commercial	Federal Reserve
Marketable:					
Bills	*	3.0	*	-1.5	-1.4
Certificates	-4.6	-2.3	*	-3.9	1.7
Notes	8.8	5.7	0.1	4.4	-1.4
Bonds	0.6	-0.2	0.2	1.0	-0.3
Total	4.8	6.2	0.2	-0.1	-1.4
Nonmarketable, etc.:					
Savings Bonds	0.3	0.3	*	*	--
Savings Notes	-3.2	-3.1	*	*	--
Special Issues	1.0	--	1.0	--	--
Investment Series Bonds	-0.2	-0.2	*	*	--
Other	0.3	0.3	*	*	--
Total	-1.7	-2.7	1.0	*	--
Total Changes	3.1	3.4	1.2	-0.1	-1.4

[1]Gross public debt, and guaranteed obligations of the Federal Government held outside the Treasury.

*Less than $50 million

Source: U. S. Treasury, Annual Report, 1955 (Washington, 1956), p. 34.

Marketable securities accounted for most of the net increase in the total debt as well as the net decrease registered by some of the nonmarketable issues. The significant changes in the nonmarketable sector consist of any increase in special issues and a decrease in the savings notes. In the marketable sector there was a definite decline in the holdings of certificates and a larger increase in notes by all owner classes except the Federal Reserve. As to the total holdings of the four classes of owners, private nonbank investors and government investment accounts enlarged their portfolios while the banking system liquidated a part of theirs. The following paragraphs will discuss the probable causes and effects of the changes just cited.

While government investment accounts enlarged their holdings, the net increase was $0.7 billion less than in fiscal year 1954. By comparing Tables IV, V, and VI it may be seen that this was the second year for this downward trend. However, the cause was similar to that of the previous fiscal period. It was due to smaller purchases by the federal old-age and survivors insurance trust fund and the unemployment trust fund.[64] The net liquidation of savings notes were due to the suspension of their issue in the preceding fiscal year. Consequently, this does not represent a change of preference on the part of the investors. On

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[64]Ibid., p. 33.

June 30, 1955, there was $1.9 billion in savings notes outstanding.[65]

The liquidation of certificates and gains in notes reflects the continuation of the Treasury's policy of offering holders of maturing securities a choice between two securities of one-year terms or more. This policy was used in four of the five major refundings. In the issues for cash, all securities had terms in excess of one-year except for one tax anticipation certificate. The purpose of this policy is to lengthen the average maturity of the debt.[66] The bonds issued during this period, and as exhibited by the increase in Table VI, were of intermediate terms. An exception was a 3%, forty-year, bond issued in February. It was the first bid for long-term money since fiscal 1953, and the longest since the Panama Canal bonds of 1911. However, its relative significance was not too great because it only amounted to less than $2 billion.[67] The effect of this emphasis on long-term securities was to increase the average length of the debt by four months, as exhibited in Table III.

A cause for the liquidation of bills by the banking system and an almost equal gain by the nonbank investors may be found by observing the Federal Reserve's credit policy. In February, 1955, the Federal Reserve changed its policy

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[65] Ibid., pp. 26-27.

[66] Ibid., p. 25.

[67] Ibid.

from one of credit ease to one of credit restraint. Thus, the liquidation may represent open market sales designed to withdraw money from the economy and raise the rate of interest. In a period of dwindling reserves and increased credit demand, the commercial banks could be expected to replenish their reserves by selling government bills.[68] The increased yields on the bills would serve as an inducement to the nonbank investors to place their funds in these securities.

