

TO _____

FROM _____

REMARKS:

Mr. Thurston was interested in seeing this and so I suggested that while reading it he might edit it, which he was pleased to do. Then I had Mrs. Arnold copy it (she made 8 copies as Thurston said to make as many as she could.) You may wish to go over it again yourself before it is mailed to Mrs. Nash.

GOVERNOR ECCLES' OFFICE



SPEECH BEFORE UTAH BANKERS ASSOC.
SALT LAKE CITY, UTAH.
June 29, 1948.

ADDRESS
by
MR. MARRIWER S. ECCLES
Member
FEDERAL RESERVE BOARD
Washington, D. C.

My friend Charley, President Dyreng, Ladies, Fellow Bankers, you have been good enough to invite me to attend the Utah State Bankers meeting as a speaker I think every year over the past 14 years while I have been away from here, and I have felt that it was impossible for me to be present until this particular time. Congress was usually in session, and as long as I was the Chairman of the Federal Reserve Board I found it difficult to get away. This year with Congress out of session and with a changed status I found it easier to accept your invitation, and I can assure you that I do not know of an invitation that I would prefer accepting to the invitation of this Association, being, as Charley has said a product of Utah, and having at one time been President of this Association, I think it was in 1924. For you who do not remember that long ago I will remind you that I had the distinct honor to be President of the Utah State Bankers Association, so after a period of 24 years it gives me pleasure to address you today.

As you all know, I was put somewhat (I have related this before) in the position that Lord Keynes stated of Lord Catto, the Governor of the Bank of England. When the Labor Party went into power in England, Lord Catto said to Lord Keynes, "Now that Labor has come into power I suppose they will chop my head off."

Lord Keynes said to him, "Yes, they will chop your head off, but they will put it back on with a tilt to the left." (Laughter)

I am not sure whether I am in a more or a less fortunate position than Lord Catto. They did cut his head off, and I suppose put it on with a tilt to the left. Mine was not entirely severed; just, I suppose, left dangling, and

as to the tilt, I feel pretty sure that neither this nor any other administration would have very much influence in changing the tilt. Over a long period of years I have at least felt that I knew the tilt that it should bear. There are times, I think, when our economic and social trends might veer too far to the left and need to be brought back, and times when they veer too far to the right and need to be brought back. I try to stay on that even course so that I do not have to be tilted one way or the other. If we could keep the economy on such a course, if we could avoid booms and depressions, we would be better off.

I have related another incident quite a number of times that I think is a pretty good story on me. My associate and assistant, Mr. Elliott Thurston, who is a very charming person and has a marvelous sense of humor, and I were together one evening and I was speaking off the record to the editors of the McGraw Hill Publishing Co. organization. They had about 50 or 60 editors and I knew a lot of those fellows, and while we were eating (before I had made my speech) I leaned over to Mr. Thurston and said, "Elliott, have I ever spoken to this group before? I seem to know quite a number of them."

And he said, "Mr. Chairman, I am quite sure you haven't, because if you had I don't think you would be here tonight." (Laughter)

So maybe if I had spoken to this group within recent years they would not have been so good as to continue to invite me every year. But be that as it may, I am glad to be here.

In reflecting upon the past, we should learn to profit from our past mistakes. I must say that this generation, or at least I would say my vintage, has not a very good record of past performance. It is pretty difficult for us to say to the present younger generation who we sometimes think are becoming too radical, that they should follow us. Our record is a record of two wars—

one was not enough — and a record of two very serious depressions, and the way we seem to be headed at the present time would indicate that we have learned absolutely nothing from the past experience. One war, which at the time seemed to be a pretty serious one, and we spoke of it as a World War, by comparison with the second war, that we have not started to recover from, seems pretty insignificant.

The first depression brought the end of a good many banks in Utah and Idaho, as I recall. I was at that time (in 1920) the President of the First National Bank of Ogden, and I well remember the deflationary pressures. However, that depression by comparison with the depression from 1929 up until 1940, when it seemed to take a military program of huge governmental expenditures to enable us to utilize our idle man power and our idle facilities, made the depression of the first World War seem very insignificant. I am wondering if as time goes on, that, based upon the past, we are to have bigger and better depressions in the future and bigger and better wars? It certainly seems to be the trend that we are following, but I am not going to undertake to give all the answer to the ways and means of preventing wars and depressions.

