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into the banking system. That is the purpose of it; by purchasing securities we put funds into the banks and thus make funds available for the purchase of Treasury securities or otherwise. If we purchase directly from the Treasury and the Treasury spends that money exactly the same thing happens."[35]

The argument that extravagance in government would be encouraged by relying upon direct sales of securities to the Federal Reserve Banks assumes that the choice of methods of borrowing will influence the total amounts spent and the amounts borrowed. That seems unlikely under war conditions when the size of the spending program is almost wholly determined by the demands of war. When war spending is a thing of the past, however, the establishment of a precedent for direct borrowing might have serious consequences. Reliance upon this easy method of financing as a means of avoiding retrenchment or escaping heavier taxation is dangerously tempting. It is the kind of borrowing that brought about uncontrollable inflation in Germany and other countries after World War I. Banking and business circles in this country are, therefore, especially fearful of the after-effects of the adoption of such financing methods in the United States except to relieve temporary stringencies.

SPECIAL PROBLEMS RESULTING FROM WAR FINANCING

Associated with this primary wartime necessity of providing member banks with reserves are a number of related problems growing out of the current demands upon the banking system. Their nature is indicated by the following questions:

1. How may the choice of methods by which reserves are provided affect the character of the assets held by the Federal Reserve Banks and the member banks?
2. How may the choice of methods influence the earnings of the Federal Reserve Banks?

[35] Testimony before the House Committee on the Judiciary (January 30, 1942). There is, however, a difference in the reserve-creating effect of direct sales of government securities to the Reserve Banks and sales to commercial banks. Unless the Federal Reserve Banks simultaneously add to the reserves of commercial banks by purchasing securities in the open market, sales of securities to the commercial banks increase their deposits but do not add to their reserves, thereby reducing the volume of excess reserves. On the other hand, direct sales to the Federal Reserve Banks result in an increase not only of the deposits but of the reserves of commercial banks, and hence build up excess reserves.

3. How may the methods of Treasury financing, including both the taxing and borrowing programs, affect operations of the Federal Reserve System?

SELECTION OF METHOD OF PROVIDING RESERVES

The Federal Reserve authorities have made and must continue to make important decisions with regard to the reliance to be placed upon Federal Reserve credit and upon reductions in reserve requirements, as a means of increasing the supply of bank credit available to the government during the war. Some of the implications of alternative policies, were indicated in a study of the Board of Governors published in 1943.[36]

The Board of Governors carefully pointed out that the conclusions of their analysis represented "mere hypotheses," were designed to indicate the nature of the problem, and were not to be interpreted as an attempt to forecast the future magnitude of the operations of the Federal Reserve System. Later developments have shown that the analysis presented by the Board was based upon assumptions somewhat contrary to the actual course of events. Without attempting to forecast here, but in order to throw some light upon the nature of the policy decisions confronting the Board, their analysis has been recast in the light of current fiscal trends, projected through June, 1945.[37] It is entirely possible that the underlying assumptions, as revised, may again prove to be at variance with actual future developments.

If wartime borrowing should continue on the scale anticipated for the fiscal year 1944-45, the federal debt will have increased by $140 billion between December 31, 1942 and June 30, 1945. It is assumed that the banking system (commercial banks and Federal Reserve Banks) will take from $48 to $60 billion of this increase and that currency in circulation will increase during 1944 by $5 billion (roughly the annual expansion for 1943) and during the

36 Board of Governors of the Federal Reserve System, *Annual Report, 1942*, pp. 27-31.

37 The Board assumed that the increase in the federal debt would be in accordance with the *President's Budget Message* for the fiscal year 1943-44; that 50 percent of the projected increase in debt would be absorbed by the banking system; and that currency would increase at the monthly rate of $500 million. We have modified their assumption as follows: the federal debt will increase as indicated in the fiscal year 1944-45; the banking system will absorb 37 percent of this increase in the fiscal year 1943-44, and 24 to 48 percent in the fiscal year 1944-45; and currency will increase by $5 billion in the calendar year 1944 and by $2 billion in the first six months of 1945.

first half of 1945 by approximately $2 billion additional. The following paragraphs indicate some of the effects of meeting all of the commercial banks' needs for reserves from January 1, 1944 through June, 1945 by:

(1) Reductions in reserve requirements;
(2) Open market purchases of securities;
(3) A combination of open market purchases (to meet currency drains) and reductions in reserve requirements (to offset increases in deposits).

