

Address

by

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We are in a period of incredibly swift change. No one, I don't care who he is, or how close he is to the seats of the mighty, really keeps up to date in his grasp of the meaning of what goes on. Most of us are unconsciously waiting for something to "click", and restore the peace of calm certainties. I don't think it is going to happen. We can be sure the world that emerges will be vastly different from the old order to which we had grown comfortably adjusted.

The gravest dangers are ahead of the United States as we whirl along in the millrace of current history - and tonight I am talking about internal, not external dangers. We are in a fever. How serious the after-effects will be - whether the attack is fatal or not - depends on what we do now as well as on what we do in the future.

If time would permit I should like to point out many of the signposts to danger that are hurrying past. But it would take longer than we have tonight even to paint the perspective.

Less than two years ago the total of dollar commitments for defense armament, army, navy and air force, was under two and a half billions. Today that total is more than 20 times as great - \$56,357,000,000 - and if British orders for war materials placed in the United States are added, the total passes 60 billions.

Last month, actual defense expenditures - money checked out of the U. S. Treasury to pay for war materials and facilities - reached a new high of \$1,172,000,000. That is modest compared with what it is expected to reach.

The Secretary of the Treasury had estimated that expenditures for this fiscal year will not be less than 19 billion dollars, and

that Government income exclusive of what the new tax bill will add, will run about 9.2 billions. It doesn't require much of an economist to figure that these expenditures are going to have some other consequences beside buying airplanes and ships and tanks.

External developments have forced the United States to arm on this unprecedented scale. But partly because the Government is spending money for materials and men at the swiftest possible rate, wages are going up; the number of unemployed is falling; and national income and consumers' purchasing power are rapidly rising. At the same time, the supply of many things is diminishing as men and factories and materials are diverted to make implements for war. Now if this rising income is spent for a diminishing supply of goods, and on top of that we continue to expand consumer credit, this country faces ruinous price inflation.

If that develops, it is the great mass of working men and women and the "fixed income", "white collar" classes who will be hardest hit. We can agree, I think, that the Government isn't going to abate its defense efforts just because of this prospect of inflation. But every future move in the fields of taxation, Treasury financing, direct price controls or credit policy should seek, as one objective, to prevent a runaway price situation. Certainly a balanced program to check inflation must make use of all of them.

#### Installment Credit Controls

It is impossible to talk about all of these moves tonight. I hope other speakers on your program will bring out the reasons why stiff and courageous taxation is absolutely essential, if we are to avoid a runaway; why public investment in savings bonds must be

multiplied as our national income rises. I hope someone will tell what happens when labor wages and prices start chasing each other up the spiral climb. I want to talk a little about one of the moves of lesser importance, but probably of great present interest to you - Regulation W - issued in conformity with the President's Executive Order of August 9, for the regulation of installment credit. And if I have time, I want to talk briefly about the farming outlook.

The volume of consumers' installment debt is ballooning right on top of swiftly rising incomes. The new regulation of installment credit is a part, and relatively not the most important part, of a broader program aimed to prevent these forces I have been talking about from driving prices out of reach. A further specific purpose is to slow down demand for articles which compete directly with defense for materials, labor and factory capacity.

Some people fear that regulation of installment terms may take away the poor man's chance to buy the good things of life. It is not installment terms but defense needs that will determine how many automobiles, refrigerators, and other specified articles are actually going to be produced for civilian use. Fewer people, whether rich or poor, will be able to get new cars, for example, regardless of whether installment terms are regulated or not. What the low-income worker really needs to fear - and what installment regulation helps to protect him from - is sky-rocketing prices which dip into his pocketbook and cut his real wages.

Probably many of you are perplexed over some angles in the application of that regulation. I will not touch on any of its details tonight. In general, I hope you will keep in mind that the problem is

new for the Reserve Board in Washington, and for us who must administer it in the field, just as it is new to you. We have to grow along with the subject just as you and your customers whose business is affected, must do.

This is a significant step in the field of selective credit controls, which has been entered but little in the past. I can think of only one other, and that is the regulatory power over the extent to which credit may be used to buy or carry stock market securities. I think that is generally called regulation of stock market margins.

Aside from that, most moves for the purpose of controlling or influencing the volume of credit have been general, such as changes in reserve requirements and the discount rate. The trouble with them is they are too general and universal in their effects, to be applied very successfully, where one particular segment of credit is aimed at, such as the highly volatile brokers' loans, or equally dynamic consumers' indebtedness.

Moving to check the rapid growth of installment debt will have little effect on the gathering inflation unless well-coordinated action is taken in other fields at the same time. Public works expenditures by the government, not directly necessary to defense, should be cut to the limit.

