

TREASURY DEPARTMENT
Washington

(The following address by SECRETARY MORGENTHAU before the Annual Convention of the American Bankers Association in Chicago is scheduled to be delivered at 10:30 a.m., Central Standard Time, Thursday, October 2, 1941, and is for release upon delivery at that time.)

Three weeks ago, in a speech at Boston, I said that we were in the early stages of a serious price inflation, and that we must deal with the danger at once. I said then, and I should like to repeat it at the very start of this talk today, that if we do not check the spiral of rising prices, and check it now, the consequences will haunt us and our children for years to come.

I outlined then a twin program for fighting inflation, on the one hand by reducing excess purchasing power in the hands of the public, and on the other hand by increasing the supply of goods, like farm products, which do not compete with the overriding needs of our national defense effort.

I said then - and I feel very deeply about it - that it was "sheer folly" for the farmer to seek higher prices for his

crops at this time, for labor leaders to seek continual new increases in wages, or for landlords, businessmen, bankers, or any group to exploit the present emergency for selfish gain. And I asked for the understanding and support of 130 million Americans in fighting the evil of inflation by every means in our power.

There is no need to tell this audience of bankers of the need of common effort, on the part of every group and every individual in the community, if inflation is to be averted. You have shown abundantly in the past year that you are conscious of your duties and your responsibilities to the country. You have given magnificent help, and given it unselfishly and cheerfully, in the selling of Defense Savings Bonds and Stamps. You have given further help in the sale of tax anticipation notes which make it possible for every taxpayer to meet next year's heavy tax bill more easily. You have cooperated willingly with the Treasury's control of foreign funds, even though it interferes with the free handling of your business affairs and subjects you to many complicated regulations and questionnaires.

In all these and other ways you have been such real partners of the Government that I am very glad to be with you this morning, to thank you personally for all that you have done.

But the most important task of American bankers lies immediately ahead, and it is a broader and bigger task than any you have yet been called upon to perform. That is the task of doing everything in your power, not only as bankers but as influential and respected leaders in your communities, to fight this evil of inflation wherever it rears its head.

Many of you will remember, from your own experience of twenty-five years ago, that inflation is just as damaging to bankers as to farmers, wage earners or businessmen.

We now know that the doubling of bank loans and investments from 1916 to 1920, and the resulting doubling of deposits in the same five years, contributed to the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We now know that the inflation of a quarter-century ago, with all of its injustices and dislocations, could to some extent have been avoided if the Government of those days had acted more promptly, if it had taxed more heavily and borrowed more widely from genuine savings.

When the inevitable collapse came, no fewer than 2,910 banks with 790 million dollars of deposits were compelled to suspend operations in the five-year period from 1921 to 1925. Humpty Dumpty had fallen from the top of a very high wall, and many years of effort were needed to pick up the pieces. It is our job at the Treasury and the Federal Reserve, and yours as custodians of the people's money, to make sure that any present-day descendants of Humpty Dumpty shall not go climbing up that wall of expanded credit and higher prices again.

That is why my first plea to you as bankers is that you scrutinize closely your own lists of applications for loans. Those lists contain within them much of the ammunition of inflation. You have in your hands, therefore, one of the most effective weapons for checking inflation at its source. You are sure to find, on looking over your lists, many applications for money for non-defense projects that would involve competition for steel or copper or any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such unnecessary loans until a later day, without waiting for the priorities to become broader, you will be doing a real and lasting service to your country.

I hope that in the not too distant future the priority system will become so effective that the supply of practically all raw materials for all purposes will be under full control in the interests of national defense. That should mean that materials which must be used for defense purposes will not go into any unnecessary civilian projects. But until that day comes, I hope that you will constitute yourselves the sentinels of the nation, in your own bank and your own community, in guarding against any private encroachment upon the stock of resources needed for the national effort.

Another essential service which you can perform is, quite simply, to teach the people of your communities the facts about inflation and defense financing. You see in your daily work men and women from many walks of life. You are in a key position to advise them, and your advice carries as much weight as that of a family doctor to his patient or a lawyer to his client. I know that in these serious times you will give the right kind of advice, and that your influence collectively and individually will be joined with that of your Government in its efforts to keep the cost of living in check.

There is a real need of convincing the average citizen, right now, that he will have to accept far greater taxation. There is a real need of preparing him to make greater savings in his daily life to ensure the long-run survival and improvement of his standard of living. Above all, there is a real need of explaining to him that this war cannot be won quickly or cheaply or easily.

It will require all-out effort on our part to tip the scales in this war. It will require every ounce of strength that our giant industrial system can give. It will demand sweat and sacrifice on the part of producers, workers, managers and consumers alike. And it will mean the greatest public expenditure that has ever been pumped into the arteries of our economic system.

Defense expenditures have now risen slowly to more than a billion and a quarter dollars a month. They will soon be a billion and a half, but even then they will be utterly inadequate compared to the need. Perhaps "inadequate" is too mild and charitable a word. We are trying to make ourselves the arsenal of democracy by devoting only 20 per cent of our factory and mining output to defense, only 30 per cent of our

output of durable goods, only 10 per cent of our output of non-durable goods, and only 16 per cent of our national income. That, surely, is very far from total defense or all-out effort.

Nobody can emphasize too often or too strongly the magnitude of the job which we American people have set out to do. Let me give you a few simple illustrations. At present prices the cost of the total defense program as now planned will be more than 50 billion dollars. This is 10 billion dollars more than the original value of all building construction in the United States since 1927. It is twice as much as the total investment in American railways. It is twice as much as the total value of all passenger automobiles produced in this country during the past fourteen years.