If the needs of the commercial banking system for reserves were met exclusively by reductions in reserve requirements, these requirements by the end of 1944 would be reduced to less than half the statutory minima obtaining as of the end of 1943, and by mid-1945 to well below the 1944 level. Federal Reserve Bank holdings of government securities would remain unchanged, while commercial bank holdings would increase by $24 to $35 billion between the end of 1943 and the middle of 1945.

Should needed reserves be provided entirely through open market operations, the Federal Reserve Banks would have to acquire $9 to $11 billion of government securities during 1944 and the first half of 1945, bringing their total holdings by mid-1945 to $20-$22 billion. The percentage of required reserves to total commercial bank deposits would remain unchanged at 13 percent, the percentage which obtained at the end of 1943.

Finally, under a combination of reductions in reserve requirements to offset increases in deposits and open market purchases to meet currency drains, the Federal Reserve Banks would need to acquire $7 billion of government securities during 1944 and the first half of 1945, while commercial banks would find their holdings increased by $17 to $28 billion. The percentage of required reserves to total commercial bank deposits would drop, under this policy, to around 11 percent.

Rediscounting is already being used to a slight though increasing extent to provide individual banks with funds to offset drains on their reserves caused chiefly by currency withdrawals and transfers. This policy could be extended in place of the other three methods indicated above.

Although the Federal Reserve Banks relied almost entirely upon open market operations during 1943 to meet the reserve needs of

member banks, the actual increase in Reserve Bank holdings of government securities amounted to considerably less than had been assumed in 1942. This situation was the result of overestimates of the debt increase during 1943, of the extent of the commercial banking system's participation in the government securities market, and of the growth of currency in circulation. Expansion of war loan deposit accounts during the year also reduced the amount of required legal reserves, and thus relieved the Reserve Banks of larger open market operations.

Unforeseen changes in any of these items in 1944-45 would markedly change the magnitude of Federal Reserve operations during the period. For example, commercial banks may play a less important role in war financing in 1944-45 than has been assumed and consequently the requirements for additional reserves would be reduced. However, even if commercial bank buying of government securities were eliminated entirely, the problem of providing reserves to take care of whatever increase occurred in currency in circulation would have to be met by the Federal Reserve authorities.

FEDERAL RESERVE BANK PROFITS

If the Federal Reserve officials had utilized only the reduction of reserve requirements to meet the wartime demands upon the banking system the asset position of Reserve Banks would not have been affected. However, the utilization of either open market operations or a policy of combining open market operations with reductions in reserve requirements adds to the earning assets of these banks. Consequently the Reserve Banks may become targets for criticism, if large profits continue to accrue as a result of open market operations, even though dividends are limited by statute to 6 percent on paid-in capital and excess income is credited to surplus.

The war financing program has brought about a pronounced increase in net earnings from operations of the Federal Reserve Banks. They rose from $8.4 million in 1941 to $14 million in 1942. Profits from security sales in 1942 were more than offset, however, by the transfer of $4.4 million to the employee retirement funds of the Federal Reserve Banks to take care of interest adjustments. Consequently net earnings from all sources amounted to $12.5 million compared with $9.1 million in 1941. In 1943 net earnings from operations, plus profits on sales of government securities, were four

times as large as in the preceding year, rising to $49.5 million. However, the Federal Reserve Banks realized more than $35 million of this amount from the sale of the longer-term government securities. Over the course of the year, the Reserve Banks disposed of $1.9 billion of bonds and notes while increasing their holdings of Treasury bills. The Treasury bill portfolio constituted nearly 60 percent of all security holdings by the end of June 1944 as compared with less than 17 percent at the end of 1942.

