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War Savings—A Duty of Citizenship

A statement by W. S. McLarin, Jr., President, Federal Reserve Bank of Atlanta

In the days of peace, between World Wars I and II, there was a great deal of discussion about the rights of citizens. In time of war it becomes apparent that every right of citizenship has a corresponding duty. Experience is proving again as it has so often in the past that as true and as deep satisfactions attend the performance of duties as result from the exercise of rights.

▶ This country is today in the most extensive war of its history and the preservation of all of us depends upon the spirit in which each of us carries through his specific duty. Millions of men have registered for military service and millions of citizens have registered for civilian defense. There is another registration, less formal, to which every citizen should feel subject; he should feel that he must be among the list of owners of Defense Savings Bonds. Buying savings bonds is purely a voluntary registration, but it is vital nonetheless, for the strength of democracy lies in the fact that Government can depend upon the voluntary cooperation of the citizens.

▶ In a very real sense the systematic allocation of earnings to the purchase of Defense Savings Bonds is a contribution to the war effort and, therefore, becomes a duty of citizenship. In modern war the strength of a country's economic structure has a direct relationship to that country's military organization. Every purchase of a Defense Savings Bond *out of current earnings* is a contribution to the strength of our national war economy.

The essential characteristic of a war economy is the production of increasing quantities of armaments and decreasing quantities of civilian consumer goods. For example, the automobile plants are now to make bombers and tanks instead of motor cars. This process means that there will be fewer things available for civilians to purchase. *If we all attempt to spend our total income upon consumer goods, we will only succeed in forcing prices upward; we cannot succeed in increasing the available supply of consumer goods.* Here, then, self-interest coincides with duty, for, if we save a large part of our income and invest in Defense Savings Bonds, the effect will be to restrain increases in the cost of living.

The purchase of Defense Savings Bonds now will help in the years after the war as well. If we all now save through the purchase of these bonds, we shall have more money available to spend in the years after the war. The release in the post-war period of the pent-up purchasing power represented by matured savings bonds will provide a direct stimulus to business.

▶ Only a few figures need be cited to indicate the necessity for tremendous and immediate increases in the purchase of Defense Savings Bonds. In the twelve months beginning July 1, 1942, the Federal Government plans to spend $56 billion in procuring the vast amount of materials and services that is absolutely necessary if victory is to be achieved. Tax receipts will fall far below this figure and the gap can best be filled by receipts from the sale of Defense Savings Bonds.

Citizens in this region have the money to buy Defense Savings Bonds. In the past year factory payrolls in the Sixth Federal Reserve District have increased 37 per cent and cash farm income has risen 36 per cent. The duty of citizens to purchase Defense Savings Bonds is clear. The general level of wholesale prices in the United States has increased more than 25 per cent since the beginning of the war on September 1, 1939. Large purchases of Defense Savings Bonds to the limit of the individual citizen's ability, coupled with the prompt payment of taxes, will tend to restrain this undesirable price rise.

Of course, if a Defense Savings Bond is purchased and then redeemed for cash a few months later, the war effort has not been aided. Each purchaser should try to hold his bonds until they mature—in this way his Government will have the use of the funds for a longer period of time and he himself will receive a higher rate of interest on his investment. Defense Savings Bonds are discount bonds and the redemption schedule, as shown on page 9, is so arranged that the longer one holds a bond the higher is the effective interest rate received.

▶ Summing up, then, every citizen should buy Defense Savings Bonds to the limit of his ability and hold them for the ten-year maturity period or at least until the end of the war, for these reasons:

(1) It is his patriotic duty.

(2) It will afford him a great satisfaction as a duty well performed.

(3) It will dampen down inflationary price rises hindering the war effort.

(4) It will hold down his own cost of living.

(5) It will provide purchasing power for the products of civilian industry after the war.

▶ Certain of the foregoing and other problems of a war economy now confronting the nation have recently been very clearly set forth by Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System. His address is printed in full on the following pages and it warrants careful consideration.

An Address by Marriner S. Eccles On Certain Problems of the War Economy*

Chairman of the Board of Governors of the Federal Reserve System

I am much more concerned about winning this war than I am about financing it. The problem of financing the war would be comparatively simple if all of us on the civilian front understood as clearly as do our armed forces on the fighting front that our very survival as a nation is at stake. Then the farmers would not be contending for higher prices, labor for increased wages, and business for continued high profits. We would be willing to cut our civilian expenditures to the bone in order to save every dollar that we can. We would readily accept much higher taxes and turn our savings over to the Government by purchasing Defense Bonds. Too many of our people are still spending all of their incomes and even going further into debt to buy more things. The war can never be won—much less inflation avoided—unless we awaken to the grim realities of the life and death struggle in which we are engaged.

