

Deficit Financing Big Task For Federal Government As It Ends Fiscal Year In Red

By SAM DAWSON
NEW YORK, July 13.—(AP)—Uncle Sam is in the red again. He's spending more than he takes in—he has more relatives and old friends dependent upon him than a movie star.

And the U. S. Treasury is now trying to decide—from a number of suggestions by interested parties—which is the best way to raise cash to pay off the bills. It's looking for the way that will be the least painful for the treasury and at the same time be profitable for the banks and may give business a helping hand, too.

The treasury calls this deficit financing.

Six months ago President Truman wanted more taxes to keep the treasury in the black, saying that a budget surplus "is essential to sound fiscal policy." Now he plumps for deficit financing as the better course at this time.

It is economic counselors say in their midyear report that if we cut down on foreign aid and

national defense—two of the biggest items—we'll not only be taking a serious risk, but will be cutting off the flow of federal dollars to consumers, and thus lead to more layoffs.

Deficit financing will pump money into the economic stream, through treasury borrowings from banks. At the same time, various industries will profit from continued government buying. Subsidies and social security payments. According to this school of thought, this will give time for everyone to get his second postwar wind and be off again on the road to prosperity.

They contend that borrowing is an accepted practice in the business world. Great industrial empires are started on borrowed money. Corporations borrow to expand, to meet payrolls, to finance inventories in anticipation of future sales.

Nothing New to Americans
Certainly the American people are used to deficit financing by now. We've been in and out of the red with Uncle Sam for years.

In the last 30 years rarely—in the middle '20s and again a year ago—have we used black ink. Meanwhile the federal debt has grown to more than \$252 billion. The question businessmen ask is how much higher can it safely go.

If it's finally decided to go on spending at the old rate, the next problem is just how the treasury should borrow the money to meet the bills.

Long-term bonds with comparatively high interest rates will appeal to private investors and institutions, and cost the treasury most. Banks with money on their hands just now because business loans are falling off are urging medium-term treasury notes with moderate yields.

When there was more demand for business loans, which are much more profitable to a bank, the treasury's practice of financing its cash needs with short-term certificates with a low yield gave the banks a chance to keep idle funds earning a little and

still easily available when a good business risk came along.

But this week the treasury sold \$300 million of these short-term bills at an average rate of 0.923 per cent—two weeks ago it had to pay 1.158 per cent. Naturally, the banks don't find the new low rates attractive.

Up to Big Money
The Treasury also raises a little money, but not enough by selling 10-year savings bonds to individuals. But the Treasury can't depend upon this source of revenue in a pinch.

Therefore, the treasury will have to do its deficit financing through the banks or insurance companies. It will have to decide how to do it fairly soon. The treasury started its new year with a deficit of \$1,800,000,000. The middle of September it has \$1,252,000,000 of two per cent bonds coming due. It will decide well before that just how these are to be refunded. Many bankers hope the treasury will decide to issue five-year bonds paying

two per cent or better.

This, they say, would find a ready market, help the banks, and take some of the pressure off the treasury for going into the market at frequent intervals to borrow money at whatever rate is possible at the time.

Whether or not deficit financing will start another, and worse, inflation spiral is another question.

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