

THE WAR, THE PRESS, AND THE PUBLIC DEBT

Address

By

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You are nearing the end of a long and serious session. You have earned the right to be entertained and amused. I wish from the bottom of my heart that conditions in the world and in our own country set an appropriate background for fun and gaiety as you conclude your Seventy-sixth Session, but events of world-shaking importance have been unfolding every hour of your meetings. Issues of utmost gravity impose new responsibilities on the press of Missouri and the United States. You are concerned over what is ahead of newspaper publishers as business men; even more so over how a free press can best serve a challenged America.

When I was working on the fringes of the newspaper business, it seemed to me that everyone I met started out his talk to me with the words "you ought to --". If men in high military office think there are too many armchair strategists telling them how to plan and carry out a campaign, or if men in high political office complain about critics who tell them how jobs should be done, they ought to try running a newspaper for awhile. Everybody knows how a newspaper ought to be run; nearly everyone is articulate about it. I catch myself doing it too. I can think of lots of things I would like to say to the St. Louis newspapers about the way they handle or don't handle their financial news. I still think the announcement of a four billion dollar Treasury issue to be sold to the Country in two days is worth more than a stick-and-a-half back among the want ads.

I turn reluctantly from that tempting field, however, to make a few observations about your place in a nation whose very existence is at stake in a desperate war. The conversion of the United States from peace has many implications and consequences for its newspapers. Strictly on the business side, as

representatives of an eighty million dollar industry in Missouri, the newspaper publishers have many serious problems. They are a vital part of the sales system of our economy. It doesn't require an economist or a business analyst to see what is in store for all parts of a sales organization when two-thirds of a nation's production is taken for war, leaving only one-third rationed to the needs of the civilian population.

There is no other business that is more thoroughly decentralized than the newspaper publishing business. Talk about small business, independent business! No industry fits the term more accurately. The newspaper plant is a manufacturing enterprise. War has brought you many of the operating problems of other manufacturers - materials, labor, priorities, deliveries, repairs. Under these operating complications you still carry on the work that cements in unity a vigorous, vital, and free people.

What an enormous number of great blessings we take for granted in this country! It is natural for us to gripe about irritating censorship, colored and over-numerous handouts, suppressed and delayed news. But in this country if men of the press don't like the way things are handled or the men who are handling them, they can say so and still have an office to come back to the next day, a life to live free from the shadow of the Gestapo, concentration camp, or firing squad. If you want to get a gripping picture of what your profession is like under the dead hand of Nazi Germany, read Howard Smith's "Last Train from Berlin".

If Branch Rickey had been here tonight, you would have expected him to devote at least a part of his talk to his specialties - young men and baseball. He would not have disappointed you. A speaker ought to concentrate on the subject he is supposed to know something about. This war has many fronts.

While I have you here in one room, I want to talk about the war on the financial front. Its sheer dimension and scope make it news.

We are proud of the job this nation's industry and labor are doing in making machines and materials for war. In the Federal Reserve System we have a convenient index which we call the index of industrial production. It is based on the volume of production in the years 1935-39 as 100. It measures the output at factories and mines.

One year ago, this volume of production index stood at 165, that is, we had increased the volume of our industrial production by 65 per cent over 1935-39. About one-half of that production went for war. Last month, this index passed 185. Of that volume, 100 points in the index represented production for war; 85 points only were for civilian, non-war uses.

By June, 1943, it is estimated that our production will have reached 210 per cent of the 1935-39 level. Of those 210 points, 140 will be for war and only 70 for civilian life at home. In other words, two-thirds of our national effort will go to make possible the tremendous war effort of this country and of our allies in the United Nations; only one-third will be available for the home front. This means, of course, an absolute reduction in the physical quantity of goods for civilian use. It means that we who have been talking so much about willingness to sacrifice and to do without are going to get the opportunity to do a little of it; not much compared with what other people are doing, but still more than we have been called upon to deliver heretofore.

The cost of this war production during the fiscal year which ends June 30 next will average a billion and a half a week. Seventy-eight billions will be spent for war from last July to next June. Including Federal non-war

expense, the year's total will exceed Eighty-four billion, or Seven billion for each month.

