

Dear Mr. Carlson:

The following statements have been prepared in answer to the questions which you gave to me when I appeared recently before the Ways and Means Committee in support of the bill to increase the statutory limit on the public debt.

1. "What is the relation between the amount of the debt of the United States Government and the probable scale of living of the people of the United States henceforth?"

There is no direct relationship between the amount of the debt of the United States Government and the probable future scale of living of the people of the United States.

The scale of living of the people of the United States depends upon the current volume of production of consumable goods and services. Interest payments on the public debt result merely in the transfer of funds -- and, hence, in the transfer of claims on a portion of this production -- from taxpayers to bondholders. The same is true of principal repayments; while any borrowing results in the transference of funds in the opposite direction.

The total amount of funds transferred from taxpayers to bondholders, as a result of the payment of interest on the public debt during the present year, will amount to about 2 percent of the

Shift in income + scale of living

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national product. If allowance could be made for the extent to which the taxpayers and the bondholders are the same persons, the net amount of funds transferred would be much less. Neither these transfers nor those resulting from principal transactions result directly in any change in the total volume of goods and services, and hence, in the standard of living of the American people as a whole.

It is possible, however, that the transfers of funds involved in the creation, repayment, and servicing of the debt may have an indirect effect on the amount of the national product and, hence, on the standard of living of the people. This is principally because such transfers may shift funds from saving to spending, or vice versa.

Government borrowing and the subsequent expenditure of the proceeds results, in general, in a transfer of funds from saving to spending; while the reverse is true of the repayment of debt from the proceeds of tax collections. The payment of interest on the public debt from the proceeds of tax collections probably results, for the most part, in the transfer of funds from consumer spending to saving. This is because the propensity to save is generally greater among the higher income than among the lower income groups; and --- despite the fact that the ownership of the public debt is more widely diffused than ever before --- the collection of taxes and the redistribution of the proceeds as interest on the public debt probably results, on balance, in the transfer of funds from lower income to higher income groups.

*Interest
payments, etc.
+ costs
of product
+
Interest
payments
and
consumption
+
Interest
payments,
rate of
interest
+ inducement
to invest.
+
Interest
payments,
taxes and
return on
investment*

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Neither type of transfer of funds just discussed -- i.e., that from saving to spending or from spending to saving -- can be said to be either good or bad in itself. During times of business depression it is desirable to transfer funds from saving to spending in order to stimulate business activity; while during times of inflationary pressure -- such as the present -- it is desirable to transfer funds from spending to saving in order to reduce pressure on prices.

2. "What is the effect upon the value or purchasing power of the money of the United States of the amount of the debt of the United States Government?"

There is no direct relation between the amount of the public debt and the purchasing power of the United States dollar.

The purchasing power of the dollar depends upon the flow of expenditures in relation to the supply of consumable goods and services. This flow depends in turn upon the decisions of the people of the United States with respect to the spending of their current incomes and of their accumulated savings.

The great increase in the public debt of the United States during the war period has resulted in the accumulation of a large amount of liquid savings in the form of Government bonds, currency, and bank deposits in the hands of the people. The people may choose to spend a portion of these savings on goods and services during the postwar period. If this spending is deferred until the reconversion of the industrial plant of the United States is

Partly
Opinion
less than
Corporation
for
Committee
less
The
cost of
part
slight
effect
impact

completed, and an adequate supply of agricultural products is available for domestic consumption, it will be a boon to the economy, resulting in fuller employment and a higher level of business activity than would otherwise be possible. If, on the other hand -- due possibly to a premature reduction in wartime taxation or a premature abandonment of wartime controls -- these funds should rush into spending before an adequate volume of goods and services is available, they might result in an undesirable rise in prices during the transition period.

*Wholesale
retail prices
since 1 to 3.*

- 3. "What is the effect on the general price level of the country, present and prospective, of the present and prospective debt of the United States Government?"

The general price level and the purchasing power of the dollar are, in effect, merely the obverse and reverse of the same coin; therefore, this question was covered in the answer to the preceding question.

- 4. "When the Federal debt is \$300 billions, will not the proportionate share of each of 30 million families be \$10,000?"

Obviously, when a debt of \$300 billions is distributed pro rata among 30 million families, the proportionate share of each family would be \$10,000. This figure would have a real significance, however, only if the taxes to pay the debt were to be similarly distributed pro rata over all the families of the United States.

*Equal sharing
Equal amount
Burden of
debt must
be shared
by way of tax
and benefits by way
of income tax*

*The two must
balance*

*Income from productive assets with or
without debt
Income with debt less by amount of
interest. But tax equally levied
Net income after tax a matter of course
product
supply*

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This, of course, will not be the case. A large proportion of the taxes are business taxes levied upon income before it flows into the hands of individuals at all; while the taxes levied on individual incomes are progressive in proportion to ability to pay.

5. "I see that Mr. Reeles says that further devaluation of the dollar in terms of gold is necessary and I also note that the bill introduced last week to implement the Bretton Woods scheme contains a provision which will permit further devaluation of the dollar.

What is the effect of devaluation of the dollar on the debt and credit of the Federal Government, and the general price level of the country?"

