

securities with a maturity of more than 7 years. This does pose some severe limitations on the flexibility with which we can conduct debt management operations during this very difficult period, and, certainly, on balance, it hampers the kind of job that we would like to do in terms of supporting the general effort to control inflation. We feel that this has become a problem of more critical importance through the passage of time and the very steady and severe decline in the average maturity of the debt.

At the time I left the Treasury in 1965, for instance, the average maturity of the privately held debt was about five and a half years. It has now slipped, as of the end of January, to something like 4 years, which is some indication of the increasing size and frequency of the refunding that has to be done to keep this very large amount of debt outstanding. The net result when the Treasury is in the market so frequently for such large amounts is to create some very real difficulties for the Federal Reserve in the conduct of their policies. It does also, as I indicated, hamper our own flexibility in conducting appropriate anti-inflationary policies in this situation. It is an area in which we have a great deal of concern. And we do have under consideration just what approach might be made to the Congress in this area.

Senator JORDAN. Not only that, but it puts the Federal Government competing with the State and local governments and the private sector for what money is available for loan purposes, does it not?

Mr. VOLCKER. There are very difficult problems in this area. The fact of the matter is that the securities markets in all areas are under very heavy pressure. I think this is basically a reflection of inflationary pressures in the economy generally. This has led to a very large demand for credit, and has led, too, on the other side, to a relative unwillingness on the part of the investor to put his money in fixed-income securities. I think the only real answer to that problem in the end is to restore balance to the economy and regain control over this inflation so that we have a more balanced picture in the financial markets and set the stage for the kind of decline in interest rates and easy availability of credit that we would all like to see.

Senator SPARKMAN. Will the Senator yield for just a suggestion?

Senator JORDAN. I yield.

Senator SPARKMAN. I wonder if it might be well to ask Mr. Volcker something about the interest rates on savings bonds. That is the only kind that the little fellow can participate in.

Senator JORDAN. I am coming to that.

Senator SPARKMAN. I thank you, Senator Jordan.

Senator JORDAN. You pretty well stated my point.

What incentive is there for this patriotic little fellow to buy savings bonds from the Federal Government at the rate that is available to him when the rate of interest he earns is less than the rate of inflation?

Mr. VOLCKER. We are anticipating each other.

Let me just read a paragraph that I did have in my prepared statement on this very point:

I would also note, in this connection—in connection with the interest rate ceiling—that our savings bonds—sold to millions of individuals in relative small amounts—are subject to a 4¼ percent ceiling. The savings bonds program has been a part of the Treasury's debt management effort since before World War II. In some ways, the value of this program is greatest precisely in an inflationary