

PRESIDENT FLEEK: A few weeks ago in Washington I had a talk with the Chairman of the Board of Governors of the Federal Reserve System. He finally agreed to be here today if I would not ask him to say anything. He said: "I do not wish to make any set speech or be on the program." However, he is here and I think I will not do too much violence to my commitment with him of a few weeks ago if I ask him to say a few words to you. I can assure you that we are very much honored that Marriner Eccles is with us participating in this conference.

MARRINER ECCLES: What the investment bankers have done in connection with the war effort, and what you have agreed to do, I think is very commendable, particularly in view of what the investment banking business has suffered because of the stagnation of the private capital markets.

I realize that your members may get less as the war goes on and that only those who are fortunate enough to retain something out of the profitable business in the past may be able to continue to give your services in this connection. I, for one, want to recognize that fact, and to pay you what tribute I think you are fully entitled to for the voluntary effort which you are all making.

The problem of war financing is not a difficult problem when it comes to the question of getting the money. It is not nearly so difficult as the winning of the war. However, the way the money is raised is extremely important. It means either a stable economy or a great inflation. And it may mean a great deal when it comes to the winning of the peace. A failure to finance the war in a safe and proper manner is going to make not only the carrying on of the war increasingly difficult, but is going to make the post-war position of this country almost an intolerable one. All of us who have property and who have financial interests are deeply interested in seeing to it that everything that

can be done is done to finance this war in a manner that will cause as little instability to the economy as possible.

I have felt that our tax program is entirely inadequate. It seems to me that looking to the future, not less than 50 per cent of the cost of the war should be raised currently by taxation. Taxation is the safest and most anti-inflationary method of financing the war. It is important where taxes come from. The bulk of taxes must come from sources that would otherwise add greatly to the pressures on prices of consumer goods and thus contribute to an inflationary spiral.

The people of large income are few. The great consumer purchasing power will come from those people with incomes of less than \$5,000. If all of the income was taken away from those with income above \$5,000 it would not be a drop in the bucket in connection with the financing of the war. Consumer goods are diminishing and are going to continue to diminish rapidly. So there is no advantage to be gained by the people as a whole in having more money than they are able to spend in the purchase of goods.

I realize the practical and political difficulty of collecting enough taxes to pay for the war currently. The British and Canadians have succeeded in collecting enough taxes to pay for fully half the cost of the war. There is no reason why we, in the future, can't do likewise. What is not financed in that manner must be financed, so far as possible, as we have heard today, from outside of the commercial banks. I feel that not less than 75 per cent of what must be borrowed should be raised outside of the banks. The Canadians and the British up to date have financed more than 75 per cent outside of the commercial banks.

While commercial banks are not the last resort, because the last resort would be financing by the central banking system, they should be given the job of financing only that portion that is left over after an adequate tax system and after the utmost effort is put forth by the Victory Fund and the War Savings Committees. It will be up to the Federal Reserve System to provide the banking system, either through open-market operations or through discount facilities, with the reserves necessary to enable the banks to carry their portion of the government financing program.

To the extent that the banks do not carry that portion then the Federal Reserve System is the last recourse. It is to be hoped that the financing to be done by the Federal Reserve System will be reduced to a minimum.

PRESIDENT FLECK: Mr. Eccles, we very much appreciate your giving us that straightforward talk and allowing me to break my previous commitment with you and ask you to speak. We are very, very grateful to you.