The problem of winning this war is a physical, not a financial, one. It is a question of effectively using our man power, raw materials and productive capacity. Half of our national effort must be devoted to the war. Only what is left over after the maximum war effort is made will be available for civilian use.

In order to finance the war without inflation, civilian buying must be reduced to fit the diminishing supply of goods and services available for civilian consumption. We are rapidly approaching a national income of approximately $110 billion. About half of that must go for war purposes, leaving the other half for civilian use. The fifty-odd billions which the Government requires must be collected from the public in the form of taxes and borrowings. In other words, upwards of 50 billions of civilian dollars must be drawn into the war effort and not left to compete in the market place for the shrinking supply of civilian goods. Otherwise, the rising tide of national income would rapidly bid up prices and precipitate a ruinous inflation.

This entails making—not just talking about—sacrifices. So far, our standard of living is at the highest peak of all time. It must be drastically reduced in order to make the supreme effort that alone will assure victory. The time to make the supreme effort is now. The time to reduce our individual expenditures is now, not after inflation has taken hold. The time for business to accept smaller profits, the time for labor to forego wage increases and for farmers to forego price advances is now. This is the time when we must all contribute our utmost to the common effort and not squabble among ourselves to see who can get the most *out* of it.

Of the more than 50 billions which must be drawn into the war chest in the next fiscal year, it is proposed to collect about half in taxes, the other half from the sale of Defense Bonds and other Government securities. As for the *borrowing*, it should come from current incomes of individuals and corporations, thus diverting to war needs funds that otherwise would tend to bid up prices of civilian goods. To the extent that the public fails to divert a sufficient amount of current income into the purchase of Government securities, the Government will be obliged to borrow from the banking system. This process creates additional funds, and since it adds nothing to the supply of goods, it makes for inflation.

As to *taxes*, the present program calls for an increase of $9 billion in the next fiscal year over the amount provided for under present law. These taxes cannot be collected by shifting the load to any one group or class, but only by the widest distribution among all groups of taxpayers, except those whose incomes are no more than enough to maintain health and morale. No matter what our financing program may be, it can be defeated through demands for increased wages, prices and profits.

The hard fact is that the more we produce for war, the less we can produce for civilian needs. Only a limited and a diminishing volume of goods will be available for the public to purchase. You may be able to increase the dollars in your pay envelope but this will not add to the goods that are offered for sale. We are only fooling ourselves by exchanging more dollars for the same or a smaller amount of goods. That process is known as inflation and spells ultimate ruin.

As for the $9 billion of additional taxes that must be collected in the coming fiscal year, we must turn first to the corporations whose taxes, especially excess profits taxes, will have to be steeply increased. They are the primary recipients of the Government's enormous expenditures. They are the logical primary sources to which we must turn to recapture funds that otherwise tend to go into the spending stream. There is no proposal to end the profit motive, even in wartime. Yet even that sacrifice would not be too great a price to pay to preserve our industries so that when peace comes they will have something left with which to make a profit. Unless existing corporation taxes are sharply increased, corporations will have left over after paying 1942 taxes about $3 billion more than they had in 1939. As against this, the war is putting many concerns out of business. Others that have been prosperous in peace will be barely able to survive. Those that are earning large or even moderate profits should be willing to pay substantially higher taxes in this crisis. Until this is done we cannot expect labor to abate its demands for an increased share in these profits.

It is of equal importance that the base of the individual income tax be widened by reducing personal exemptions so that the income tax will reach down to the subsistence level. From this level, rates must be greatly increased all the way up.

In order that some of the income taxes may be collected at the source and before the funds have gone into the spending stream, a withholding tax is necessary. The amount paid in withholding taxes can be made deductible from the amount

*Delivered before America's Town Meeting of the Air over Station WJZ and the Blue Network Thursday evening, February 12, 1942.

due later in income taxes. Glaring loopholes in our tax structure which have been widely used as a means of tax avoidance must be closed. We must apply selective excise taxes on an increasing number of articles, thereby curtailing private consumption of critical raw materials.

The measures I have indicated would do away with the necessity for a general sales tax, which reaches into the pockets of those below subsistence level. A sales tax hits the poor harder than the rich because the poor need all their income to buy the necessities of life. A general sales tax would immediately increase prices and the cost of living. It would precipitate widespread demands for higher wages to offset the added costs of living. That is the inflation spiral.

▶ The sacrifices involved in the program I have outlined for the individual and corporate taxpayer are, in fact, no sacrifices at all compared to what we are asking of our armed forces on the battle fronts. They are getting no profits for their patriotism. They are risking or giving not their dollars but their lives. They are not on a forty-hour-a-week basis. There is no time and a half for overtime behind the guns in the Philippines, on the high seas, or anywhere else. When those of us on the home front wake up to the fact that we are fighting for our very lives, we will stop talking about the profits, the wages, the prices we can get out of the war. Only then will we really begin to fight. And just one thing is going to win the war—and that is fighting.