The problems I am going to discuss are extremely difficult and extremely complex. Their solution must be based upon a greater degree of enlightened self-interest than we have ever manifested. The solution is not going to be brought about by what we consider less government and more free enterprise, by less planning and more of laissez faire. I am sure that that is not the direction in which we are going, that no political change is going to change the basic economic and social direction this country is taking. Certainly a further inflationary development, a development that is permitted to run its course, and then a liquidation that will develop as a result, is not going to mean less government, irrespective of the political philosophy of any party.

The great danger inherent in a further inflationary development or further expansion of credit, further creation of money, is the degree to which the Government will have to intervene, and they will intervene at the request of the very people who today want the Government to abdicate. This will happen when the process of credit deflation, which is cyclical, gets under way, when unemployment begins to mount, prices begin to collapse, and bankruptcy becomes widespread. When those conditions develop they are not self-correcting. We saw from 1929 to 1933, at the time of the bank holiday, that the further deflation went the less solvent the entire country became. I do not believe that any Government will permit the deflationary process to run its course to the extent that the deflation went after 1929. I do not think that is possible again -- I hope it isn't -- and in order to prevent it the Government will intervene sooner and they will intervene on an expanding scale; therefore, for those of us who like to preserve as much of the free enterprise system as possible, it behooves us to prevent, insofar as we can a further inflationary development, because I am sure that we would like to avoid insofar as possible extensive governmental intervention brought about by depression.

Speaking of what has brought us to our present impasse, primarily it was the war. We could not over a period of 5 years, expend over 400 billion dollars and only pay for about 40 per cent of that expenditure and borrow the rest of it without creating a very substantial basis of inflation. As we know, the Government paid for about 40 per cent of the war through taxation, and it paid for the other 60 per cent, a very substantial part of it, by borrowing from the banking system. What was borrowed from individuals and corporations was not inflationary because that did not increase or expand the supply of money. The supply of money was expanded only to the extent that the Government's war deficit was financed out of bank credit.

I am sure we, as bankers, must know that bank credit is the source of our money supply, that whenever a loan is made new money comes into existence, and as a result of the expansion of credit to the Government during the war the deposits of the banking system and currency in circulation increased about 300 per cent. The offset to that great deposit growth in the banking system was Government bonds held by the banks. The bond portfolio of the banking system at one time exceeded 60 per cent of their total deposits, whereas their total of other loans and investments was 25 per cent and less. Now that was an expansion of the means of payment in the hands of the public that caused the supply of goods and services available for the public to be inadequate. That is what inflation is.

The reason you did not have overall inflation during the war was because of a harness of controls that the Government imposed that made it impossible for the public to spend the money that they got as a result of the Government's expenditures in order to carry on the war. That is one reason that during the war period so much of the money that the public got went into Government bonds. They couldn't spend it, and therefore so much of it went into banks and became increased deposits of corporations and individuals--idle money, a great deal of it.

When the war was over it was apparent, or should have been apparent to everyone, that the need of controls was much greater, if anything, than during the war. With the war over, there was no real incentive for people to buy Government securities or to save money. There had been accumulated during the period of the war a very huge backlog of demand on the part of not only individuals but on the part of business generally, and the greatest backlog of demand was for something that everybody wanted all at once. Those who did not have automobiles had money or they had credit and they wanted to get cars

