

ADDRESS BEFORE THE  
DISTRICT OF COLUMBIA BANKERS ASSOCIATION  
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BY

MARRINER S. ECCLES  
CHAIRMAN OF THE BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

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SAFEGUARDING OUR ECONOMY

A great deal has happened since May of last year when we met in Hot Springs. The danger which we were trying to comprehend as reality and not merely an evil dream has now come upon us. And the war is on a scale so much greater than anything ever seen by man that we find ourselves once more straining our imagination to comprehend the implications to every day life now and in the future.

In the physical field the struggle means marshaling our vast resources of man power, materials, and equipment to produce ever larger amounts of armament. In the social and political fields it means preserving equity and liberty while permitting nothing to interfere with the war effort. In the financial field it means devising means by which to finance the staggering amount of war expenditures and at the same time to avoid a runaway inflation.

While we are producing and paying for more things than ever before in history, many of these things -- the war materials -- are not for the use of the civilian population; consequently a large part of the money expended for the unprecedented output tends to bid up the prices of the limited amount of goods that are for sale to the public. This situation was well described in a bulletin of the Office of Price Administration discussing the issuance of the general maximum price regulation. To quote from that bulletin: "A gap has appeared between the supply of goods and services which is available and the purchasing power or demand of the people who wish to buy these goods and services. This gap is widening. Both military and civilian demand have increased vastly in recent months.

"During 1942, at the present rate of increase of income payments, individual income will total 117 billion dollars. Of this amount, it is estimated 31 billions will be saved or paid to the Government in personal taxes and 86 billions will be spent.

"The supply of goods and services available for civilian use ... making allowance for the increase in prices which took place prior to April 1, 1942, ... will total 69 billions.

"Thus demand in 1942, unless limited, will exceed supply by 17 billion dollars."

These are, of course, general estimates, but even allowing for a wide margin of error, they forcibly illustrate how vast a stream of money must be diverted from spending to taxes and savings. You cannot have \$86 billions of buying power competing for \$69 billions of civilian goods without inflationary consequences. The Secretary of the Treasury has aptly likened the situation to that of a steam boiler subjected to pressure far beyond its capacity.

These billions must be drawn off the civilian markets, partly in taxes and partly in purchases of War Bonds, and in repayment of debts. Now when employment and national income are at all-time high peaks is the time to get out of debt and to save. If we cannot pay off or pay down our debts in such times -- if we cannot save against the day when war jobs end -- then there never will be a time,

We must school ourselves to refrain from buying what we do not absolutely need, putting every surplus dollar into paying off debts and investing in War Savings Bonds. This action must come from all of us, including the millions of war workers and those in related lines whose pay envelopes represent a large part of the increase in national income. Corporate profits and large incomes must be and are being heavily taxed, but the medium size and lower income groups must also contribute both to tax revenue and to War Savings Bonds. Much of the excess pressure of buying power for civilian goods comes from these latter groups. It must be drawn off to avoid a ruinous upward spiraling of prices.

Taxation, of course, is the principal and most effective means of drawing it off. As I have said before, I am in full accord with the principles of tax policy which have been stated from time to time by the Secretary of the Treasury. I strongly favor the widening of the income tax base by lowering the exemptions, preferably to the point where all who are not below a subsistence level make some contribution based on ability to pay. This is the most equitable taxing method for dampening mass buying power. Coupled with a withholding tax, it is an effective anti-inflationary weapon and an efficient way to collect the taxes. The money is collected before it gets into the spending stream. The Treasury gets it currently instead of having to wait for it to be collected on next year's tax return. It helps to put the smaller taxpayer on a pay-as-you-go basis. The general sales tax is not a logical alternative and should not be resorted to until the far more equitable income tax has been fully utilized as a means of dampening mass buying power.

When peace comes to the world, the things we cannot buy now because of the war can again be purchased without the present dangers of bidding up prices to ever-higher levels. The buying then will sustain employment and national income. It is no sacrifice we are asked to make now. It is just common sense not to trade more and more dollars now for fewer and fewer goods -- but to save the dollars until we can exchange them for the things we can have then but can't have now while half of our productive effort must go into making the instruments of war.

The need for action is urgent, for we have already passed through the first stages of an inflationary development. Since the outbreak of the war in September 1939, the prices of basic raw materials have risen by 66 per cent. One-half of this increase has occurred during the past twelve months. Wholesale prices since September 1939 have increased by 31 per cent.

