

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

ON THE  
NATIONAL RADIO FORUM  
CONDUCTED BY  
THE WASHINGTON EVENING STAR

BROADCAST OVER THE  
BLUE NETWORK (STATION WMAL)  
WEDNESDAY, APRIL 14, 1943  
AT 10:30 P.M.

For release in morning newspapers of  
Thursday, April 15, 1943

The Government will spend, for war purposes alone, approximately 90 billion dollars during the present calendar year.

The goal of the Second War Loan Drive, which opened on Monday, is to raise 13 billion dollars, or about one-seventh of the total war expenditures for this year. The general public, exclusive of the commercial banks, is being asked to subscribe not less than 8 billions of this amount. Eight billions is a lot of money, yet it is less than the American people are now receiving every three weeks in national income, consisting mainly of wages and salaries, including farm income.

The question is not whether the goal of this campaign will be reached, but how it will be reached. The Government can always raise the money it needs. What is of vital importance to every man, woman and child in this country is that the money needed to wage this war be raised in a way that will not result in a disastrous rise in the cost of living.

On the basis of our present tax laws, we will collect in taxes somewhat less than one-third of our total Government requirements this year. The balance, or about 70 billion dollars, will have to be borrowed.

There are two sources from which the Government can borrow. One source is the general public; that is, all of the people of this nation and their innumerable business concerns, together with all the various public as well as private organizations. The other source is the commercial banking system of the country and the Federal Reserve Banks.

The distinction between the two sources of borrowing is of critical importance in the battle against inflation. Borrowing from the general public diverts to war purposes money that might otherwise be spent in driving up the cost of living. Borrowing from the commercial banks, instead of diverting existing purchasing power to the war effort, creates entirely new funds, new purchasing power. These are the most dangerous of dollars. We have been creating altogether too many of them.

In the calendar year of 1942 the Government spent about 56 billion dollars. Only about one-third was raised in taxes. The rest had to be borrowed. Less than half of the borrowing came from the general public. More than half came from the commercial banks. As a result, more than 20 billion dollars was added to our money supply -- to demand deposits and currency. Unless we do much better in the current year, 30 billion dollars more will be added to our money supply in the same way. That would mean an increase of more than 50 billion dollars, or a doubling of our money supply, in two years.

Fifty billions of these dangerous inflationary dollars in two years' time! In the last war, and even at the peak of 1929, our total money supply was less than 30 billions!

I emphasize these figures to bring out as forcibly as I can why it is so important, if we are to hold the line against inflation, to finance this war to the fullest possible extent by taxation and by borrowing from the current incomes of the general public. To the extent that taxes are not provided to cover the costs of war, the money has to be borrowed. To the extent that the money is borrowed from the general public, the inflationary pressures of our enormously expanded national income are reduced. To the extent that we fail to tax sufficiently, or fail to borrow enough from the general public, then there is no alternative except to borrow from the commercial banks or the Federal Reserve Banks. To the extent that the money is borrowed from either, more purchasing power is poured into the already dangerously swollen stream. That is the high road to inflation.

Let us look at the economic picture for a moment from another angle. More than half of our total production this year is going for war, leaving less than half available for purchase by civilians who nevertheless are receiving incomes based on the total production. It is apparent, therefore, that there are not and cannot be goods and services available for more than half of this income to purchase. To the extent that this surplus income bids for the existing supply of goods, it subjects the price ceilings to irresistible inflationary pressures. No Government edict or agency can hold prices indefinitely against such pressures. The only way to reduce these pressures is to transfer the surplus income to the Government through taxes or borrowing from the general public.

The way to prevent these pressures from growing constantly greater and more threatening is to avoid all further increases in wages, salaries, profits and prices. Increasing the dollars we receive will not add one iota to the goods that we can buy. We are only fooling ourselves by exchanging more dollars for the same or a smaller amount of goods.

The gap between what the public is receiving in spendable income and what is available to buy is constantly enlarging as more is produced for war and less for civilians. As more is spent for war, civilian incomes go up, but civilian supplies go down. Accordingly, there is no sensible choice before us, if we are to ward off inflationary dangers, except to keep as close a balance as possible between the amount of money which is bidding for civilian goods and services and the available supply. This means that instead of buying more, despite enlarged incomes, we must of necessity buy less and less. It means that far from increasing the standard of living to-day, we must be prepared to cut it to the bone. Too many of our people have already increased or are still trying to increase their living standards. They must be awakened to the fact that this spells peril to themselves and to the nation. As our war effort continues to expand, it will not be enough merely to buy only what we need. We will have to scale down our ideas of what we need and scale up our ideas of what we can do without.

Since the additional taxation necessary to reduce excessive buying power is not in immediate prospect, it is all the more important that it be reduced by borrowing from the public. It is all the more reason why every effort should be made in this and subsequent drives to obtain as much as possible by the sale of Government securities to all non-bank investors and as little as possible by borrowing from the commercial banks. We must do far better than we did in the December drive, when the number of non-banking investors, excluding the purchasers of Series "E" Savings Bonds, reached the insignificant total of less than 350,000.

I recognize that many individuals as well as business concerns have not shared in the general rise in incomes resulting from war expenditures. They cannot be expected to do as much as those who, directly and indirectly, are the beneficiaries of the enormous outpouring of funds. Nevertheless, they have a duty to invest to the very limit of their ability. The great majority of our people -- except the boys in the armed services -- are sharing in the rising tide of income. Payrolls, farm incomes, as well as many business profits, are at record high levels. National income, already close to 60 billions above the peak of 1929, is still expanding. Young people, old people, women previously unemployed, have been added to payrolls. A triple expansion of incomes is going on as a result of increased employment, increased pay rates, increased hours and overtime pay.