immediately. The capacity for making cars, of course, could not be expanded quickly and it would be unwise to expand an automobile industry so that it could supply ten million cars a year for a couple of years and then what would happen to the capacity? The whole economy would be wrecked. The same thing has been true of housing. The Government did not understand the real nature of the problem; as a result the Government encouraged an easy housing credit expansion that created an effective demand far in excess of any possible available supply of housing. Our capacity for building housing was not substantially increased over what it was before the war, and it could not be increased readily, and yet this backlog demand was there. Yet the Government immediately, under the pressure of the people of the country, took off all of the wartime controls. They took off the allocations that were in effect during the war on scarce materials. They took off building permits so that you could go out and build nearly anything. They took off wage controls. These steps naturally led to taking off of rationing and greatly weakened export licensing, so that the people from countries that had accumulated dollars during the war came in and paid all kinds of prices for American goods. Fabulous profits were made in the export business. When they finally took off rationing, all that was left on was price control. Well, price control without the harness of other controls was worthless. About all it did was to encourage black markets. The price control instrument was dead six months before it was repealed. I strongly advocated repeal of price control after other controls were taken off.

Another thing that was taken off was excess profits taxes. They put excess profit taxes on during the war to prevent war profits. The real war profits are the profits that have been made since the war. The profits that have been made since the war have been fantastic, as you all know if you are following the reports of business profits. Now those profits are a result of the war and they

are just as much war profits as if they were made during the war. The fact that they were not made out of orders that came directly from the Government does not mean that they were not just as much war profits. The Government necessarily deprived the public of automobiles or housing all during the war period. At the same time, the Government created the purchasing power for the public to buy housing and automobiles immediately after the war. That purchasing power was a direct result of the war and of war profits. Moreover, you couldn't avoid the first and second and third round of wages without an excess profits tax in effect.

The net result of the premature removal of all the essential harness of controls is more inflation since 1945 up to date, than we had from 1940 to the end of the war. The real inflation was not from 1940 to 1945. The real inflation has come within the past two years with the taking off of all of the controls prematurely.

Now this large supply of money that was created during the war and the ease with which further bank credit could be provided were very potent further inflationary forces. The banks have done their share to help bring about the present inflationary development, and to that extent the law of compensation will see to it that they pay the price. You always pay the price sometime or other.

Since the war the only important anti-inflationary force that we have had in the economy has been the Federal budget; the Government has collected from the public in taxes, and this includes social security taxes, 14 billion 300 million dollars in excess of Government expenditures. Whereas, during the war period the Government's fiscal policy created the inflationary pressures, following the war period the Government's fiscal policy has been anti-inflationary to the extent of over 14 billion dollars. But during this same

period of time the banking system nullified and completely offset the effect of the anti-inflationary action of the government's fiscal policy. The banking system expanded bank credit and investments, other than government bonds, by an amount equal to the debt the Federal government paid off. The banks, in other words, created an amount of money just about as fast as the Federal Government, through its fiscal policy, contracted the money supply.

Bank deposits did not increase, of course, during this period because as the government paid off public debt, the banks offset that operation by a corresponding expansion of private debt.

Now, you say, why didn't the Federal Reserve do something to stop this growth of bank credit? Or, perhaps, you might say this bank credit did not have any inflationary effect because it was necessary in order to create production. However, when the supply of money in the hands of those that would spend it at the end of the war exceeded our capacity to produce goods and services, adding more money to the already excessive supply could not produce more goods. The money that was already in existence was sufficient to bring about some considerable inflation without creating any more bank credit at all. The total increase in our industrial production is not much more than 50 per cent over pre-war levels. Some items went up to 100 per cent, some 30 per cent. The total expansion of food is about a third. The expansion of some other items is higher. But on the average, with all labor employed and using all our productive facilities, the increase in physical production is about 50 per cent, whereas our money supply has expanded by 300 per cent.

We say that inflation is due to increased wages and increased prices. That is only part of the equation. Inflation comes about first, because the supply of money, already in existence, is in excess of the supply of goods.

That exerts an upward pressure on prices. Then, increased wages come about because of an increase in the cost of living. The increased wages in turn lead to a further increase in prices. This results in a further increase in the cost of living. Then in order to sustain the inflation, the banks expand credit and then profits likewise expand. So, in looking at the inflationary cycle you have to take into account not only increased wages and increased prices, but also the increase in the money supply through increased bank credit, and likewise increased corporate profits. It is all part of the inflationary picture, and there isn't anyone in the group that wants anything done with his particular segment. Labor objects strenuously to having any wage freezes or wage controls. Industry generally objects to the excess profits tax or any curbing of profits. The farmer doesn't want any ceiling on prices, but he does want a guaranteed floor over a long period of time. He wants a parity guarantee, and he has it. The banks want to be left free to police their own affairs and decide whether or not they will extend credit. They don't want any interference or any curbing of further credit expansion. And everybody wants tax reduction. Everybody got tax reduction. All of the various pressure groups got pretty much what they wanted.