Measures should be taken to slow up the demand for new housing which is bound to accompany rapidly rising national income. Policies which encouraged housing in order to stimulate the production of capital goods when we had 8 to 10 million unemployed and a large amount of un-utilized plant capacity are no longer appropriate when we are mobilizing all of our resources for defense. Then, too, the average

\$6,000 house uses 2 tons of steel, 144 pounds of copper, 200 pounds of lead, and 77 pounds of zinc, all of which are vital to defense industry and in which shortages have already developed. In 1941 residential building will use a total of 1,400,000 tons of steel, 50,000 tons of copper, 70,000 tons of lead and 27,000 tons of zinc.

To slow up the demand for new housing other than that actually needed to house defense workers and their families, steps should be taken to restrict the liberal terms of recent years for the duration of the defense emergency. This would not only conserve essential defense materials but would build up a backlog of demand, which in the post-defense period will be needed in order to assist in preventing a slump in business activity. The provision of adequate housing facilities, particularly for the lower income groups, has been long neglected in this country, and it should be one of our primary goals in our transition from a defense to a peace-time economy. But this is no time to push it.

#### Agricultural Outlook

While Tennessee is rapidly developing as an industrial state, under the impulse of defense and with your magnificent power development, nevertheless this continues to be a great agricultural state. It will be possible to avoid some of the pitfalls which caught the farmers after the last war, if reasonably sound horse sense is used.

The bill which would "freeze" government stocks of cotton and wheat is pernicious and capable of doing wheat and cotton farmers untold harm. The President has vetoed it, and his veto should be sustained.

I have been delighted to see the Farm Bureau of your state line up emphatically with the American Farm Bureau to oppose this bill and to uphold the President's veto. I am glad to see these and other responsible

farm organizations take a moderate stand on farm price advances. They have fought for years for parity or equality for agriculture; now, that it is in sight, they are resisting other less responsible groups who clamor to get while the getting is good.

The war has brought unpredictable changes in the demand for farm products, but it hasn't solved farm problems by any means. The Department of Agriculture is calling for a total production from the farms that will reach, if achieved, the highest total in our history. Most of the increase called for is in products which the valleys of the Mid-South are splendidly endowed to produce - milk and dairy products, eggs, meat and vegetable oils. But expansion by the cotton and wheat and tobacco farmer, of those basic crops, could only mean renewed troubles.

The reason why moderation in farm prices is best in the long run is familiar to everyone who followed agricultural history during and after the last war.

In Tennessee you were fortunate not to have had the speculation in land that was prevalent in some other states during the war and post-war period. From 1910 to 1920, however, the value of land in this state more than doubled while the volume of farm mortgage debt increased by four times, and the interest bill went up in proportion. What this increased interest bill meant to the farmers of Tennessee in the deflation of 1920 can be illustrated in terms of corn which accounted for about 40 percent of the state's crop income at that time. In 1919 at the prices then prevailing, it took about  $1\frac{1}{2}$  million bushels of corn to pay the interest on all farm mortgages in Tennessee. In 1921 it took 6 million bushels.

Let me put these figures in another way. In 1920 the average

interest bill on a mortgaged 80 acre Tennessee farm was about \$140.00. To pay this interest the farmer in 1919 had to produce and market less than 100 bushels of corn. In 1921, however, he had to produce over 300 bushels - or three times as much - three times as much corn, three times as much land, and three times as much labor. This is the bill which farm land inflation and subsequent deflation left the Tennessee farmer to pay. We should like also to remember that 300 bushels of corn would be nearly one-third of the total yield of the average 80 acre Tennessee farm, which would have to go to pay interest alone in 1921.

These things I have been talking about, and a host of others as well, are important parts of the banking business. Say what you will, the banker is a leader of public opinion in his home community. In a time of crisis it is his duty as well as his privilege, to serve as the center of a zone of enlightened thought on public economic questions. The bankers have done fine work already in this emergency; in the days ahead they will be called on to do much more.

In conclusion, let me warn you that our troubles won't be over when Hitler is licked. As a people we tend to over-simplify things; to reduce all our perplexities to a single statement of goal or purpose.

We are going to have to fight hard and long and unceasingly, if we meet the military and economic and social strains that are ahead of us and still preserve the institutions of free men. No one is going to wave a magic wand and solve these problems for us. How we fare in the future depends on what we do today. No single act is done and no problem arises that stands off all by itself. A chain of causes and effects reaches back to the dawn of history and stretches endlessly into the future.

I do not need to spell that out any further. These problems considered tonight are part, and only part, of the challenge that confronts us.

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