The effect of debt creation in fiscal 1955 would be largely confined to the private nonbank investors. Once again it may be said that while creation of debt would tend to be deflationary, the subsequent spending would tend to offset it. Some writers have speculated that the marginal propensity to consume of the recipients of the government spending might be higher than that of the lenders, thus resulting in a net inflationary effect. The increase in the length of the debt and the shift to longer term maturities would tend to stabilize the debt and possibly give rise to deflationary pressures. The liquidation of government securities by the commercial banks for the purpose of meeting credit demands by business would generally be considered expansionary. However, if the liquidation to provide required reserves was the result of increases in the reserve requirement, there would be no inflationary effect. The possibility of the latter, at least to some degree, is

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[68] Board of Governors of the Federal Reserve System, Forty-second Annual Report (Washington, 1956), p. 5.

reasonable considering the tight money policy. The additional supply of securities during this period of credit restraint could be expected to increase the interest rate. Interest rates did increase during the latter part of this period. However, to attribute the rise in interest rates and subsequent deflationary effect to Treasury debt management would necessitate ignoring the Federal Reserve. It seems reasonable to conclude that the Treasury debt management, at least in the last half of the fiscal year, facilitated the Federal Reserve's effort to dampen inflationary pressure.

Debt Management, 1956

Fiscal year 1956 was marked with a rarity in the records of debt management. The total gross public debt and guaranteed obligations decreased during this period. This was the first decline since 1951 and only the fourth since World War Two.[69]

As to borrowing operations, the Treasury managed to limit its major operations to four trips to the market; August December, March, and June. This may be compared with as many as twelve in some post-World War Two years.[70] While fewer trips to the market reduces the Treasury's overhead costs, the main advantage is to the Federal Reserve which has more free time to implement its monetary policy.

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[69] U. S. Treasury, Annual Report, 1956 (Washington, 1957), p. 393.

[70] Ibid., pp. 23, 27.

While not a major operation, the Treasury did reopen the books on the three percent, forty-year, bonds orginally issued in February, 1955. The second offering was made in July, being delayed till this time pending renewal of the extension of the debt limit by Congress on June 30, 1955. This cash issue, in the amount of $0.821 billion, was the only long-term issue of this fiscal period.[71] The average length of the debt fell from five years and ten months to five years and four months, as exhibited in Table III. This loss of six months was equal to the sum of the gain in each of the two previous fiscal years. The emphasis on shorter term securities was the result of the Federal Reserve's decision to change its credit policy from one of credit ease to one of credit restraint, thus cuting the supply of long-term money.[72] The change of credit policy occurred in February, 1955, and continued throughout this calendar year.[73] The same general policy remained in effect during the calendar year 1956.[74]

Examination of Table VII shows that the decrease in total debt amounted to $1.6 billion. This decrease was, primarily, in the nonmarketable sector. The marketable sector remained

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[71] Ibid., p. 26.

[72] Ibid., pp. 23-24.

[73] Board of Governors of the Federal Reserve System, Forty-second Annual Report, pp. 5-8.

[74] Board of Governors of the Federal Reserve System, Forty-third Annual Report (Washington, 1957), p. 13.

TABLE VII

ESTIMATED CHANGES IN OWNERSHIP OF FEDERAL SECURITIES[1]
BY TYPE OF ISSUE, FISCAL 1956

(In billions of dollars)

Type of Security	Total Changes	Changes accounted for by--			
		Private nonbank Investors	Government investment accounts	Banks	
				Commercial	Federal Reserve
Marketable:					
Bills	1.3	1.5	0.2	-0.4	*
Certificates	2.5	-0.1	0.3	-0.5	2.7
Notes	-4.8	1.0	0.6	-3.8	-2.5
Bonds	0.8	2.0	*	-1.3	--
Total	-0.2	4.4	1.2	-5.9	0.2
Nonmarketable, etc.:					
Savings Bonds	-0.9	-0.5	*	-0.4	--
Savings Notes	-1.9	-1.9	*	*	--
Special Issues	1.9	--	1.9	--	--
Investment Series Bonds	-0.6	-0.5	-0.1	*	--
Other	0.1	0.2	--	-0.1	--
Total	-1.4	-2.6	1.8	-0.5	--
Total Change	-1.6	1.8	3.0	-6.5	0.2

[1]Gross public debt, and guaranteed obligations of the Federal Government held outside the Treasury.