The Government has two means of raising this money - taxation and borrowing. After we have raised all the revenue that the Federal taxes will yield, we will still have to borrow at the rate of Sixty billion a year, or Five billion each month.

Let me by two comparisons illustrate the size of this financing job. During five short months we will raise in this country, by borrowing, more than the nation borrowed to finance its part in World War I. The Government borrowed slightly over \$24 billion in 1917, 1918, and 1919. That sum would not finance the cost of the present war on the present scale for four months.

In the war against depression from 1933 to 1939, the Federal Government borrowed less than \$21 billion. Three months and a half of war at the present rate swallows up that sum.

Borrowing for the war means that the public debt of the United States will continue to grow. Today the total is approaching \$100,000,000,000. To forecast its future course requires many "ifs" and assumptions. If the war lasts through 1944 and if revenues from taxation are no greater than we now have reason to expect, we will go out of 1944 with a public debt in excess of \$200,000,000,000. This debt will be represented by Government bonds, notes, certificates and bills held by individuals, corporations, insurance companies, and commercial and savings banks.

Government borrowing can be divided roughly into two categories. First and most desirable is the borrowing from individuals and corporations other than commercial banks. When investors in this class buy Government

securities, they are investing part of their current income or their savings. In other words, they are putting at the Government's disposal money that has already been created. Borrowing in the second category, i.e., from the commercial banks, is considerably different in its nature. When a commercial bank lends to the Government by paying for Government bonds with deposit credit, an equivalent sum is added to the total quantity of money in existence.

That difference explains why, in the effort to avoid serious inflation, the Government seeks to borrow as much as possible from individuals, and institutions with money to invest, and only turns to the banks for the remainder. If a person who has \$1,000 or can save it from his income buys Government bonds, his \$1,000 becomes active but he no longer has it to spend. If, instead, the Government borrows the \$1,000 from a bank, the original owner still has his \$1,000 to spend when he feels like it. There is more inflationary force in borrowing from banks.

But in spite of all we can do to push sales to individuals and non-bank investors, the banks will still have to buy enormous quantities of Government bonds. In recent months, banks have financed two-fifths of the total increase in the Government debt. If that proportion continues, it is reasonably safe to guess that the banking system as a whole will invest 9 billions in Government securities during the last quarter of this year, between 20 and 25 billions in 1943, and about the same amount in 1944.

Their holdings of Government securities which were 26 billions on last June 30th, will be about 40 billions at the end of this year, 60 to 65 billions by the end of 1943, and probably will reach 80 to 90 billions by the end of 1944.

That is the outlook for bank purchases of Government bonds. There will be a corresponding increase in the volume of bank deposits. It is possible also to do a little guessing at that. At the beginning of 1940 before the step-up in the rate of Government war financing, the total of demand deposits in the commercial banks in the country amounted to less than \$30 billion. At the end of last June, they reached \$42.6 billion. By the end of this year, they will probably reach \$50 billion. Assuming that the war continues and our effort does not slacken, it is not unlikely that demand deposits will touch \$75 billion at the end of 1943, and be in the neighborhood of \$100 billion at the end of 1944.

One by-product of the war, therefore, is a vastly increased supply of money. It is natural and proper, I think, that the Government, in its heavy borrowings, should seek to prevent a general advance in the cost of the money it needs. With a brake on the prices of everything else, there is no good reason why the interest rate, the price of money, should finally be set by the money market.

I mention that particularly because newspapers and periodicals have it in their power to present the story of Treasury financing either wisely or superficially, fairly or unfairly. One of the best examples of journalistic mishandling I have seen in this war was Time Magazine's treatment of the four billion dollar October financing. Some of you may have read their story in which they called the recent issue of 2 per cent  $7\frac{1}{2}$  to  $9\frac{1}{2}$  year bonds the "greatest flop since the Mellon 3's", and castigated the Secretary of the Treasury because he hadn't offered a  $2\frac{1}{4}$  instead of a 2 per cent bond.