Mr. Reeles did not say that further devaluation of the dollar in terms of gold would be necessary. On the contrary, he said that such a step would be an undesirable alternative to reducing the required gold reserve ratios of the Federal Reserve Banks, and would give the rest of the world an immediate profit of about \$5.5 billions on the gold they now hold.

Also letter on B/W

Answer 2/11/49

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The provision in the Bretton Woods Agreements, to which you evidently refer, permits limited changes in the value of a member nation's currency. The United States Government has no intention of availing itself of this provision of the Agreements in the foreseeable future.

- income (?)*
6. "How do you explain the effect of devaluation of the dollar on the purchasing power and the savings of the people?"

Answer

E. J. ...
Gold
Mining

This question apparently refers to Mr. Seales' statement, which, as I just pointed out, opposed rather than favored the devaluation of the dollar.

7. "If the scale of living of the American people has been going down for more than a decade, what relation has the upward trend in the Federal debt to that fact?"

The scale of living of the American people has not been decreasing during the past decade, but rather has shown a significant increase. The following table shows annual figures on consumer expenditures for goods and services both with and without a correction for changes in prices. It will be noted that consumer expenditures for goods and services in constant prices have increased in every year since 1933, with the exception of 1938 and 1942. The over-all increase has been from \$45.6 billions in 1933 to \$77.3 billions in 1944, in terms of constant prices. This increase occurred notwithstanding the fact ^{that} in 1944 approximately half of our total production was for war purposes. In other words, the scale of living during the war has continued to

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improve, even though we have dedicated almost half of our productive capacity to war purposes.

The improvement in the scale of living during the war becomes even more impressive when it is considered that the food, lodging, and clothing provided more than ten million persons in the armed services are not included in consumer expenditures; and, consequently, the number of individuals among whom consumers' goods and services were distributed in 1944 was smaller than the number receiving them in 1940.

Consumers' Expenditures for Goods and Services

Year	Total in actual prices	Total in constant prices
	(In billions of dollars)	(In billions of 1939 dollars) ^{1/}
1929	70.8	57.5
1933	42.4	45.6
1934	47.7	49.5
1935	52.2	52.9
1936	59.1	59.3
1937	62.5	60.5
1938	58.5	57.7
1939	61.7	61.7
1940	65.7	65.2
1941	74.6	70.5
1942	81.9	69.9
1943	90.9	73.1
1944	97.6	77.3

Source: Department of Commerce, Survey of Current Business.

^{1/} Figures are actual dollar figures adjusted to 1939 cost of living as computed by Bureau of Labor Statistics.

The data just cited are in terms of money, which is, of course, the only common denominator in which different kinds of goods and services can be expressed. To some persons they may seem to be in conflict -- as far as the wartime period is concerned -- with what appear to be the facts of everyday life. Nevertheless, they are a true representation of the physical situation, as there are more goods and services available for domestic civilian consumption than ever before. *at the present time* Two facts tend to obscure this from the view, however, especially in the case of relatively well-to-do people. These two facts are:

- (1) Some goods, such as automobiles, refrigerators, and washing machines are not available at all. Their nonavailability causes an amount of inconvenience out of all proportion to their monetary value. It should be noted, however, that the nonavailability of these goods has nothing to do with the public debt or with any other element in the fiscal situation. It is due solely to the diversion of real resources to the war effort, and will automatically be cured when the war is won.
- (2) The real prosperity of the lower income groups has been tremendously enhanced during the war period. *For example,* some families who previously could afford meat only once or twice a week are now financially able to buy it whenever they can get it. As a consequence,

of this increased diffusion of income, many goods are difficult to obtain, despite the fact that the amount available for domestic civilian consumption is at a high level.

With these fundamental facts in mind, I think it is interesting to supplement the dollar figures given in the table with a few figures expressed in physical quantities.

According to Department of Agriculture estimates, total meat production was 25 billion pounds (dressed basis) in 1944, as compared with 16 billion pounds in the census year 1930. Domestic civilian consumption of meat in 1944 averaged about 147 pounds per capita, as against an average per capita consumption of 129 pounds in 1930. While this year will see a rather sharp reduction in meat available to domestic civilian consumers, this reduction is due principally to increased military and export requirements, and obviously has no relation to the size of the public debt.

Total milk production on farms in the last quarter of 1944 was running at a record annual rate of 120 billion pounds. In 1930, the production was 100 billion pounds.

American civilians consumed 347 eggs per person in 1944. In 1930, the domestic consumption was 331 per person.

The number of telephones in use (widely used as one measure of living standards) is reported by the Bell System at 22 millions in 1944, as compared with 13 millions ten years earlier.

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Electric power sales to domestic and rural users in 1943 (the latest year available) totaled 32 billion kilowatt hours. Ten years earlier, the total was only 13 billion.

Many other physical volume figures could be cited, but I am sure that you will agree with me that those just quoted, taken in conjunction with the dollar figures, indicate that the standard of living of the American people is rising, not falling.

I trust that these answers will serve your purpose. Please advise me if I can be of further service.

Very truly yours,

Under Secretary of the Treasury

Honorable Frank Carlson
House of Representatives
Washington 25, D. C.