

"WAR FINANCE AND THE FEDERAL RESERVE BANKS"

Address of Mr. A. C. Miller

before the

Joint Conference of the Western Economic Society and
the Chicago City Club.

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"Saving on a scale of unprecedented intensity will be an essential preliminary under any effective scheme of national finance we may adopt" said Mr. Miller, addressing the Joint Conference of the Western Economic Society and the City Club last night at the Hotel La Salle. Financing a war whose annual cost is estimated as high as \$10,000,000,000 a year, "will involve, for many classes of the consuming public, very drastic revisions of their mode of living." "Only thus can we successfully undertake the financing of the war and put it on a foundation of economic concrete."

Mr. Miller reviewed the success of the Liberty Loan just negotiated, commenting on the numerous elements in the community that had loyally contributed to its success, and explaining the various steps taken by the Federal Reserve Banks, in the way of preferential rates of rediscount, to aid the banks in floating the loan. He analyzed the existing figures of national wealth and income and showed that, despite our large wealth and enormous annual income - the latter estimated as high as \$40,000,000,000 - the yearly burden on us

of this war (\$10,000,000,000) would involve the absorption of fully one-fourth of our entire annual income for Government use during the war. Inasmuch as the annual savings of the nation in peace times are, at the most optimistic estimate, only \$5,000,000,000, it is evident that another \$5,000,000,000 will have to be raised out of the new savings of the people.

Because this new savings could not at once be induced, "it was clearly necessary that the great financial institutions of the country should make advances either to their customers in aid of their subscriptions to Liberty bonds, or directly to the Government, in the expectation that they could subsequently place these bonds with the investing public." Consequently the Federal Reserve System cooperated in every way and at every stage to aid the banks in this process. What the ultimate position of the Federal Reserve Banks will be in the nation's war finance program will depend upon what permanent form that program takes. "The Federal Reserve Banks are, after all, but one part, however important, of our national machinery of finance, and that machinery will work to poor purpose if every part of it does not mesh in with the other essential parts. The making of a national financial policy for the conduct of the war is not in the hands of the Federal Reserve Board," and Mr. Miller pointed out that as yet Congress has evolved no definite program.

Speaking of the danger of over-confidence the banking structure of the country in absorbing war loans, Mr. Miller said,

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"Banks can perhaps safely undertake the financing of wars of ordinary financial magnitude, but a war calling for expenditures and advances of \$10,000,000,000 for the first year clearly calls for more fundamental financial provision than can be provided by the banking credit of this or any other country." This provision will have to be made from the savings of the people, and Mr. Miller showed that the much-discussed controversy over loans and taxation as means of raising war revenue really resolved itself into a question as which of the two, or what combination of them, would have the greatest effect in stimulating thrift and the growth of the annual savings. "The danger of the loan policy is that, by deluding itself with the notion that it is putting the burden on to the future, it will, after failing to induce a commensurate increase of the savings fund of the nation, degenerate into inflation through abuse of banking credit." The evils and iniquities of inflation were dealt with at length by Mr. Miller, illustrations being drawn from our own Civil War experience and that of the European belligerents in the present war. He emphasized that inflation was essentially conscriptive taxation of the masses. "If our loan policy, through an undue reliance upon banking credit, degenerates into inflation, it means that that policy is failing, and therefore that the system of undertaking to induce the people to save for the use of the Government - in brief the voluntary system - must give way to some other method, the system of compulsion, or financial

draft." "That may mean taxation carried to the limit."

Although there are dangers in undue reliance upon banking credit, it nevertheless has a very useful and important part to play in aiding investors to take up their bonds. "How long a time might reasonably be allowed Liberty Loan subscribers, who have sought accommodation from their banks in order to complete their subscriptions, to take up these loans, or how long a time should be allowed the banks which have made direct subscriptions in order to work these loans off on the saving and investing public, in other words, how far we might safely go in anticipating future savings, is a question upon which opinions may well differ." In England, the normal time was set at one year, but Mr. Miller thought our productive power and general economic position was enough stronger than England's to make four to six months the limit. "Otherwise", he said, "banks and investors will not be in a position satisfactorily to assume their obligations in connection with the subsequent loans that will be placed by the Government."

"But when all is said," concluded Mr. Miller "and every reasonable and proper provision for the legitimate use of the banking machinery and credit of the country is made, in order to mobilize the nation's money savings, let us not make the mistake of supposing that the savings which is called for in the present exigency is merely a saving of dollars. It is a saving of the productive power of the community from the service of private consumption for the service of public consumption which is called

for, and the saving of money is of consequence only so far as it results both in a transfer and in an increase of the effective industrial power of the nation for Government use.

"Taxation, and even loans which are bottomed upon real economic savings can at best only provide the Government with buying power. But the Government will need more than buying power in order properly to finance the war. As the war goes on, it will become clearer and clearer that this is a war of economic resources, and that victory will lie with those who are best able to resist the processes of economic exhaustion. More than buying power will, therefore be needed for the effective prosecution of the war and its successful issue, no matter how orthodox and carefully guarded in a financial sense, the methods of providing the Government with this buying power are. Napoleon, as the greatest soldier of his age, summed up his experience in the statement 'An army marches on its belly.' The experience of the present war is every day reinforcing the doctrine that a successful army is carried on the back of industry. It can not therefore be too much emphasized, in the discussion of plans for the mobilization of the financial resources of the country, that, much as the Government will need buying power, it will need something far more potent than buying power. It will need arm power, tool power, natural power; and brain power and will power to organize and vitalize them. Natural power we have in unlimited abundance. Our present problem is to combine with this the undeveloped potentialities of our

arm power, our brain power, and our will power; the power to do and the power to do without. Our battles will be fought on the plains of Flanders and the heights of Arras. But the war will have to be won in the American workshop and the American kitchen. The fate of democracy may, therefore, well be said to rest in the hands of our women.

"Can we reorganize our life during the period of the war so as to provide a quarter of the productive power of the nation for the use of the Government? Only, if at all, by an heroic exercise of our national will to enforce the necessary economic sacrifice and saving. We must find a substitute for England's blockade of Germany and Germany's submarine blockade of England in forcing economy and saving. I have been told upon trustworthy authority that when the policy of the submarine warfare against England was under discussion in Berlin, one of the most eminent of Germany's economic strategists protested vigorously against it, not on the ground of its violation of the established rules of international practice, but on the ground that it would help England more than it would hurt her. 'Keep the submarine away from England's shores and England will eat herself into bankruptcy quicker than the submarine can starve her.'"

"Saving will never be as easy for the nation as during the period of this war, if we know why we are in this war. The war and all that it implies in the way of high and chivalrous national endeavor should be our substitute for our customary luxuries during the war.

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We can afford to be generous in national indulgences. Indeed, when we consider the vast consequences for civilization and the democratic principle that hang on the issue of this war, we can not afford to be other than generous in support of a cause which we hold true and dear."

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