

ernment—but net on all issues, the Treasury gained. Inclusive of the Federal Reserve holdings, Government security holdings accounted for almost 30 percent of the total amounts outstanding.

Whereas commercial banks, excluding the Federal Reserve banks, held just under one-quarter of all outstanding Federal securities, they accounted for slightly over one-third of the total marketable debt and had concentrated two-thirds of their total Federal debt holdings in marketable issues maturing or callable in less than 5 years. This suggests that, unlike most individual investors, the commercial banks were in a position to adjust their holdings from time to time in response to the growth of inflation. On the other hand, little more than one-tenth of U.S. Government funds' debt holdings were in publicly marketable securities and less than one-twentieth in marketable securities callable in less than 5 years. As a result, these funds seem especially subject to erosion by inflation. The U.S. Government also tended to hold short-term issues much more relatively than their total holdings. Here, when I refer to the U.S. Government, I include the Federal Reserve banks as well.

Obviously, in a period of inflation, those who hold the short-term securities make decisions from time to time as to whether they want to continue to hold securities that pay a fixed return in inflationary periods. It should be added, however, that over the years since 1939, the adjustments of interest rates to the inflation have been very small. Only in the last year or two has there been a substantial adjustment so that with the interest rate at 5 percent and with prices rising 1 or 2 percent a year in the last 10 years, the increase in the rate on short-term issues to 5 percent suggests some adjustment to the inflation. Of course, those that hold longer term securities experience losses as the rate of interest rises in response to inflation. This would be particularly true with those that held securities with more than 10 years to go. At the end of 1958, there were \$8½ billion of these securities and relative to their total holdings, the mutual savings banks and life insurance companies were especially involved and therefore they or their depositors and policyholders experienced to this extent losses from the inflation. This, of course, applies also to the large holders of savings bonds that generally run for 10 years.¹⁹

DISTRIBUTION OF TAX BURDENS AMONG DIFFERENT LEVELS OF GOVERNMENT

It is important to understand that the large rise of GNP over the years has been the result of an increase of productivity, a rise of population and capital, and also the inflationary process. For example, from 1939 to 1959, GNP rose from \$91 to \$437 billion, but at 1958 prices the rise was from \$209 to \$437 billion. These figures point to a rise of one-third to be explained by price changes and two-thirds by the increase in real income. With income rising at such a rate, it is, of course, important that Government revenue should respond. If Government revenue does not respond to the rise of prices, then, to that extent, the Government will perform a less effective job, and its contribution in "real" dollars will decline.

¹⁹ For the details on distribution of Government securities, see hearings, Joint Economic Committee, on "Employment, Growth, and Price Level," Pt. 6: "Government's Management of Its Monetary, Fiscal, and Debt Operations," 1959, pp. 1114-1117.