Yet there is no reason whatever for us to be discouraged over the mere size of the job ahead. In spite of a slow start, we are now on the road to an expansion of production which will confound those of narrow vision and little faith who cried, "It can't be done." The capacity of America to produce over the long pull is almost limitless. We Americans can do any job that we set ourselves to do.

It is not so much the size of the undertaking as the limited time at our command which causes our economic system to heave and strain. To telescope such a vast construction or production job within, not twenty years or ten years, but within one, two or three years, is bound to affect profoundly every aspect of our economic and social life.

Under the impact of our comparatively modest defense expenditures up to now, our national income has increased by fourteen billion dollars in a year, and we are feeling all the preliminary symptoms of a serious price inflation. What will the inflationary forces be six months from now, when we shall be spending much faster and when the supplies of materials for civilian use will be smaller than they are today? Where will prices be then, if we do not act courageously to check them now?

It is imperative that we set aside a great part of that national income, and especially the increase in the national income, if we are to put an effective brake upon inflation.

One indispensable method of paying for defense without inflation is "all-out" taxation, a method that has not yet been tried in spite of the good start that Congress has made in raising \$3,500,000,000 in additional revenue. With the

help of the new Revenue Act of 1941, our tax structure will yield about fourteen billion dollars in revenue, but in my opinion it still contains many inequalities and many omissions which will have to be corrected next year.

The tax bill next year will have to be a genuinely "all-out" bill, a genuine levy upon all in accordance with their ability to pay, if it is to raise the necessary revenue, place the necessary check upon inflation, and take the profit out of war.

The second indispensable method of drawing off excess consumer purchases is by borrowing as much as possible from the genuine savings of individuals throughout the country. I know I can count on your wholehearted cooperation whenever we have to come to your banks for funds. The way to proceed now, however, is to finance our needs as far as possible without adding unnecessarily to bank deposits, to borrow instead from private investors, large and small, and thus to reduce the inflationary pressure of our swiftly rising national income.

The Defense Savings Program has now been in progress for five months. It has yielded us a billion and a half dollars from two and one-half million individual investors. The

result so far is certainly not below our expectations, but just as certainly it falls far short of our needs. It falls short especially in that it has only begun to reach workers' payrolls. Every one of the great national labor organizations has given its endorsement to systematic saving, and voluntary payroll allotment plans are now in operation in more than five thousand companies employing between five and six million workers. Our strongest efforts must now be made in our great industrial centers, and must be directed at the good sense and patriotism of the workers themselves.

I can find no usefulness, for our present purposes, in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings Program. I can see no value, either in terms of economics or of morale, in high-pressuring people to take money out of bank savings accounts or out of life insurance. But I do see a great benefit, financial and moral, in persuading spenders to set aside, systematically, week after week, a part of their current income for their own good and their country's good.

The kind of spending that the Treasury is most anxious to divert into Defense Savings Bonds is the spending produced by

pay increases and bonuses, and by increased dividend payments. I should like to offer as a suggestion, for example, that every Christmas bonus in the United States be paid in Defense Savings Bonds or Stamps this year. The banks of America can start the fashion so that it will sweep the country. The total amount of such bonuses may be small, but there could be no finer example to the public, no more striking reminder of the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

We at the Treasury believe that the voluntary Defense Savings Program has already awakened a greater sense of pride in America and a greater sense of participation in the national effort. We shall continue along that road of voluntary cooperation, and I am perfectly confident that we shall reach vast numbers who are willing and eager to put their savings to work for their country.

In this effort the Treasury will continue to depend greatly upon the bankers of America, not only as its agents in selling Defense Bonds but also as missionaries in spreading the gospel of savings in times like these.

There are no commissions for bankers in this work, and you have asked for none. But in order to enable you to give

wider distribution to Defense Savings Bonds, I am happy to announce to you this morning that it will no longer be necessary for you to put up collateral for the Series E bonds which you keep in stock for customers. I hope that this will relieve the banks, especially the small banks, of a real burden, and I hope that you will not hesitate to tell us at the Treasury of any similar burdens which you feel may be hampering you in the sale of these bonds.

Wider savings and greater taxes will not, of course, be enough in themselves to cope with the inflation that now confronts us.

You have seen the joint statement issued last week by the Federal Reserve System and the Treasury, dealing with the raising of bank reserve requirements to the limit of the law, and pledging full cooperation with the Office of Price Administration and the new Supply and Priorities Allocations Board.

That joint statement was a reminder of the fact that the Government already has powerful weapons of control in its hands, and that if it needs more power it will ask Congress for whatever it needs, in the fight against rising prices and falling living standards. It is now asking for additional power

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through the price-control bill, which I hope will be passed by Congress without delay.

I have already suggested an extension of the social security program as a possible method of absorbing several billion dollars of next year's national income and thus building a further reserve for the future. I have already suggested, not once but repeatedly, that the Government cut down immediately on non-defense expenditure, not only as sound financial policy but as sound anti-inflationary practice.

Of course, such a combination of emergency taxes, priorities, savings and price-control will cause some inconvenience; of course it will cause some hardship, some sacrifice. We are now engaged in a world struggle that demands all our energies and all the qualities that have made America great. As a result of that effort we are compelled to fight another enemy, the enemy of inflation, on the home front. How can we hope to win unless we first throw onto the rubbish heap all ideas of business as usual, pleasures as usual and comforts as usual? In my opinion; complacency is our major source of weakness today in building our defenses, for it saps our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

We can conquer inflation on the home front if we act now, just as we can ensure the defeat of foreign tyranny if we rouse ourselves in time. Most Americans, I think, are beginning to see that they have a personal stake in the fight against inflation, just as most of them began long ago to see their individual stake in the destruction of the Axis war machine. I am confident about the outcome on both fronts, because I have a deep and abiding faith in the common sense of the American people.