Changes in the composition of Reserve Bank assets during 1943, in which a large volume of high interest rate government securities were replaced by 3/8 of 1 percent Treasury bills, considerably reduced the average rate of return on their government security portfolio. If the shift in composition should continue, Reserve Bank earning assets will soon consist chiefly of 3/8 percent bills. At that rate of return the Reserve Banks could add a good many billions to their security holdings without increasing their earnings sufficiently to attract unfavorable notice.

The Federal Reserve Act originally provided that after payment of 6 percent dividends (cumulative) one half of the remaining net earnings would be transferred to surplus until it amounted to 40 percent of the capital of the Federal Reserve Banks. Thereafter all net earnings should be paid to the United States government as a franchise tax. In 1933 the Federal Reserve banks were compelled by law to invest $139 million of accumulated surplus in nondividend paying stock of the Federal Deposit Insurance Corporation. At the same time the franchise tax was abolished and it was provided that all net earnings after dividends should in future be paid into surplus. In 1943, $49.5 million was added to surplus, raising the total to $188 million—122 percent of the paid-in capital of $154 million. Of this total $12.5 million was transferred to reserves for contingencies. Under these circumstances, there is some basis for advocacy of a return to the original provisions of the law requiring transfer of net profits to the government after payment of 6 percent dividends and reasonable provision for maintenance of surplus.

Proposals for Costless Financing

The accumulation of government securities in the portfolios of the Federal Reserve Banks has already brought demands by the public for the reduction or the elimination of interest payments

on the government debt held by them. For example, various proposals made by Representative Patman have dealt specifically with the question of Federal Reserve Bank profits. In a letter[38] to Chairman Doughton of the Ways and Means Committee, Mr. Patman wrote, "after all the taxes are paid that can be paid and all the bonds are sold to individuals and corporations that can be sold, and which, incidentally, must be interest-bearing, there will remain a certain amount of money that must be created. This part the government should create instead of making the taxpayer pay private banks for its creation."

In line with this letter Mr. Patman introduced a bill[39] in January 1943, referred to the Ways and Means Committee, that provided for the issuance of noninterest-bearing certificates of indebtedness by the Treasury for allocation among the Federal Reserve Banks. Another bill[40] introduced by Mr. Patman at the same time provided for the issuance of non-negotiable, noninterest-bearing bonds, likewise for allocation among the Federal Reserve Banks. The certificates would be credited by the Federal Reserve Banks to the Treasury at par, and used to finance "the national defense and for other purposes." The bonds would be used to meet public expenditures and also to retire outstanding obligations bearing interest or issued on a discount basis.[41] Such a proposal, if adopted, would possibly shock investor confidence in government securities, which would make it impossible subsequently to sell these securities on the open market.

The earnings accruing to the banking system as a whole in consequence of war financing have stimulated the extension of costless financing proposals to include even member banks. The Patman bill relating to bonds would terminate the authority of the Secretary of the Treasury to issue any interest-bearing obligations to banks receiving demand deposits, and such banks would be prohibited from holding interest-bearing securities of the government in excess

38 Representative Wright Patman (Texas) — Letter requesting a hearing before the Ways and Means Committee, addressed to Hon. Robert L. Doughton, dated June 23, 1942.

39 H. R. 150, 78th Congress, 1st Session.

40 H. R. 1, 78th Congress, 1st Session.

41 Cf. also H. R. 112 — A bill to provide funds for the prosecution of the war and to relieve the American people of unnecessary interest burden. Introduced by Representative Voorhis (California) January 6, 1943.

of the amounts on hand at the end of 1941.