There are, however, large segments of the population that haven't kept up with the inflationary pressures, and are worse off than they were before the war. That means the old people who are depending upon pensions, depending upon savings; that means the fixed income groups who have no way of increasing or expanding their income, and that means a great many of the unorganized workers and groups who have been unable to get increased compensation in relation to the increased cost of living. So you have developing a very great

disequilibrium among the various income groups. A great many are being priced out of the market. They are only staying in through spending savings, by using instalment credit, and by using easy mortgage credit. They are thus getting some of the things that they could not otherwise get, not out of their current income, but to the extent that mortgage and credit instalment credit is expanding, and savings are diminishing. Even though bank credit as a whole were to expand very little a most difficult situation is being created for the future. Bear in mind that in the 20's there was no inflation in prices from 1924 to 1929. Actually there was a decrease in the cost of living of 10 per cent. There was very little growth in bank credit. But there was a tremendous growth in loans on housing, in instalment credit and in the stock market. Too few people got too much of the national income. They loaned it to others and when the day of reckoning came, we had the depression of the 30's. What is going to happen when the mortgage housing credit falls off from around 900 million a month, where it has been running, to perhaps 300 or 400 million a month? What is going to happen when instalment credit, which is running at 300 or 400 million a month; i.e., all kinds of consumer credit, when that drops down?

I don't say there shouldn't be some indebtedness, but there should not be a substantial growth in debt on balance. Whenever debt is growing on balance faster than the increase in employment and production, and when, as at present, we have full employment and production, what happens when you merely increase the volume of credit, whether it is bank credit or not? The fact is that we could get a substantial inflation without any further growth in bank credit merely by an increased velocity in the existing supply of money. During a period of inflation such as we have today, we ought to have a large Federal

budgetary surplus which is now gone and we ought to have no further growth on balance, or very little, certainly, in instalment credit and in mortgage credit or in any kind of bank credit. That does not mean that you liquidate what you have, but it means that the growth or credit extended to one group should not be greater than the contraction made by another group. There is nothing that the Federal Reserve can do about this. The reason why we cannot stop the expansion of bank credit, and the reason why we cannot put pressure on it is because we cannot deny the banking system access to reserves which are the basis for credit expansion. As long as the banks hold large portfolios of Government bonds, as long as the Federal Reserve stands ready as the residual market, as they must do, then control has passed from the central bank to 14,000 private banks. Individually these banks can elect to get reserves any time they choose to sell their governments. Upon every dollar's worth of governments that they sell to the Federal Reserve, which is the residual market, that creates a reserve dollar for the banking system upon which the banking system as a whole can expand \$6 worth of credit or new money. So that the commercial banks, owning as they do today about 65 billion of Government bonds, could sell six billion, for example, and have 59 billion left. Upon that six billion they sell, 36 billion dollars of additional credit could be extended. In other words, in this way they could nearly double the present outstanding volume of their loans. That is what the multiple credit expansion possibility is. There is nothing the Federal Reserve can do about it. That is why since 1945 the Federal Reserve has been pointing out this dilemma to the Congress in the Board's reports for 1945, 1946 and 1947. I was before the Taft Committee twice last Fall, then before the Banking and Currency Committee of the Senate, then before the Banking and Currency Committee of the House. At that time and again in April I discussed this whole question. The report that I made before those committees at that time was sent out to all banks so I don't need to say too

much more on that subject. The fact is that the potential credit which the banking system can extend today is almost without limit.