*Less than $50 million.

Source: U. S. Treasury, Annual Report, 1956 (Washington, 1957), p. 34.

relatively constant, as a whole, though it did contain a marked shift from commercial banks to private nonbank investors.

There were two significant changes in the nonmarketable sector. First, the government investment accounts increased their holdings of special issues. It may be noted that the trend of successively smaller net increases of the past two fiscal years was reversed. The net increase of special issues for this fiscal year exceeded the net increase for fiscal 1955 by $0.9 billion. This was the result of an improved receipts-expenditures relationship in the federal old-age and survivors trust fund and the unemployment trust fund which allowed these funds to increase their investments.[75] This probably reflects the continued recovery from the recession. Second, the nonbank investors show a decrease of $1.9 billion in their holdings of savings notes. Actually, this does not represent a preference on their part. It is the result of the Treasury's decision in a previous period to suspend issue of these securities. All outstanding savings notes matured during this fiscal year.[76]

The principal change in the marketable sector was the shift from commercial banks to nonbank investors. This shift may have been due to the following factors. As stated above, the Federal Reserve was observing a policy of credit restraint. As the economy continued its recovery from the

[75] U. S. Treasury, Annual Report, 1956, p. 34.

[76] Ibid., p. 431.

recession, businessmen increased their demand for credit.[77] As a result of these two factors, the commercial banks liquidated government securities to increase their supply of loanable funds.[78] The liquidation of securities by commercial banks could be expected to increase the supply of these securities. The increased supply would tend to lower the selling price of the securities which would increase the yield. This tendency for higher yields would be augmented by the Federal Reserve's credit policy. As the preceding premises suggest, interest rates did rise throughout fiscal 1956.[79] The improved yields would serve as incentive for nonbank investors to purchase the government securities as witnessed by Table VII. At this point the question may arise as to who was demanding credit from the commercial banks if nonbank investors had funds to place in government securities. Further analysis of the changes within the nonbank classification will resolve this contradiction. During this period insurance companies, mutual savings banks, and nonfinancial corporations did register a net decrease in their holdings of government securities. However, net purchases by individuals, state and local governments, and miscellaneous investors were sufficient to create the net increase.[80]

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[77] Federal Reserve Bank of New York, Annual Report - 1956 (New York, 1957), pp. 23-24.

[78] Board of Governors of the Federal Reserve System, Forty-third Annual Report, p. 8.

[79] Ibid., pp. 11-13.

[80] U. S. Treasury, Annual Report, 1956, p. 31.

This was a fiscal period in which the Treasury allegedly had to make a choice between its two primary objectives. According to Secretary Humphrey, the Treasury sacrificed lengthening the debt in favor of economic growth and stability so as not to counter the Federal Reserve's policy of credit restraint, thus serving to stabilize the dollar.[81] Statistical data does not verify the success of the Treasury's action. The purchasing power of the wholesale and consumer dollars fell 2.8 and 1.7, respectively.[82] Either one should be sufficient evidence of inflationary pressure.

A more critical review of the Treasury's action will shed some light on probable causes of this inflationary tendency. As noted above, the debt was reduced by $1.6 billion. Liquidation of the debt, considered by itself, is inflationary since it adds to the money supply without increasing real goods and services. It may be said to the Treasury's credit that it did concentrate the liquidation in commercial bank held debt. Such debt is generally less inflationary than liquidation of nonbank held debt because it does not immediately add to the money supply. However, if the commercial banks utilize their new excess reserves for loans, the approximate degree of inflation will be the same in either case, "ceteris paribus." Since this was a period of tight money and growing demand for loanable funds, one would

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[81]Ibid., pp. 23-24, 233.

