TALK BY ERNEST G. DRAPER BEFORE THE
SAVINGS BONDS CONFERENCE DINNER

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Speaking on behalf of our Board, we want you to know how pleased we are to have you here with us tonight.

The Federal Reserve, consisting of both our Board of Governors and the Federal Reserve Banks, has always believed wholeheartedly in the objectives which you are seeking. In fact, prior to the issuance of the first Series E bond on May 1, 1941, the Board made available to its own employees the first voluntary payroll deduction plan ever established by a Government agency. This was in furtherance of the objective announced by the Treasury that the Government desired to utilize the savings of individuals, particularly those of moderate savers, in financing the Government's requirements.

So you see that, when we meet together tonight, it is a meeting of old friends, all of whom believe in the same worthy objective.

The task facing you now is rather different from the one that you performed so successfully during the war. It is harder in many ways, but almost as important.

During the war, the advantages of saving were obvious to most people. Civilian goods of all kinds were scarce, and supplies could not be increased without reducing our military strength. At the same time incomes were high. The Government needed money to fight the war and, in order to reduce inflationary pressures, wanted to draw as much of it as possible from small savers. During wartime, most people saw the purchase of

E bonds as an opportunity to serve their country while at the same time building for themselves a reserve for meeting the risks of old age, sickness, and economic insecurity, as well as the needs of future personal advancement and family welfare.

Now all of these reasons for buying bonds still exist, but they seem a little less apparent than they were last year or the year before.

Most of you are probably familiar with the study of liquid assets that the Bureau of Agricultural Economics conducted for the Board of Governors this spring. On the basis of over 3,000 interviews throughout the country, this survey yields some interesting conclusions about the motives and future plans of savers.

One striking fact that emerges from these interviews is that 78 per cent of the holders of United States Saving Bonds did not plan to use any of them in 1946 to buy consumer goods, except in emergencies. This suggests that your Savings bond campaign to encourage the continued purchase and holding of bonds should find a receptive market.

On the other hand, the fact that people were planning to draw down their liquid assets, including savings bonds, by 5 to 7 billion dollars in order to buy durable goods, including housing, is by no means negligible in relation to the supply of these goods -- even though it represents a small fraction of total liquid asset holdings. The experts who made the survey concluded that "although the prospective buyers were a minority of the spending units, they constituted a substantial number of people, and might create a demand for houses and consumer durable goods that would exceed the supply available during 1946."

A like situation exists with regard to competing forms of investment. Of people holding more than $1,000 of liquid assets at the beginning of 1946, only 6 per cent definitely planned to put some of them into real estate or non-Government securities. Another 7 per cent were considering such a transfer. But in view of existing pressures in the real estate and security markets, the amounts involved are substantial -- about 3 billion dollars. It is thus in the nation's interest, as well as in the interest of the average family, that savings and investment in savings bonds should continue at a high rate. Disbursement of wartime savings now would add to inflationary pressures. Later on, the same savings may help to sustain purchasing power and prevent depression.

This brings me back to my earlier point. All the reasons for saving that existed during the war still exist, yet bond purchases have fallen off. Incomes are still high. Durable goods generally and even many non-durable goods are still scarce. Because of the acute inflationary conditions that exist, there continues to be an opportunity for people to serve their country by refraining from purchasing nonessential items or investing in other securities and real estate. The Government still needs money and still wants to obtain it from small savers. The need for protection against sickness, old age, and unemployment and for providing for future personal and family welfare is as great as ever.

There is an obvious contradiction in the present savings situation. Over half of those interviewed early in 1946 said that saving was more important now than during the war; only 6 per cent believed it was less important. At the same time 27 per cent of these families were actually saving less at the beginning of 1946 than they were a year earlier, while only 15 per cent were saving more. Most people seem to recognize the importance of maintaining and increasing their holdings of savings bonds during this transitional period. Still, the facts show that under present inflationary conditions savings are declining. This contradiction between intentions and action constitutes <u>your</u> task and <u>your</u> opportunity.

There is a disposition on the part of many to believe that savings are contributed mainly by the rich. Our nationwide survey of savings shows that nearly half of the people's savings was contributed by consumers with incomes of $1,000 to $4,000 and that this group includes almost two-thirds of all income receivers. There is clearly a broad market available for the sale of small as well as of larger denomination savings bonds. The knowledge that this is so justifies every confidence that your Savings Bond Program will be a gratifying success.