This great majority of our people, individuals as well as business corporations, who are the direct and indirect beneficiaries of our war expenditures should be the first to subscribe to war bonds in an amount commensurate with their increased incomes. In some cases, incomes have expanded by more than one hundred per cent. Many sincerely believe that they have done their full duty when they have subscribed ten per cent of their incomes to war bonds. But if the Government is to succeed in borrowing the amount it needs to borrow from the general public, if those who have profited greatly from our war expenditures are to discharge their full obligation, ten per cent will not be nearly enough. Far more must be invested in war bonds.

The ideal expressed in the familiar phrase, "Take the profit out of war," should be always before us, and we should strive to come as close to it as possible. To achieve it, we would have to recapture from the war beneficiaries through taxation the equivalent of every dollar expended for the war. We cannot, of course, achieve this ideal, but we should at least do as well as other nations at war -- and they are collecting more than one-half of their expenditures from taxes. We are collecting less than a third. We must have increased tax rates, and we urgently need, without further delay, a heavy withholding tax in order to collect at the source potentially inflationary funds before they reach the spending stream or elude the tax collector altogether.

The success of this present drive is not measurable by the raising of 13 billion dollars. That in itself is no problem, since the money can

always be obtained through the inflationary medium of borrowing from the commercial banks or the Federal Reserve Banks. The measure of success of this drive will be the amount of money that is subscribed by individuals and by corporations other than banks, and the number of subscribers who participate. The money is there to get! It is estimated that even after paying this year's taxes, combined individual savings and corporate accumulations will aggregate 70 billion dollars -- 30 billions more than in 1942.

In this drive, the Treasury is seeking to obtain only eight of the thirteen billions from non-bank investors. In the future we must get an increasingly large proportion from the general public, and rely much less upon the commercial banks. This result can only be achieved, however, if the public has a better understanding of the urgent necessity for financing this war by non-inflationary methods. And this, in turn, will depend upon the organization and the educational and selling efforts developed by those responsible for carrying through the Government's financing program.

Several hundred thousand volunteer workers are giving their time and energies to the present drive. They will figuratively, if not literally, ring every doorbell in the country. These men and women who call on you are volunteer workers. You do yourselves, not them, a favor by responding to the limit of your ability. You are just as much a part of this campaign as they are. Its success is just as important to you and to your future as it is to them. If you do not happen to be called upon, it does not relieve you of the duty to do your part in this campaign by voluntarily subscribing. You can do so by going to the nearest bank or post office, or to any other issuing agency in your community.

Every one of us has a role to play in this and subsequent drives, for they are as necessary to protect the home front as successive drives on the fighting front are necessary to win this war. Every commercial bank in this country has a particular responsibility to urge all of its customers to buy Government securities, using their bank balances as well as all currency beyond what is absolutely necessary for pocket money. Much more currency is outstanding today than is necessary. Every dollar that is needlessly kept idle on deposit, in your pocket, or in some hideaway, is not at work and not at war. To the extent that these dollars are not loaned to your Government, other dollars must be found or must be created to do the work they are not doing. Invested in Government bonds, they go to war. They become dangerous to the enemy instead of to us.

The dollars you put into war bonds will be safe and will earn interest. Your dollars are always obtainable because war bonds can be readily converted into cash. However, unless urgent need arises, every effort should be made to hold them to maturity. To the extent they are cashed, the vital part they play in reducing excessive buying power, as well as in financing the war, is undone.

Every banker who does not already have a war loan account for the Government should arrange for one through the Federal Reserve Bank of his district. He can then deposit to the Government's credit in his bank the proceeds from the Government securities purchased by his customers as well as by his bank. The Treasury draws on these accounts gradually as the Government spends the money. The money is thus returned to the community and is in turn re-deposited in the banking system as rapidly as the Government draws it out of the banking system.

The Government bonds you buy are a claim on future production -- a share in the abundance that we cannot have for civilian use when we are fighting a total war, but can have in peace times. The dollars you invest now are stored up purchasing power which may be needed after our industry has been fully converted from war to peace production. Then your buying power will serve to sustain employment and prevent deflation. Every dollar you spend today beyond your absolute necessities only helps to make a breach in the line we are striving to hold against the deadly enemy of inflation.

We must all understand that paying taxes, buying war bonds, refraining from a mad scramble for scarce things now, postponing buying so far as possible while we are at war, opposing wage-salary-price-and-profit-increases and otherwise actively supporting the fight against inflation, are all part and parcel of the vitally important defense of the home front.

Profiteering from war is intolerable and unpatriotic. There is no profiteering on the battle front. Waste of money or of manpower, hoarding or squandering of materials, are equally incompatible with successful prosecution of the war or defense of the home front. In the gigantic effort this nation is making, some waste is inevitable, but it should be stamped out wherever possible, whether in civilian or public affairs, among military as well as civil authorities. Nevertheless, complaints on this score are no justification for giving less than full support to your Government in this campaign and in all its war effort. Out of every dollar the Government is spending, 96 cents goes to fight this war and to pay interest on the public debt.

This is total war, and the war bonds we must invest in, the taxes we must pay, the interferences we must endure in our normal way of life, are inseparably bound up with the mobilizing of our maximum striking power on the battle fronts. What you -- what all of us do -- in protecting the home front not only helps to win this war, but you and I will deserve only the contempt of our fighting forces if they come home, after winning the victory, to a land that we were too dull, too weak, too soft, and too selfish to save from economic chaos. That must not happen here.

You -- all of us -- on the home front have much to do, much more than we have yet done. If the sacrifices of war could be apportioned with strict equity, nobody would be better off because he stayed at home. We, who stay at home, are accountable to the millions who are making the real sacrifices, even to the last full measure of devotion.

You are asked to lend your dollars -- not to give your lives -- to your country.