[82]U. S. Department of Commerce, Business Statistics, p. 32.

expect that commercial banks would utilize their excess reserves. This expectation may be confirmed by observing the statistical data published by the Federal Reserve. The excess reserves of all commercial banks who were members of the Federal Reserve System presented a downward trend throughout fiscal 1956. A similar trend is displayed by these bank's free reserves, excess reserves less borrowings, which were negative during this fiscal year, except for the month of July, 1955.[83] The point which is to be made here, is that due to monetary policy and expanding business conditions it is probable that liquidation of commercial bank held debt was as inflationary as liquidation of debt held by nonbank owners.

In the Treasury's favor it must be conceded that limiting its major operations to four trips would facilitate exertion of monetary policy. In addition the Treasury can not be blamed for not issuing more long-term debt if the market would not absorb it. The shift from commercial banks to private nonbank investors may have been unavoidable due to the priority extended to monetary controls. However, it appears that when the Treasury realized its receipts would exceed expenditure it would have held the excess as an idle budget surplus.

The general conclusion in regard to this fiscal year is that while inflation can not be proven to be due to debt

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[83] Board of Governors of the Federal Reserve System, _Federal Reserve Bulletin_, XXXXII (1956), p. 945.

management, the latter was probably endowed with a potential inflationary bias. Instead of the Treasury sacrificing one objective for the other, it seems that both may have been sacrificed by liquidation of the debt.

Concluding Comments

The preceding has presented an account of changes in debt structure as resulting from the Treasury's effort to manage the debt during fiscal 1952 through 1956. To this was added the possible and probable causes and economic effects of the debt management. In the following chapter a summary will be provided giving an over-all review of the information presented in this chapter. Conclusions which are deemed pertinent will be presented.

CHAPTER IV

FIVE YEARS OF DEBT MANAGEMENT

Summary

The preceding chapter has presented a detailed analysis of debt management during five periods. Where chapter three considered the economic causes and implications peculiar to a given period, this chapter will employ a similar approach treating the several periods as a unit. The purpose of this aggregate view is to facilitate recognition of major trends in the composition of the debt.

Before trends may be determined, irrelevant and conflicting data must be eliminated. Table VIII is provided to aid in this analysis.

During fiscal 1952 private nonbank investors were attracted by higher yielding mortgages and veterans' loans. At the same time commercial banks were induced to purchase government securities by the Treasury's willingness to float part of the debt. The result was a net liquidation by private nonbank investors and a net increase on the part of commercial banks. The following year the private nonbank investors increased their holdings while commercial banks registered a net redemption. Individuals and state and local governments,

TABLE VIII

ESTIMATED CHANGES IN FEDERAL DEBT[1], FISCAL 1952 THROUGH 1956

(In billions of dollars)

	Net Changes per Fiscal Year					Five Year Net Change	
	1952	1953	1954	1955	1956	Amount	Per Cent
Type of Security:							
Marketable:							
Bills	3.6	2.5	-0.2	*	1.3	7.2	41
Certificates	18.9	-12.5	2.6	-4.6	2.5	6.8	39
Notes	-16.8	11.5	1.5	8.8	-4.8	0.2	01
Bonds	-3.2	5.6	-0.8	0.6	0.8	2.9	16
Total	2.5	6.9	3.0	4.8	-0.2	17.1	97
Nonmarketable, etc.:							
Savings Bonds	0.1	0.2	0.2	0.3	-0.9	-0.1	-01
Savings Notes	-1.2	-2.2	0.6	-3.2	-1.9	-7.8	-44
Special Issues	3.1	2.8	1.7	1.0	1.9	10.5	60
Investment Series Bonds	-0.5	-0.8	-0.5	-0.2	-0.6	-2.5	-14
Other	-0.1	*	0.2	0.3	0.1	0.3	02
Total	1.4	*	2.2	-1.7	-1.4	0.4	02
Class of Investor:							
Private Nonbank	-2.2	4.2	-1.7	3.4	1.8	5.6	32
Government Investment Accounts	3.4	3.2	1.8	1.2	3.0	12.5	71
Commercial Banks	2.8	-2.3	4.8	-0.1	-6.5	-1.3	-07
Federal Reserve	-0.1	1.8	0.3	-1.4	0.2	0.8	04
Total Change[2]	3.9	7.0	5.2	3.1	-1.6	17.5	100

TABLE VIII (Continued)

[1]Gross public debt, and guaranteed obligations of the Federal Government held outside the Treasury.