DEFENSE SAVINGS BONDS — SERIES E

TABLE OF REDEMPTION VALUES AND INVESTMENT YIELDS

Table showing: (1) How Defense Savings Bonds of Series E increase in redemption value during successive half-year periods following issue; (2) the approximate investment yield on the purchase price from issue date to the beginning of each half-year period; and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to maturity. Yields are expressed in terms of rate percent per annum, compounded semi-annually. Series E Bonds are also issued with maturity values of $50, $100, $500, and $1,000.

MATURITY VALUE	**$25.00**		
ISSUE PRICE	**$18.75**		
Period after issue date		(2) Approximate investment yield on purchase price from issue date to beginning of each half-year period.	(3) Approximate investment yield on current redemption value from beginning of each half-year period to maturity.
		Percent	Percent
First 1/2 year	$18.75	...	*2.90
1/2 to 1 year	18.75	0.00	3.05
1 to 1 1/2 years	18.87	.67	3.15
1 1/2 to 2 years	19.00	.88	3.25
2 to 2 1/2 years	19.12	.99	3.38
2 1/2 to 3 years	19.25	1.06	3.52
3 to 3 1/2 years	19.50	1.31	3.58
3 1/2 to 4 years	19.75	1.49	3.66
4 to 4 1/2 years	20.00	1.62	3.75
4 1/2 to 5 years	20.25	1.72	3.87
5 to 5 1/2 years	20.50	1.79	4.01
5 1/2 to 6 years	20.75	1.85	4.18
6 to 6 1/2 years	21.00	1.90	4.41
6 1/2 to 7 years	21.50	2.12	4.36
7 to 7 1/2 years	22.00	2.30	4.31
7 1/2 to 8 years	22.50	2.45	4.26
8 to 8 1/2 years	23.00	2.57	4.21
8 1/2 to 9 years	23.50	2.67	4.17
9 to 9 1/2 years	24.00	2.76	4.12
9 1/2 to 10 years	24.50	2.84	4.08
MATURITY VALUE (10 years from issue date)	**$25.00**	**2.90**	...

*Approximate investment yield for entire period from issuance to maturity.

District Summary of Business Conditions

Sixth District business and industrial activity continued at a high level in January. Department store sales declined following the Christmas holiday trade much less than they usually do and reached a new high level for the month; distribution of merchandise by wholesale firms increased slightly at a time when there is usually a small decline; and life insurance sales also increased in January, although there has nearly always been a decline in that month. Cotton textile activity and pig iron production increased to new record levels, and coal output was at a higher rate than at any time since early in 1927. Construction contracts awarded in the District declined in January but continued in larger volume than at the corresponding time a year earlier. Cash farm income in 1941 was the largest since 1925.

▶ Department store sales in the Sixth district declined in January to approximately one-half of the December total. The usual decline in January, however, has been somewhat larger and, after adjustment for seasonal influences, the index rose 13 per cent above that for December. It will be recalled that in early December sales figures were adversely affected following the entry of this country into the war, and that the seasonally adjusted index for the entire month of December declined 9 per cent from November, although the month's indexes, both unadjusted and adjusted, were by a wide margin higher than they had ever been before. It seems probable that the unusually heavy buying in January, following the announcement that automobile sales were to be stopped entirely and that tires and tubes were to be rationed and sales of sugar and civilian use of wool were to be restricted, was due to the fear that similar restrictions would soon be placed on many other commodities.

Weekly sales figures for early February indicate some slackening in the January pace. In the first half of February, sales were at a rate about 2 per cent below that of January and, if seasonal factors are considered, they were about 13 per cent lower. In this period, however, sales were 8 per cent above the corresponding period a year ago and the indications are that the February total, like those for nine of the past twelve months, will establish a new high record for the month.

Among the reporting cities in the District, Birmingham and Jackson had increases over January 1941 of more than 50 per cent, while Chattanooga and Knoxville reported sales more than 40 per cent larger. Macon, Montgomery, and New Orleans had increases of more than 30 per cent, and Atlanta, Baton Rouge, Jacksonville, Nashville, and Tampa had increases of 20 per cent or more.

Inventories at department stores increased slightly from December to January and were 25 per cent greater in dollar value than they were a year ago.

▶ Wholesale trade in this District recorded a slight increase in January, when there is usually a small decline, and was 29 per cent greater than in January 1941. January increases over December in sales of automobile supplies, shoes, drugs, dry goods, groceries, hardware, and paper products were approximately offset in the total by declines in sales of electrical goods, furniture, tobacco products, and miscel-

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