Two-thirds of this increase has occurred during the past twelve months. Retail prices of foods, clothing, and house furnishings have risen since September 1939 by 25 per cent. More than three-fourths of this increase has taken place during the past twelve months.

This situation calls for coordinated action on many fronts. It means firm restraint on increases in wages, salaries, bonuses, and other such payments. It means that employers in defense and in non-defense industries must refrain from the competitive bidding up of wages and salaries which results inevitably from the increasing demands of war production for additional workers and from the natural reluctance of non-defense industry to part with its employees.

We have heard overmuch perhaps about union agitation for increased wages, but I venture to say that the competitive situation into which large and small employers have been thrust by the very nature of a war economy is doing more to drive up the general level of wages and income payments than all the combined efforts of union leaders. This competitive bidding for workers, resulting in a rapid spiraling of wage rates, has to be stopped.

Employers who see only their immediate horizon have little or no incentive for stopping it. They figure that with the Government taking through taxes most of the money they earn, they might as well pay whatever wages will hold their own workers or hire away a competitor's. The increased wages can be charged up to expenses. On cost plus (fixed fee) contracts there isn't any incentive for the contractor to put on the brakes. But the Government loses taxes because some of the money escapes from the high corporate taxes into pockets that the tax collector may fail to tap at all. Thus it is diverted from investment and non-inflationary channels into the hands of consumers where it has the greatest inflationary effect.

We all know that wages and salaries comprise fully two-thirds of the costs of production. It is obvious that price ceilings cannot be held indefinitely unless these underlying pressures, pressing against the ceilings, are rigidly restrained.

It particularly behooves business leaders at this time to impose upon themselves the same restraints they recognize as necessary upon others. I can imagine no more mistaken policy than that expressed in resolutions adopted by one of the largest organizations of business at a convention in Chicago recently, when men who dominated these councils proposed that no restraint or limit be placed upon their own profits, bonuses, commissions, and other compensations because to do so might dampen their ardor for winning the war by impairing their incentive. Yet, at the same time, they did not hesitate to proclaim the necessity for abandonment of the forty-hour week. They did not hesitate to condemn increases in wages. That sort of leadership is incredibly blind. It scarcely makes for successful

voluntary cooperation. It is not calculated to make for equality of sacrifice, if you call it a sacrifice to fight for the preservation of your country.

It is vitally important that all groups of our people share the burdens and the costs according to what they are able to contribute. It is of the highest importance that there be no favoritism, no discrimination, applying to any class or group. I think the temper of the American public has been well demonstrated several times in this connection. The flare-ups of public indignation over relatively trivial matters reflected a deep-seated righteous revulsion against what seemed to be favoritism, preference and special privilege.

We are now at the stage in our war effort at which, on the whole, wages and prices have reached a level that will call forth the maximum of effort and production. In other words, I do not believe it can be successfully shown at this stage that increases in prices, salaries and wages are necessary to stimulate incentive and call forth further production. The time has been reached, therefore, when effective mechanisms are necessary to prevent prices from passing into a dangerous inflationary spiral. Price and wage controls alone are not enough. Taxes, debt reduction and savings must play their part in combatting the upward spiraling of prices.

As the President stated in his Special Message to Congress on April 27, "The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral. And we can face the fact that there must be a drastic reduction in our standard of living . . . . We do not intend after this war to present the same disastrous situation to those brave men who today are fighting our battles in all parts of the world. Safeguarding our economy at home is the very least that our soldiers, sailors and marines have a right to expect of us civilians in government, in industry, on the farm, and in all other walks of life."

Forewarned by the experiences of the last war, we have been much more foresighted this time in undertaking to manage affairs on the domestic front so as to avoid the disastrous economic consequences which we experienced before. Yet we have much to do. All the regulations so far promulgated, all the price ceilings imposed at every level, will be ineffective unless we put the brakes down hard and to stay on the basic factors which go to make up the costs of what we are producing for war and what we have left over for civilian consumption.

At this juncture it is up to all of us to vindicate the democratic way of achieving results, that is, by universal voluntary action, recognizing clearly, however, that if we are laggard or selfish, or unable to achieve enough voluntarily, there is no alternative except the imposition of additional compulsions upon us. We must not only willingly accept

heavier taxation than we have ever before known -- taxation comparable to that which the other democracies have imposed -- but we must realize that even after the payment of the taxes now contemplated in pending legislation, the rising tide of national income will still engulf consumer markets and send prices skyrocketing unless we refrain from buying things we do not absolutely need -- unless we unitedly channel the excess of buying power into War Savings Bonds.