[2]This total is equal to the sum of Total Marketable Securities plus Total Nonmarketable, etc. Securities or to the sum of the four investor classes.

*Less than $50 million.

Source: U. S. Treasury, _Annual Report, 1956_ (Washington, 1957), pp. 31, 394-395.
U. S. Treasury, _Annual Report, 1954_ (Washington, 1955), pp. 36.
U. S. Treasury, _Annual Report, 1952_ (Washington, 1953), p. 79.

who may have been attracted by the improved yields and to whom safety is more important, accounted for the increase in the private nonbank sector. Increased credit demands stemming from suspension of regulations W and X by the Federal Reserve were a likely cause for the commercial banks' desertion of government securities. The following fiscal year was characterized by a recessionary economy. The Treasury funded the debt from commercial banks who were operating under a liberal credit policy, in order to leave private funds for private investment. As a result the debt structure shifted back to commercial banks. As the economy began to emerge from the recession in fiscal 1955, nonbank investors began to purchase government securities. The Federal Reserve's switch to a tight money policy in February, 1955, and credit demands by the expanding economy stemmed the purchase of government securities by commercial banks. Actually, the commercial banks registered only a slight net liquidation, but the private nonbank investors absorbed the debt's increase. Thus the structure of the debt was beginning to gravitate back towards nonbank ownership. This movement became very prominent in fiscal 1956. In response to the tight money policy, commerical banks registered a large net liquidation in their government portfolios. The shift to nonbank investors was more the result of the commercial banks' liquidation than the small net purchase by the private nonbank investors. Thus for the five years, the debt made four shifts between the two classes of private ownership.

Though the sum of the absolute change between the commercial banks and the private nonbank investors amounted to $28.9 billion, the net change was only $6.9 billion. Evaluation of the significance of this change must be oriented to the two political administrations which were in charge of debt management during the five-year period. The shift to commercial banks during fiscal 1952 was consistent with the policy of the Democratic administration. This administration favored funding the debt in short-term securities. Commercial banks prefer to place their funds in short term securities so that the funds are readily available for commercial loans. On the other hand, the Republican administration had stated that it intended to avoid concentration of the debt in the commercial banks. While the net change for the five-year period does show a shift away from the commercial banks, this shift was not the result of a consistent trend. To conclude that the Treasury accomplished its goal does not seem warranted since the $6.9 billion shift to private nonbank investors is really the result of a fortunate choice of a date for terminating this study. If the study had been terminated at another point the net shift would have probably been different. The pertinent point is that the shift of debt between these two ownership classes is more a matter of monetary policy and exogenous economic forces than of Treasury direction.

A similar cyclical action is displayed by the average length of the interest-bearing marketable debt. During the

post accord and prerecession periods, the length of the debt fell continuously. Approximately three-quarters of this twenty-four month period was during the Democratic administration, an administration whose debt management policy emphasized use of short-term securities. The Republican administration took office during the latter part of this period. Their policy of lengthening the debt may be the cause of only a four month decline in the length of the debt during fiscal 1953 as compared with eleven months in the previous fiscal year. However, the effect of the debt lengthening policy seems to be apparent in the next two years during which the debt increased two and four months, respectively. This was accomplished by offering holders of maturing securities a choice between a one-year or a longer term security. In addition a forty-year bond was issued during fiscal 1955. The gains in the debt's length were of short life. At the beginning of fiscal 1956 the Treasury reopened the books on the forty-year bonds, but received very little response. The Federal Reserve had switched to a tight money policy in February. Between the tight monetary policy and the expanding economy, the Treasury found it necessary to rely on certificates and bills for debt refunding. As a result the average length fell six months, an amount equal to the sum of the gains over the last two years. During the entire five years, the debt's length reversed its direction twice, going through three phases of a cycle.

