

Question 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?"

The principal effect of the public debt on the scale of living of the American people depends on the particular public debt transactions which may occur at any given time. Thus, at the present time the Treasury's policy is to borrow as much as possible from individuals and other nonbank investors, with reliance upon the banks for the residual amounts which are needed over and above what is borrowed from nonbank investors. This policy is desirable because of the need to check inflationary pressures brought about by the vast increase in income of the American people at the same time that available goods and services are limited by the diversion to war of almost half of our productive capacity. Accordingly, the war bond drives have emphasized sales of securities to individuals and particularly sales of Series E savings bonds, which were designed for the average person. Sales to wage earners, professional persons, farmers, and the operators of small businesses are especially important because the funds absorbed might otherwise be spent in consumer markets and thus increase inflationary pressures.

The standard of living of the American people as a whole is not affected by these public debt operations at this time, because the real limit on the supply of consumers goods and services is set by what can be produced over and above war requirements.

After the war, the existence of a large public debt will affect economic conditions in different ways, depending on policies adopted regarding public debt management. If inflationary pressures should be prevalent it might be desirable to continue to borrow (or tax) the funds of individuals in order to hold down their spending. If, on the other hand, depression conditions should exist with substantial unemployment, it would be better policy to borrow from the banks whatever funds might be needed (and to adjust taxes to encourage consumer demand). Under depression conditions the large wartime savings brought about by the increase in the public debt during the war years would prove to be a valuable asset for the American people both individually and as a whole. Such savings could be drawn on to finance extra purchases by consumers and would thus provide a valuable stimulant to the demand for production, thereby increasing employment.

Public debt management should therefore be flexible in accordance with current needs. In the final analysis it is mainly by such effects of public debt management that the scale of living of the American people may be affected by the public debt.

It is also true that interest payments on the debt have some effect on economic conditions. This is because tax payers as a group have money taken away from them by the Government in order to turn it over to bond holders as a group. If the two groups are nearly identical, this transfer of income from one group to another is not important. If the two groups are quite different important economic effects may occur. For example,

if the taxes were levied on almost every citizen in one way or another and the interest income were paid primarily to the financial community, economic markets would probably reflect a smaller demand, because the reduction in consumer expenditures by the general public would probably not be made up by increased expenditures by the financial community.

This is another reason the Treasury has tried to spread the ownership of bonds over as many people as possible. In any event, the entire amount of income transferred by interest on the debt is not large in relation to the value of the aggregate production of this country, amounting to only about 2 percent this current year.