The spending stream must not be swollen by expansion of consumer buying on credit. As you are aware, the Federal Reserve System has taken action on this front to reduce the volume of buying on credit, both on instalment and on open account. The banks of the country have a real responsibility and an important part to play in helping to combat inflationary forces, particularly in the credit field. They occupy a place of leadership in their communities. They can do much to enlighten and guide the public. They must exert their influence to prevent extension of credit for purposes unrelated to the war effort. They must be ready -- and I am confident they are -- to do their full share in financing war activities and in meeting those requirements of the Government that are not met by taxation or sales of securities to non-bank investors.

I was much impressed by a recent authoritative survey of opinion among people employed in all parts of this country both in war work and in civilian occupations. This survey reflects the universal hope and aspiration for a peace that the great mass of our people know instinctively can liberate productive forces for good instead of for war, that can make the world an infinitely better place to live in than it ever has been before. We need to hold out this vision of a new and better world to all men who are engaged, whether on the battle front or on the home front, in this struggle of free men against enslavement. We need to reaffirm our faith in our institutions and in our economic system as the best calculated to produce this better day. For if our system, our democracy, were incapable of achieving for the common man a vastly greater well-being than any other system, it would not deserve to and could not long survive,

We know now -- we have a demonstration of it before our own eyes -- that free men living under free institutions can produce a material welfare undreamed of before. We know that if we can turn our economy so quickly and so successfully from relative stagnation to a point of full production which we are achieving today, though that production be for war, we can surely and more easily gear it for production in peacetimes with fewer complications and governmental controls.

The inflation problem, which is immediately before us, is after all a matter primarily of holding the civilian spending stream in proper balance with the diminishing supply of civilian goods during the war period. It calls for definite united efforts and specific controls, properly timed. But all of these actions are meaningless if we do not keep before us the

larger vision of why we are doing these things, what it is we are defending, protecting, preserving, for the future -- a vision of the greater hope and promise that the future holds for mankind when we have emerged successfully from the black night of universal war. For the victory will give us the opportunity to turn promise into reality, to make the fine words and phrases we use in speeches come alive as practical realities. We in the United States have an inspiring, a challenging opportunity and a tremendous responsibility for leadership in the creation of a modern world in which the vast productive resources at our command are liberated for the benefit of all humanity, and the machine that man has invented is turned from destroying him to providing him with the abundance which we know it can produce -- the abundance which we must learn to distribute to all who would share in it.

Let's not talk of the future as something bleak and foreboding, but let us talk of winning through to victory in order to create this world of abundance. It will only be black and hopeless if we lack the vision, the understanding, and the will to grasp the great opportunity we will have to utilize for the benefit of humanity the boundless endowment, the productive resources that the world has been striving for centuries to create and that are now at hand. We are inclined to get bogged down under the daily pressures and the grim aspects of war. We are inclined to lose perspective. We have a tendency to see disaster when we should see deliverance ahead.

We can make real the rights and opportunities for mankind which are so well set forth in the report which the President transmitted to Congress last January on national resources development. To the four great basic freedoms of the Bill of Rights we must add the new universals of human life stated in modern terms. They call for the right and opportunity to work, usefully and creatively through the productive years; the right to fair pay, adequate to command the necessities and amenities of life in exchange for work, ideas, thrift, and other socially valuable service; the right to adequate food, clothing, shelter, and medical care; the right to security, with freedom from fear of old age, want, dependency, sickness, unemployment, and accident; the right to live in a system of free enterprise, free from compulsory labor, irresponsible private power, arbitrary public authority, and unregulated monopolies; the right to come and go, to speak or to be silent, free from the spyings of secret political police; the right to equality before the law, with equal access to justice in fact; the right to education, for work, for citizenship, and for personal growth and happiness; and the right to rest, recreation, and adventure; the opportunity to enjoy life and take part in an advancing civilization.

I believe it was Mr. Churchill who answered a question as to what we are fighting for by saying the quickest way to find out would be to stop fighting.

Most of us have a rather deep feeling about what we are fighting for. We need to put it into words, and no words that I have seen of promise and hope for the future better express the aspirations of the common man than these I have quoted. To make these things come true in our time, to pass them on to future generations -- that is worth fighting for.