The sale of noninterest-bearing government securities to the Federal Reserve Banks in conformance with the Patman proposals would not prevent deposits which arise from government deficit financing from accumulating in commercial banks. The government would draw checks against the credit balances created by such sales. These checks would then be deposited in banks, and consequently deposits and reserve balances would increase. However, the commercial banks would be deprived of what is now their chief investment outlet for surplus funds—interest-bearing government bonds. Some banks, lacking adequate lending or investment opportunities, would be reduced to serious financial straits; others would be forced to supplement income by increased charges to depositors for checking privileges. Moreover, all banks might be persuaded under the wartime pattern of interest rates to lengthen the average maturity of their government security portfolios, and a strong incentive would be created to increase other types of earning assets. If earnings were not obtained from other sources, the ultimate result probably would be fewer and more expensive banking facilities and an increased use by the public of currency in place of bank deposits.

Another suggestion advanced is to rely exclusively on direct borrowing from the Federal Reserve Banks at zero or very nominal interest and to sterilize member bank reserve balances created by this borrowing. The freezing of reserves would be accomplished by requiring that a 100 percent reserve be held against all future increases in deposits, with fractional reserve requirements remaining in effect for existing deposits.[42] In line with this suggestion, all future additions to deposits would have to be fully offset by transfers of cash or sales of assets to the Federal Reserve Banks.

[42] During the thirties the wave of bank failures following upon expansion and subsequent contraction of credit, gave rise to numerous proposals for the segregation of deposit banking from lending operations, with deposits backed by 100 percent reserves. These proposals were directed to some extent at minimizing the effect upon business fluctuations of the credit mechanism. The above modifications of these 100 percent reserve plans differ from the earlier proposals in that they are directed toward reducing the cost of borrowing to the Treasury as well as toward eliminating the secondary deposit expansion effect of federal deficit financing through the banks. This added objective is clearly related to the wartime increase in earnings for both Federal Reserve Banks and commercial banks resulting from increased holdings of government securities.

The position of the commercial banks would thereby be rendered even more difficult than under the Patman proposal, since they could not increase other nongovernmental investments. While a secondary expansion of bank deposits would thus be prevented (a possibility not precluded under the Patman proposal), the banks would have no incentive to accept new deposits. On the contrary, they would presumably refuse to receive them unless depositors agreed to pay higher service charges to cover costs and reasonable profits on the handling of "sterilized" balances. Another possible effect would be a tendency of banks to lengthen the average maturity of existing portfolios of government securities. In application, moreover, this suggestion might lead to an undesired contraction of total bank deposits; banks losing reserves from shifts in funds would be forced to reduce loans and investments to meet reserve requirements, while banks gaining reserves would be unable to expand earning assets.

One aim of the so-called 100 percent reserve plans, of which the foregoing is a variant, is to vest final control over the volume of the circulating medium (deposits and currency) in a public agency, such as the Treasury, the Federal Reserve System, or some alternative monetary authority. Although 100 percent reserve plans differ in detail they usually provide for the segregation of time and savings deposits from demand deposits. No reserves would have to be held against time deposits which could be invested in full. Against demand deposits, reserves of equal amount would have to be held either in the form of currency or possibly Federal Reserve balances. The requirements of a 100 percent reserve would not only assure redeemability for demand deposits but would prevent commercial banks from generating new deposits by their lending and investing operations. Whatever flexibility was afforded by such a system would have to be provided by the expansion and contraction of time deposits, which are influenced by forces not subject to control by government agencies, or by policies initiated by a central monetary authority or by gold movements.

Proposals of this kind would change the character of the banking system and effect a transformation in Treasury financing methods. Under such a segregated deposit system, banks could buy government securities only to the extent that they received cash or claims to cash in the form of time deposits. The banks holding only

demand deposits could not buy any government securities or make any other loans or investments, except with equity funds. The Federal Reserve Banks (or some other monetary authority) would have to supply all the funds required by the government in excess of its revenues and borrowings from the nonbank public.