Now if the Federal Reserve System could use the powers that they have, which I refer to as the traditional powers—people accuse us of seeking more and more power and centralization. People who say that don't know what they are talking about. The Federal Reserve System, of course, has adequate powers to stop a further bank credit inflation right in its tracks, but to do so we would have to withdraw from support of the Government market. We would cease to be the residual market for Government bonds. Now that is what happened after the last war in 1921. They stopped inflation. They raised the discount rate. They denied the banks credit, and the banking system was unable to expand credit because the source of reserves on which credit was based was denied to them. But what happened to the Government bond market? 4 1/2 per cent fully tax exempt bonds went down to 83. The Federal Government paid 5 per cent for 90-day paper on a fully tax exempt basis. Now that is what happened. What would it be today with a public debt of 250 billion dollars? This amounts to 60 per cent of the entire public and private debt combined. A very large portion of this huge public debt is held by the banking system and the insurance companies and the savings banks and various fiduciary institutions and trust funds. That debt must be managed, and certainly the long term, the 2 1/2 percent rate, must be protected. You must ask yourselves what would happen to 50 some odd billions of E, F and G bonds held by the savers of this country if the government rate were permitted to go up to 3, 3 1/2 or 4 per cent with other rates in proportion. Certainly the whole savings debt structure would likely be converted. Holders of the lower rate outstanding securities would want to go in and buy the new securities

higher rate market securities. The Government would be faced with insurmountable problems in its essential refunding operations. In the next five years, some 70 billion dollars of debt falls due. How can that debt be refunded without any certain market? We just don't believe it can. And what would happen to the banks if Government bonds were permitted to "find their own level", and the level, let us say, to be 5 or 10 points below the present level?

As long as the Federal Reserve stands ready to support the Government bond market, it provides money for the banks to lend. Under these circumstances to raise the discount rate is meaningless. So long as the short-term rate on Government securities is $1 \frac{1}{8}$ per cent or more no bank is going to use the discount facilities to get reserves. They will sell short-term Government securities. Therefore, to raise the discount rate is purely academic. We have advocated that the short-term Government rate should be permitted to find its level in relation to the long-term $2 \frac{1}{2}$ per cent rate, but there is no point in letting the short rate go up to the point where the holders will start selling long-term bonds and sell them short. The degree to which the short rate can go up is a very small amount, maybe $\frac{1}{8}$ or $\frac{1}{4}$ of 1 per cent, and then the discount rate can go up slightly, but that would certainly be a minor anti-inflationary measure.

We have suggested other measures that are necessary and desirable as a substitute for the traditional method of raising the discount rate and denying the banks a market for their securities. What we are proposing is not more power, it is merely a partial substitute for the power that has been lost and the power that it was meant that the central bank should have from the very inception of the institution. Today the Federal Reserve System is unable to perform the function for which the System was created. It is an engine of inflation today. If the Federal Reserve System did not exist at all, if

it were completely out of the picture, you would have a much less inflationary situation, because the very fact that it does exist, the very fact that it stands there to support the public debt is the basis for multiple credit expansion. It is important that bankers should recognize this fact, and understand the proposals of the Board to deal with this problem. We certainly have no axes to grind. Our approach is entirely objective. If our proposals are not the way to deal with the problem of credit then the bankers should come forth with some kind of a program that will do the job in case a voluntary system of bank credit control does not work. The function which the central bank was created to perform certainly should be re-established in one form or another.

Now I am not saying that voluntary restraint won't work at all. I think it has done some good, but it is a pretty difficult problem to get 14,000 competitive institutions to exercise enough restraint and self-control to prevent a further overall credit expansion. It is a difficult thing for the individual banker to deny what seems to be a perfectly sound and good loan when he knows if he doesn't make it his competitor will. And yet that loan creates credit, creates new money in exactly the same manner as any other kind of bank credit, whether it is good or bad. When that dollar is once put out to the borrower, especially if it is on a house and it isn't tied to a crop that is paid off when the crop is marketed, that dollar then becomes purchasing power for somebody else and somebody else and somebody else. It is in the spending stream when it is once created. The expansion of bank credit for housing, the expansion of bank credit for consumer credit does not increase production. What it does is to increase or sustain the demand for existing production. That is what happens. Certainly consumer credit does not create