I'm not the Secretary's defender, but let me tell you a little about that issue. It was intended for the banks. Long ago thoughtful bankers as

well as government banking authorities had recognized that it would not be prudent banking to invest the rapidly swelling demand deposits I have been telling you about in extremely long-term obligations. A ten-year limit was thought plenty long by a Special Committee of the American Bankers Association which studied the matter. To fit in the existing pattern of rates, which generally should be maintained for the duration, a  $2\frac{1}{4}$  per cent bond would have had a fourteen year maturity, too long for commercial bank investment. To offer a ten-year  $2\frac{1}{4}$  per cent bond meant blowing up the existing pattern of rates, cutting loose the cost of money to finance the war.

Bear in mind that when the four billion dollar issue was put out, the banking system had altogether just about two billion dollars in excess reserves. If Time had criticized the Treasury for allowing the banks so little time in which to absorb the issue, I would say "Amen". Of course, the issue had hard sledding. In this district we had just about one full day to work on it. Of course, the day of enormous over-subscriptions is gone. That was when the banking system had six or seven billions in excess reserves and when the issues were peanuts compared with those coming along now.

Time Magazine considered none of these factors. To my mind, it was a perfect illustration of what can happen when the responsibility of editorial expression is delegated to the superficial hand of a wise-cracking reporter.

This isn't a bankers' meeting, so I'm not going to pursue this line much further. You will agree with me that war developments have created a totally new condition for bank operations in the United States, one that calls for the closest possible cooperation between the banks and the agencies of Government.

Right now, I want to go on record with a few observations as to the important work the bankers are doing in this war. It is not spectacular, but it is highly creditable. Take the part they have played in the sale of Series E War Savings bonds, for example. Here in the State of Missouri total sales of E Series War bonds through August 31 amounted to \$116 million. The banks of Missouri sold \$72 million or 62 per cent of that total.

Just as you have given your space to advertising War bonds, so have the bankers hired the help to handle these bond sales to the public without any charge to the Government or anyone else. It has been a magnificent job. I do not think the bankers have been given full credit for it; I know they haven't asked for any.

I want to stress the next point, underscoring it particularly for the editors. I should say that 99.9 per cent of all the publicity that has been given to Treasury financing has gone to the War Savings bonds, yet for every dollar that is raised through the sale of bonds of that type, four dollars is raised through the sale of other kinds of Government securities. I am not quarreling with this distribution of publicity. The sale of War Savings bonds is important for other reasons than the money they raise. But allowing for that, the public ought to be made aware of the size and nature of the other financing that is going on, whose dollar volume is four times as large as that of War bonds.

Bankers are doing a magnificent job of this other financing too. As Bob Hill can tell you, bankers make up the bulk of the membership of the Victory Fund Committees that have been set up in each Federal Reserve District to help the Treasury with the sale of securities other than Savings bonds. To do this selling job effectively, bankers have to do things that violate long-established

habits of thought and practice. They have to solicit their customers, big and little, to withdraw their money from the bank and invest it in Government securities. It takes a lot of nerve for a banker to advise a corporate depositor, for example, to draw down its account, which may amount to a million dollars, and invest it in tax anticipation notes. But the bankers are doing it, just as they are urging their small savings depositors to withdraw their money and buy War bonds.

This isn't as rough on the bankers as it sounds. Just think back for a minute on the figures I gave you to show how bank deposits have increased and how they are going to increase still more as the war goes on. No matter how hard a banker works to get his depositors to take their money out of the bank and invest it in Government securities, his deposits are going to continue to increase at even a faster rate. That is because so large a part of the Government financing is of the sort that increases bank deposits.

Forces operating in the money market used to be centripetal in character. The tendency was for money to flow toward the money centers for investment by the big banks. All that has changed. The new forces are centrifugal. Vast Government expenditures at Army camps, munitions plants, and to pay contractors and farmers for the great volume of supplies needed to feed a war, keep drawing money out of the money centers and scattering it into the small communities. The bulk of the reserves of the banking system today are out in the country banks, not in the central reserve cities.

In a word, the bankers have enormously important war work to do, and they are doing it well. As I have shown, they are handling the bulk of the War Savings bonds. Beyond that, in close cooperation with the Government, their role is to help provide funds to finance the cost of the war to the extent it

is not met by taxation and through the sale of bonds to individuals, insurance companies, and other non-bank corporations.