As bank portfolios of government securities expand, plans for reducing the cost to the government of bank credit and at the same time providing increased control over its volume may attract further attention. It should, however, be pointed out that the average rate of return on the government security holdings of all insured banks had, according to FDIC estimates, dropped to 1.25 percent in 1943 as compared with 1.5 percent in 1942 and 1.9 percent in 1939. Similar data are not available for central reserve city banks only or for reserve city banks, but the average returns for these banks are doubtless below the average for all banks.

TREASURY BORROWING TECHNIQUES

Federal Reserve officials have a special interest in the government's wartime fiscal policy because funds have to be provided by the commercial banking system to meet that portion of government expenditure not covered by taxation or by borrowing from the nonbank public. The Federal Reserve Banks are faced with the necessity of supplying reserves to enable the commercial banks to expand their bond purchases to the extent required,[43] which, in turn, leads to an expansion of deposits and gives rise to inflationary pressures on prices. Consequently the Federal Reserve authorities have repeatedly emphasized the importance of the Treasury's borrowing funds as far as possible outside the banking system. To this end, they "have cooperated with the Treasury in developing machinery for distributing securities and in helping to determine types of issues that would encourage holders of investment funds and temporarily idle cash to purchase government securities."[44]

[43] *Federal Reserve Bulletin* (May 1943), p. 393. In an address on the National Radio Forum, April 14, 1943, Marriner S. Eccles, Chairman of the Board of Governors, stated: "If the Government's expenditures were entirely financed by taxation and borrowing from the general public there would be no need to turn to the inflationary method of financing through the commercial banks. The Federal Reserve in turn would not then be confronted with the necessity of supplying reserves for what it knows to be a dangerous process of financing the war through the banks."

[44] Board of Governors of the Federal Reserve System, *Annual Report, 1942,* p. 26.

Chief emphasis has been placed upon the varying of terms—e.g., maturities, redemption features, etc.,—within limits of offerings designed to obtain funds from wage earners, large investors, corporations and other institutional investors. For example, 2½ percent long-term bonds intended primarily for institutional nonbank investors may not be purchased by commercial banks until 10 years after date of issue. Non-negotiable war savings bonds Series E sold on a discount basis to yield 2.9 percent if held 10 years to maturity may be purchased only by individuals. Series F and G savings bonds, likewise non-negotiable, may be purchased by all investors,[45] with restrictions upon the amounts purchasable. With minor exceptions, commercial bank purchases of new issues have been limited to securities with not more than 10 years to run, carrying interest rates of 2 percent or less. This method of varying the terms of offerings to suit particular customers, of restricting their marketability, and of diversifying issues in order to attract a maximum amount of nonbank purchases, has many merits from the standpoint of placement of war loan offerings with nonbank investors at the lowest possible cost. Obviously, however, patriotic incentives and wartime restrictions, affecting both consumers and business enterprises, have contributed greatly to the success of this endeavor.

Federal Reserve officials have likewise concerned themselves with the distribution of bank holdings of government securities, that is, with the portfolio composition achieved by individual banks, as well as the distribution of securities among banks of different types and banks located in different areas. The need of commercial banks for short- and intermediate-term securities has enabled the Treasury to place with them large amounts of Treasury bills and certificates of indebtedness, especially the latter. Banks in the central reserve and reserve cities holding balances of other banks have to be prepared to meet sudden and heavy withdrawals of funds and are, therefore, disposed to buy large amounts of short-term securities without primary reference to yield. Attempts to expand sales of short-term issues to banks throughout the country have been facilitated to a moderate degree by the increase of short-term rates above the extremely low levels prevailing at the outbreak of the war.[46] However, the fact that Treasury bills are for all practical purposes