As in the previous case of commercial bank and private

nonbank ownership, evaluation of changes in the debt's length must give consideration to the political administrations. The decrease in the length of the debt during the forepart of this period was, as explained above, consistent with the policy of the Democratic administration. The attempt of the Republican administration to lengthen the debt was not very successful, as a whole. It may be that its policy of fostering economic growth was not consistent with its policy of lengthening the debt. During recessionary periods, such as fiscal 1954, the Treasury was able to utilize intermediate-term securities. This was probably due to liberal monetary policy which may be expected to prevail at such times. But during periods of extensive economic activity, such as fiscal 1956, there tends to be sufficient private investment opportunity to absorb most of the intermediate- and long-term money. Consequently, the Treasury must deal in maturities which are not conducive to lengthening the debt. The crux of this discussion is that the Treasury may be its own victim. If its fiscal policy is successful in promoting a high level of economic activity, its debt management policy of lengthening the debt may be unsuccessful.

There are at least two trends which are not attributable to debt management. The most obvious is the growth of the debt, itself. Except for a small amount of capitalized interest, this is entirely exogenous to the Treasury's management of the debt. A more subtle one is the role played by the government investment accounts. These accounts

absorbed nearly three-quarters of the net increase in the debt. However, the Investments Branch of the Bureau of Accounts is required by law to invest the surpluses of these accounts in government securities.[1] The Treasury provides special issues for this purpose. Therefore, the significance of these accounts is not as an effect "of" debt management, but only their effect "on" debt management. That is, if these accounts did not purchase this debt, the Treasury would have to sell it to private investors.

Throughout this five-year period there has been a tendency for the debt to shift from the nonmarketable to the marketable sector. Analysis of this trend will necessitate examination of each sector, individually.

First, consideration will be given to the investment series bonds. This classification consists of two series, both initially issued prior to the beginning of the period being studied in this report. The books on the series B were opened for a second time during the forepart of fiscal 1952, but the bonds were not well received by investors. The reason given by the Treasurer was that plant and equipment spending induced by government defense spending and veterans' loans absorbed nearly all the long-term money. The Treasury has not offered these bonds since this time, consequently they have presented a continuous downward trend. The other

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[1]U. S. Treasury, Annual Report, 1956 (Washington, 1957), p. 102.

nonmarketable security which has shown a continuous decline is the savings notes. This is due to their discontinuance in October, 1953. At this time the Treasury felt that such a volatile security was not consistent with the narrow margin between the size debt and the debt limit.

Observation of the marketable sector for the five-year period will show that eighty per cent of the increase was absorbed by short-term bills and certificates. Only a negligible one per cent may be assigned to notes and sixteen per cent to bonds. However, it is impossible to detect such a trend in the annual data. Closer investigation will reveal that a very defined shift of this nature is true of fiscal 1952. Not only was this type of a shift a characteristic of fiscal 1952, but it was of such magnitude that it biases the aggregate net figures. It is the proposition of this writer that fiscal 1952 is not consistent with the remaining four years and must be ignored when trying to determine overall trend. To aid in this revised approach, Table IX is provided which corrects the net changes to a four-year base. The revised figures do not necessitate any changes in previous conclusions about changes in the debt structure. Although, it does remove some of the emphasis which may be given to the special issues and government investment accounts. However, a marked change is apparent in the marketable sector. While bills and bonds still represent significant amounts of the increase there has been a substantial shift from certificates to notes. This is consistent with the Treasury's policy of

