

tempted in Finland.¹⁴ What I am contemplating, rather, is the issue of some new series of Government bonds, along with a continuation of present types.

In the field of savings bonds especially, indexing might improve matters considerably. There has been a fairly steady decline in the amount outstanding of savings bonds; one suspects that the decline would be even larger if a considerable portion of savings bonds were not sold by payroll deduction plans. A large proportion of bonds are cashed in after as little as two years.¹⁵ It is conceivable that the rather small increase in interest rates recently authorized by Congress will stimulate the savings bond program somewhat, but it would be surprising if it made sales exceed redemptions.

If savings bonds with an index clause were issued, the rate of interest should not be more $2\frac{3}{4}$ percent. Judging from the dividend yield on blue chip shares, many people would be happy with this modest return if it were guaranteed in real terms; it also agrees with the current real rate of interest on Federal bonds (a nominal rate between $4\frac{1}{2}$ and $4\frac{3}{4}$ percent less an annual rate of inflation of somewhat under 2 percent). The low rate of interest does not necessarily mean that the Government will have a bargain, for the index clause may turn out to be expensive if prices rise much. It is sometimes held that index bonds will encourage the prevention of inflation because of its impact on the budget when index bonds are outstanding, but I would not put too much stress on this argument. The introduction of index savings bonds has to be viewed primarily as the filling of a gap in the range of financial instruments and as a service to the many people who are providing for old age on an individual basis. It may also have a favorable influence on the volume of saving, but here again it would be imprudent to claim much.

Fortunately, if my diagnosis of the present monetary situation is correct, the Government will not be forced to pay out large sums on account of the index clause. If inflation comes to an end within the next decade, the public would have benefited not only from greater security in its old-age planning, but also from a lower cost of the Government debt. And if inflation does not come to an end, index bonds would clearly be even more useful.

Savings bonds, which are held by individuals are an obvious choice for the introduction of indexing on a modest scale.¹⁶ There is no reason, however, to confine this device to savings bonds.¹⁷ The in-

¹⁴ See the unsympathetic account in an article entitled "Creeping Inflation" in the June 1959 issue of the *Monthly Review* of the Federal Reserve Bank of New York. Unfortunately, the analysis in this article could hardly be more superficial. For an intelligent, though almost equally one-sided, discussion of index bonds, primarily from a theoretical point of view, see Guy Arridsson, "Reflections on Index Loans," *Skandinaviska Banken Quarterly Review* (Stockholm), January 1959.

¹⁵ Of the series E bonds sold in 1957, for instance, more than half had already been redeemed on March 31, 1959 (Source: mimeographed statement from the Fiscal Assistant Secretary of the Treasury).

¹⁶ From an administrative point of view there is an advantage in discount-type bonds—such as the present series E—with an index feature; it would then be unnecessary to have interest coupons with variable money value and only the redemption value would have to be readjusted. To discourage early redemption it might be advisable to apply indexing only to the redemption value after a certain number of years. Furthermore the introduction of special bonds (at a lower rate of interest than regular index bonds) with a minimum redemption value might be considered, since some people might feel that the risk of price falls makes index bonds too speculative otherwise.

¹⁷ Index savings bonds could be marketed through existing channels, including payroll deduction plans. In general, however, I see no harm in having index bonds of larger denominations traded over the counter or on the stock exchange; indeed such negotiability would enhance their attractiveness to investors.