

REMARKS OF M. S. ECCLES
Before the INVESTMENT BANKERS ASSOCIATION
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New York

PRESIDENT FLEEK: Thank you very much, Aims. We very much appreciate your being here and telling us what you had to say.

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 Mr. Marriner Eccles is with us participating in this conference, and we would like to have him give us a few words. Mr. Eccles. (Applause)

MR. ECCLES: Mr. Chairman, ladies and gentlemen: After listening to as many speeches as you have listened to today it must be quite a disappointment to have someone unexpected thrust on your program. I do not know that I can add very much to what has been already said. It seems to me the field has been quite completely covered.

I do want to say, however, that I know of no industry that

went through a greater inflation than your industry did in the 20's,

and a greater deflation in the 30's, and at present prospects it does not seem that the deflation is over, based on the standpoint of profitable operations. The fact that you have done what you have in connection with the war effort, and what you have agreed to do, I think is very commendable in view of the financial situation of the investment banking business.

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 about the winning of the peace. A failure to finance the war in a sound 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 impossible one. All of us who have property and who have financial interests are terribly interested in seeing to it that everything that can be done is done to finance this war in a manner that will give as much stability to the economy as is possible.

I have felt that our tax program is inadequate. It seems to me that looking to the future not less than 50% of the cost of the war

should be raised currently in taxation. Taxation is the most anti-inflationary method of financing the war, and is the soundest method of financing the war. It is important where those taxes come from. They must come from sources that will contribute greatly to an inflationary spiral.

The people of large income are small and 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 the 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 banks. I would feel that not less than 25% should be financed outside of the banks. The Canadians and the British up to date have financed outside of the banks more than 25%.

The last resort in connection with financing is financing by the banks. I should not say that is the last resort, because the last resort is financing by the Federal Reserve System. The banks should be given the job of financing 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, and it will be up to the Federal Reserve System to provide the banking system with the reserves which are necessary either through open-market operations, which have reserve requirements, or through discount facilities to enable them to carry their part of the government financing.

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.

I appreciate this opportunity of being with you. I did not expect to make this speech. I had the promise of John Fleek that I should just be an auditor. He came down and asked me a moment ago if I would not say these few words.

I thank you. (Applause)

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