45 Limited purchases may be made by commercial banks. Cf. p. 9 of this study.

46 Three-month Treasury bills which had an average yield of .103 percent in 1941

the equivalent of cash reserves, while certificates to an increasing extent are regarded as such reserves, has probably been a more potent sales factor than the rise in yields. As earlier pointed out, the Federal Reserve System has agreed to purchase and hold for resale all Treasury bills offered at the rate of 3/8 percent per annum, and the policy of stabilizing the pattern of interest rates during the war emergency has contributed to the liquidity of all bank holdings of short-term government securities. These two factors have exerted a major influence in bringing about a broader distribution of short-term issues among banks and also in attracting investment of available liquid funds of nonbank sources in these securities.

The advantages of short-term issues from the viewpoint of the commercial banking system have already been indicated. However, a considerable body of public opinion is opposed to heavy reliance on short-term issues, chiefly on the ground that it will necessitate extensive refunding operations after the war, possibly at a time when new issues might be difficult to place. An increased postwar demand for bank loans at rising rates of interest might develop, it is feared, that would make commercial banks unwilling to take refunding issues and would even bring about large-scale transfers of securities from member banks to the Federal Reserve Banks. It is also pointed out that the greater the reliance of the Treasury upon short-term issues, the more dependent it becomes upon banking support to effect renewals. Of course sales of short-term issues to the commercial banks are not *per se* any more inflationary than sales of long-term issues to the banks, unless extensive short-term financing leads to a reduction in the volume of securities placed with nonbank investors.

RELATION OF FISCAL POLICY TO CREDIT CONTROL

There will be imperative need of close cooperation between the officials responsible for carrying out the fiscal program and those who direct Federal Reserve banking policies, if postwar fiscal policy (public spending and taxation) should be employed with intent to retard, stimulate or stabilize the economy or to encourage or discourage specific kinds of economic activity. For example, if it were

were selling to yield .375 percent at the end of 1943: three- to five-year taxable notes yielded .76 percent on the average in 1941 but brought 1.30 percent at the end of 1943; certificates of indebtedness with nine to twelve months to run were selling to yield .77 percent at the end of 1943.

decided to reduce taxes or to increase government spending as a means of stimulating business activity, that would be a signal for the Federal Reserve Banks to adopt easy credit policies, facilitating attainment of the proposed objective. Contrariwise, a decision to raise taxes or curtail federal spending as a means of checking inflationary movements would call for restrictive credit policies on the part of the Federal Reserve Banks.

So long as the war continues, the chances that fiscal and credit policies will come into conflict are virtually nil, since the aim of all policy-making officials is the same—provision of the funds required to finance the war program. However, unity of purpose as regards the ultimate aim does not prevent differences of opinion from developing concerning details of the wartime tax program.

Federal Reserve officials are legitimately concerned about the specific kinds of taxes employed to reduce the amount of bank borrowing and to curb inflation. The considerations that would influence their judgment as to the desirability of the particular taxes imposed would not be the same in time of war as in peace time. For example, very high excise taxes that might have an undesired depressing effect on business activity under peacetime conditions may impose an opportune curb on buying at a time when production of consumer goods has to be cut. Again, corporate taxes so high as to discourage new investment and adversely affect employment in peace times may not have correspondingly deterrent effects on war production.

Postwar tax programs will affect the operations of the Federal Reserve Banks, and will assist or hinder attainment of the objectives of credit control according to the character and the timing of tax changes. For instance, if Federal Reserve officials were called upon to combat a postwar recession, their efforts might be assisted by substantial reductions in corporate and individual tax rates that would release funds for spending and investment. However, such reductions would also increase the attractiveness of government securities as investments for corporations and individuals, and might divert some capital from private industry.

On the other hand, should it become necessary to cope with postwar inflation the Federal Reserve officials might find their task made more difficult by a tax reduction program. They might even take a renewed interest in various untried fiscal expedients for

absorbing purchasing power, such as the spendings tax, limitations on the total amount of money spent on rationed goods, compulsory lending and savings. While current inflation would be retarded if any of these proposals were adopted, solution of the problem presented by the resultant accelerated growth of liquid assets held by individuals would only be postponed.