This is a war of many fronts. In a sense it is not one but a multitude of wars. I have talked to you mainly about the war on the financial front. The far-flung military and naval struggle will come to a pause some day, but when it ends there are other phases of the war which must go on indefinitely.

Many of our present desperate problems are on us because we have not always understood that this is true. We have acted as though we believe the blessings of liberty and freedom were bought and paid for by our forefathers and handed down to us as a heritage to enjoy without further payment or effort on our part.

That isn't the nature of the world at all. Freedom isn't something you can buy at one payment as you might purchase a beautiful painting to hang on the wall and enjoy in perpetuity. You pay for it in installments which never end, and if the payments lapse the penalties are terrific. We are now learning how costly they can be.

Our struggle for a system of international cooperation to promote security and justice and to safeguard peace cannot stop when the guns fall silent, as it did for all practical purposes after the last war. In the years ahead we must accept responsibility and furnish leadership in the development of an enduring international organization to promote justice and guarantee freedom and peace. If freedom and democracy are to survive, there is another war on the home front yet to be won. Our forefathers bequeathed us a material empire of fabulous and diversified wealth, and we have wasted it shamefully. In many ways we have defaulted in its care and management. I think we have done even a

better job in protecting our political and civil liberties than we have done in perfecting the practices of economic and social democracy.

Our struggle to establish and maintain an economic and social system within the United States that satisfactorily meets the needs of all the people must go on and it must become more definite and pointed. When it became apparent on this Continent that free nations everywhere were menaced by the pestilential spread of dictatorships that deny freedom, we were compelled to turn aside from an unfinished job on the home front - we laid down unsolved, even undiagnosed, the problem of how to use our resources to maintain full employment for the people within our borders. Some day we must pick it up again, and it will be bigger than ever.

No economic system or political organization can survive long periods of widespread chronic unemployment or even recurrent cycles of general depression. As the world society has become more closely knit and complex, the impact on our institutions of the ups and downs of the employment cycle has become increasingly violent. You recall Victor Hugo's vivid story of the battle between men and the cannon that broke loose in a storm at sea. With every lurch and sway of the storm-tossed ship, the force of the rolling cannon grew more destructive until it threatened to batter the ship itself to pieces. Men captured and chained it.

We in America are not consciously shirking our responsibilities in today's all-out war. The mood of the people will permit nothing to stand in the way of our military victory. I am not so sure we are equally determined to win these other wars which must be won if military victory is to have permanent meaning.

There are hopeful signs all over the country and in all walks of life. Without lessening their war effort many men are giving thought to post-war problems. It is a military axiom that you cannot fight feebly and win a war. That holds just as true for the future war for international security and for a strong and growing economy at home. In a real sense our job is only beginning when the military war ends.

We must accept these longtime responsibilities with courage and confidence. Certainly there are conditions ahead of us that cause uneasiness. As I said, we may come out of the war with a national debt that amounts to \$200,000,000,000 or more. As men concerned with public policy, that thought worries you. It isn't a trifling consideration for any man to contemplate. Yet if we keep our thinking straight it need not dismay us. Examined closely, some of the terrifying aspects disappear.

No matter how long it takes, we know we will end this war victoriously. We will emerge with our natural resources unimpaired. Furthermore, we will have in this country the largest and best trained army of factory workers in the history of the world. We will also have a mechanical plant beyond anything man has dreamed of heretofore. These things mean capacity to produce; they are the elements of real wealth. We shall not have expended them.

Our national debt we will owe to ourselves. The cost of interest service and gradual repayment that is collected in taxes from one generation will be paid to the same generation. The debt will be held wholly within the United States and by our citizens. It will present none of the impossible problems that accompany an external debt. If we fail in the future to make democracy worth while, it will not be the size of the public debt that defeats us. It will be because we have not learned how to use these great resources -

human and material - to provide full employment and a high standard of living for all our people.

Let me conclude on that note of challenge. No one can do as much to set these problems in perspective in the popular mind as the men of the calling represented here tonight. I have not attempted to give you answers to the many questions the future will have to solve. I do not know them. No one has the master blueprint. The genius of America must develop one and it will. We have staked everything because of our conviction that the best society is the one which rests on human freedom and the dignity and independence of the individual soul. We must keep our hands joined to insure that such a society can survive.

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