any more automobiles or any more housing. Now if you are loaning to a farmer to finish his crop and the dollar that you loan comes back to you when the crop is marketed, that is a different type of credit; or if you are loaning to a sugar company to produce a crop, or to a canning company, or to produce a cotton crop, and when the crop is marketed the loan is paid, then that kind of credit is self-liquidating. But most of the credit which the banks are extending today is not of that type. Notwithstanding the deflationary pressures exerted by heavy Government tax collections from January until March amounting to something like 7 billion dollars, there was on balance an expansion of credit on the part of the banking system—as I recall it was something like 700 million dollars. Even though there was a contraction in commercial loans there was enough expansion in mortgage credit and in consumer credit to make an overall expansion of credit during that period.

I would say to you bankers that individually you are going to have to take responsibility for what happens in your banks. There isn't anything that can be done effectively on the part of the Federal authorities to stop or to curb or to curtail or to influence your credit expansion today. There is no chance for an effective curb on further bank credit expansion insofar as the Federal Government is concerned, except persuasion; so if I were a banker I would keep my loans down so that they did not exceed, I think, about 30 per cent of my deposits. As for the Government bonds that you own, that money has already been created and spent. The offset to the deposits that you have against government bonds should be held against the government bonds and you should not reduce your holdings of Government securities for the purpose of getting more reserves on which to expand bank credit. Now I am speaking in general terms. Certainly in the consumer credit field and in the housing field I would be extremely restrictive. In the commercial lending field where the

loan will be self-liquidating, where it is tied to production, so that when production is sold it will liquidate the loan, I would extend that kind of credit because it will help to sustain production.

Now I have talked here for a long while and I have rambled around. As you know, I didn't prepare a speech but I am going to say something here that is strictly off the record. What I have said is off, too, but this in particular, looking to the future, is off the record.

There is a great element of uncertainty. We have reduced taxes, and the budgetary surplus that we had as an anti-inflationary factor is gone. That is important. But on top of that the government has entered a program that has apparently no terminal point of expanding the military establishment and world aid. Whereas we thought last year the budget of 37 billion was pretty high, this coming year the budget calls for a minimum of 42 billions. We talk about economy in Government, we talk about cutting public expenditures and we are entirely unrealistic about it, because the amount that can really be cut is fantastically small. So long as the military expenditure (which this coming year is 14 billion dollars) is as large as it is, and so long as the foreign aid program is six billion or over, there is 20 billion in two items, so long as the interest on the public debt is nearly 5 1/2 billion, and certainly if we should do what some people ask us to do, that is, use the traditional authority of the Federal Reserve System, withdraw from the Government bond market, let interest rates go up as the means of stopping credit expansion, let them go so high that people just won't borrow, or let them go so high that you certainly would stop inflation—where would the cost of carrying the public debt go if you pursued that policy? If you did what some of the bank/^{FRS} want it could be ten billion dollars. Anything that you do towards increasing the cost

of carrying the public debt—even 1 per cent on the outstanding public debt is 2 1/2 billion a year, and if you increase the overall cost of carrying the public debt the budget would go up 2 1/2 billion a year, so you see you can't very well cut the cost of carrying the public debt on that front.

The veterans' aid program—and there seem to be no politicians in any party who would even dream of not voting for practically every veterans' program that comes before him—and you have a veterans' program of over 7 billion. You have there between 32 and 33 billion dollars in about four items!

We all want public roads, we want reclamation, and a great many people want the farm aid program, they want to guarantee parity payments to farmers, and that costs another substantial amount of money; so that as you look the budget over you begin to see that so long as you have an expanding military program and an expanding foreign aid program, there isn't very much hope of further cutting the budget. There is an indication and an expectation certainly on the part of the military and certainly on the part of the people who are extreme internationalists, that the budget by 1950 will reach at least 50 billion dollars. There is an expectation that the military program will be expanded within the next two years to 20 billion a year. Now if we have any such expansion of the military or foreign aid program and along with that you get some further inflation, then of course that means further appropriations by the Government to counter-balance the inflation. Congress has just passed a bill that will cost a good many hundred millions to take care of Civil Service employees of the Government, to give all of them some 300 odd dollars to help overcome the increase in the cost of living. If we are going to be realistic about the future we have got to find a way of bringing about a basis for peace in the world pretty quick. We cannot carry out an expanding

military program that has no terminal point, a world aid program that has no terminal point without wrecking our domestic economy ultimately on the rocks of inflation or without imposing during peacetime a harness of controls that would have to be very much more extensive than anything we ever knew during the war.