LIMITATIONS OF WARTIME CREDIT CONTROL

In addition to credit control which is subordinated for the duration of the war to the demands of the Treasury, other types of economic controls are required to bring about the necessary reallocation of resources. The central banking institutions could not be used directly to implement government policy covering private production facilities, labor, materials and commodity prices without transforming the Federal Reserve System into an agency for the selective control of commerce and industry. Clearly, the central economic control problem of wartime—making available the men and materials needed for military purposes—lies outside the area of the Federal Reserve System whose traditional role is to exercise overall and predominantly nonselective controls over member bank credit.

Wartime deficit financing through the banks presents a major problem of monetary and credit control, but the Board of Governors and the Federal Reserve Banks have considerable latitude in the choice of means of aiding the banks to finance government deficits. Once deposits have been generated by their action, however, and the funds have been spent, the Federal Reserve officials have no direct means of influencing the subsequent utilization of deposits except through certain selective controls over lending activity, such as loans to finance consumer instalment purchases and stock exchange operations. These methods of control, while possessing some effectiveness within their limited areas, are obviously insufficient to regulate the utilization of available funds in the hands of the public. The Federal Reserve officials are powerless to prevent price advances resulting from expansion of currency and deposits when government borrowing from commercial banks is adding many billions yearly to the purchasing power of the public, unless there are offsetting additions to the volume of produced goods and services available for consumption. Instead, nonbank controls—

rationing and price control—have been used to limit consumption expenditures and check price increases.[47]

The rapid creation of purchasing power may be prevented from having an inflationary effect upon the price level to the extent that price and rationing controls are sufficiently comprehensive and are effectively enforced.[48] However, efforts to combat inflation by these methods have been only partially successful, and even if they had achieved their purpose more satisfactorily, the dammed up purchasing power in the hands of the public would still constitute a potential threat to the level and structure of prices. To be sure surplus cash created by war financing can be eliminated by retirement of bank-held federal debt, or by sales to the nonbank public of government securities out of bank portfolios. But retirement of federal debt obviously will not be possible until postwar budgetary surpluses appear, while a reduction in the volume of bank-held securities is not likely to assume important proportions so long as government financing of budgetary deficits continues to absorb large amounts of nonbank funds. The potentially inflationary situation resulting from tremendous accumulations of cash, and liquid savings added to the public's current income will be one of the chief legacies of war financing that will have to be faced in the immediate postwar period.

[47] *Federal Reserve Bulletin* (April 1944) p. 331. In a statement before the Banking and Currency Committee of the Senate, March 24, 1944, on the extension of the Emergency Price Control Act of 1944, Marriner S. Eccles, Chairman of the Board of Governors, commented as follows:

> "In closing I would like to remind the Committee of the interest that the Federal Reserve System has in this legislation. . . . The less we raise in taxes and public borrowing, the more the banks have to be relied upon to supply the funds to fight this war. And the more the banks buy, the greater the pressure of dollars on the economy. . . . But as the tide of money rises, it becomes increasingly important to maintain the restraints that hold it in check.
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> "If we fail to sustain public faith in the dollar, the liquidation of securities which would result would inevitably force the Federal Reserve System to absorb the bonds thus liquidated. . . . This must not happen, but it could happen if we allowed the faith of our people to be undermined by a failure to hold this line against inflation."

[48] The term, "excess purchasing power," as used by Treasury officials means income in excess of the value of goods and services available to meet civilian demands at existing prices. That is, if consumer incomes for 1944 should amount to $150 billion while the supply of goods and services available for purchase by civilians at 1944 prices were valued at only $90 billion the excess income for the year would total $60 billion, less amounts deducted for personal taxes.