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**THE UNITED STATES
SAVINGS BOND PROGRAM
IN THE POSTWAR PERIOD**

GEORGE HANC

NATIONAL BUREAU OF  ECONOMIC RESEARCH

1962

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¹ Previously published results of the study are Roland I. Robinson, *Postwar Market for State and Local Government Securities* (Princeton University Press for National Bureau of Economic Research, 1960); and Saul B. Klaman, *The Postwar Rise of*

Preface

George Hanc's study deals with a sector of the capital market which, although long established and exceedingly important in the economies of many European countries, is less than half a century old in the United States and even at the present time is of smaller significance here than abroad: long-term securities of the central government held by the general public as distinguished from financial institutions and large private investors. The savings bond program is the only substantial example of public holding of long-term Treasury securities during peacetime. Moreover, the holdings have not been in the form of regular long-term securities with fluctuating prices, but in obligations with original maturities not in excess of twelve years, redeemable at any time at fixed prices without loss of principal.

One might feel that the basic problem is why Americans, in contrast to the peoples of many other countries, do not, outside of war periods, buy or hold long-term securities of their own government in substantial amounts. It is a problem about which not much can be said in concrete terms and with confidence, and Hanc therefore does not lose much time in speculating about it. All other important questions raised by the savings bond program, both from the point of view of the Treasury and from that of the investing public, are covered; and considerable material is provided on the influence of interest rate differentials on the sale and redemption of savings bonds.

In the period which Hanc's study covers in detail, 1946-60, investors bought \$82.2 billion worth of savings bonds, but the net amount of these bonds outstanding declined by \$0.7 billion, despite \$7.3 billion

Mortgage Companies (Occasional Paper 60, New York, NBER, 1959), *The Volume of Mortgage Debt in the Postwar Decade* (Technical Paper 13, New York, NBER, 1958), and *The Postwar Residential Mortgage Market* (Princeton for NBER, 1961). A working paper by Morris Mendelson on the quarterly flow of funds, 1953-55, is also available. Several additional monographs and Occasional Papers dealing with the markets for marketable Treasury securities and corporate bonds and loans, and with some of the basic statistics of the capital market — national wealth and national balance sheets — are in various stages of completion.

of interest accruing—so large were redemptions at or before original maturity. More ominously, sales exceeded redemptions only in the period 1946-50. Since then the opposite has been the case in every year. To be sure, there has been growth in the outstanding amount of E and H bonds—the only series of savings bonds presently available to investors—but this increase has been small relative to that of other types of assets held by individuals.

As a result of this failure to keep step with the sharp expansion of other types of investment, reflecting either net sales or price increases, the position of savings bonds in individuals' portfolios decreased sharply. In relation to individuals' total assets, they declined from 6.5 per cent in 1945 to less than 3 per cent in 1958, while their share in financial assets fell from 9.5 to 4.5 per cent. Savings bonds as assets are now less important than homes, automobiles, common stock, checking accounts, and life insurance policies—even than savings deposits, savings and loan shares, and equities in pension and insurance funds. Individuals' holdings of savings bonds, nevertheless, are still considerably larger than their holdings of some assets which have commonly been regarded as important investments: marketable Treasury securities, state and local government securities, corporate bonds, and preferred stock. Thus, although savings bonds are still an important medium of individuals' investment, their future significance is in question. Dr. Hanc's discussion will help to clarify their prospective role in individuals' asset holdings and in the federal debt structure. As the rate of redemption per year of E bonds has remained fairly stable (at least for the smaller denominations) at about one-eighth of the amount outstanding, an increase in gross sales at least in step with the expansion of other assets of individuals would be required to prevent a continuation of the decline in the relative importance of savings bonds.

RAYMOND W. GOLDSMITH