TABLE IX

SUPPLEMENT TO TABLE VIII

	Four Year Net Change	
	Amount[1]	Percent
Type of Security:		
Marketable:		
Bills	3.6	26
Certificates	-12.1	-89
Notes	17.0	125
Bonds	6.1	45
Total	14.6	107
Nonmarketable:		
Savings Bonds	-0.2	-01
Savings Notes	-6.6	-48
Special Issues	7.4	54
Investment Series Bonds	-2.0	-15
Other	0.5	04
Total	13.6	-07
Class of Investor:		
Private Nonbank	7.7	57
Government Investment Accounts	9.1	67
Commercial Banks	-4.1	-30
Federal Reserve	0.9	07
Total Change	13.6	100

[1] In billions of dollars.
Source: Table VIII.

refunding the debt into intermediate-term securities. Since these intermediate-term securities generally carried terms of less than five years, this is not inconsistent with the decline of the debt's length to a point of five years and four months.

Any analysis of a shift between the marketable and non-marketable sectors must consider the particular securities involved. For instance, a reduction in savings bonds with a compensating increase in marketable securities would add

an element of stability to the debt. Savings bonds may be converted to cash on the demand of the holder while marketable securities must be held, by one investor or another, till maturity. A shift from special issues to marketable securities might add instability to the debt. The government investment accounts may be counted on to hold their surplus funds in government securities, but private investors may decide to transfer his funds to private investment when the security maturies. The savings note could be used for payment of taxes two months after issue and redeemed for cash four months after issue. Either of these options could be exercised at the holder's discretion and without notice to the Treasury. These securities matured in two years. The investment series B bonds could be converted to a five-year marketable note providing the investor gave two months notice. The time between the holder's decision to convert and the actual conversion could range from two to eight months depending on the time of year in which notice was given. Both of these series were long-term bonds. Therefore, it does not seem likely that there was much change in stability of the debt as a result of this shift, though a slight amount may have been gained by the shift from savings notes to the marketable securities. This shift seems to be the product of legislative limitations on the Treasury's duty to manage the debt and to be without any particular economic significance.

Conclusion

The general conclusion of this study is that Treasury debt management is not as much a matter of discretion as would be supposed. A few examples will serve to illustrate this point. The Republican administration sought to shift the debt from commercial banks to private nonbank investors. The achievement of this goal is highly doubtful and any progress was probably as much the result of Federal Reserve monetary policy as the result of pure debt management strategy. Efforts to lengthen the debt encountered similar circumstances. In fact, it was proposed that such a policy might not be consistent with economic growth. The shift of the debt to the marketable sector was the result of a Treasury decision which was necessitated by a debt limit set by Congress.

While the Treasurers have never failed to publish debt management policies, these policies are of a very general nature, e.g. --- to promote full employment, to encourage economic activity. This suggests a lack of specific debt management policy which would use the debt as an economic tool. An example which supports this suggestion is the debt liquidation during fiscal 1956. This was during a time when Federal Reserve was trying to implement a tight money policy. It would appear that even when the Treasury finds itself in a position to use its discretion, it reacts like a private debtor rather than a public servant.[2] Such action leaves

[2]A private debtor could be expected to give preference to his personal welfare even though such action might cause

doubt as to whether additional power to manage the debt, such as no debt limit, would actually produce better debt management.

The specific conclusion of this study may be briefly stated. 1) The primary consideration of the Treasury is to obtain sufficient funds to meet Congressional appropriations. 2) The secondary concern is to avoid adverse influence on Federal Reserve monetary policy. 3) After accomplishing these two objectives there seems to be little room for discretionary debt management. 4) Even when circumstances are such as to minimize the attention which must be given to the first two objectives, the Treasury's management of the debt may not be based on sound economic principles.

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inflation. However, a government should consider the effect of its financial activity on the whole economy.

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