Now those seem to me to be the hard alternatives with which we are confronted. It is only natural for any bureaucracy, whether it is military or any other, or whether it is a private organization, with human nature as it is, to want to get bigger and better. The Navy, Army, and Air Force never tries to find ways and means of curbing or cutting or reducing expenditures. Their attitude has always been one of finding ways and means and justification for expansion. It takes civilians to curb that kind of activity. Certainly the foreign Governments, China and the rest of them aren't going to find ways and means of reducing their demands upon our Government. They are going to try to find ways and means of justifying and getting all that they can possibly get. And so it is with the veterans and with everyone else. The idea of a program on the part of the military that we call a defense program, or a preparedness program, seems to me to be fraught with a good deal of danger. If we had a program of preparedness for offensive rather than a program for defensive purposes it would be another thing. Preparedness is a relative thing. Despite huge expenditures over a period of years we may find that we are less prepared in relation to Russia than we are today. Certainly the British and the French were better prepared to deal with Hitler in '34 and fully adequate to deal with him in '35, but in '39 they were unable to deal with him. When the Japs went into Manchuria and broke the Nine-Power pact we were well prepared to enforce the peace, but when they struck us at Pearl Harbor, although we

were much better prepared when they struck at Pearl Harbor than when they went into Manchuria, relatively we were less prepared.

A preparedness program for defense, if it means anything, means an armament race, and an armament race has always ended in war. In war the democracies never strike first. In the next war the country that strikes first will have an advantage possibly superior to the country attacked, no matter what the preparedness is, when there may be no such thing as a preparedness or a defense against the atomic bomb, and those who strike first might put an end to the country they strike, and all your effort at preparedness may go to naught.

We are not living in a world or dealing with a world of old school military preparedness, where you have plenty of time, such as was true in the past. Nobody doubts that if we get into another war, it is going to be an atomic war. It will be a war where the one that strikes first will have a very superior advantage. It seems to me that we are being confronted with the unpleasant alternative of a regimentation of the domestic economy, which in itself would destroy the very thing that our military preparedness is designed to save, or an inflationary development that would likewise wreck or destroy our system.

As a friend of mine said, it doesn't make much difference whether you are destroyed by your enemy or destroyed by yourself, the destruction may be just as complete either way.

While we are vastly better prepared or could be within a very short time, than any potential enemy, our position, it seems to me, should be used much more aggressively than it is in the enforcement of the peace, even though you risk getting into war you had better have an offensive preparedness with an end point in sight that you are prepared to carry out than a drifting

Program of a defensive preparedness without a terminal point. Isn't it better to take the chance of getting the war while you are better prepared and choosing your own time than to wait and let the other fellow choose the time while you are simply sitting by and waiting.

It is apparent, I am sure, to all of us that the United Nations has turned out at the present time to be largely a soap box. It is ineffective. It is apparent to us that Russia is undertaking to sabotage every effort we are making ⁱⁿ the western democracies and elsewhere in the world and is making our foreign aid program, and will continue to do so, much less effective than it otherwise may be; that it is going to be their purpose to make it essential for us to continue indefinitely, without a terminal point a foreign aid program. If they can win by forcing us to wreck our democratic system either on the rocks of inflation or upon the rocks of a totalitarian regimentation to prevent it, that is just as effective as it would be any other way, and much cheaper for Russia.

Now we had better be pretty realistic and not shut our eyes to these unpleasant alternatives, and it seems to me that is just about what we are doing.

In getting back now to where I started, this generation of mine has made a pretty complete failure in the past. As I say, we had two world wars within the space of 25 years. One was not enough. And we had two depressions. The one of the 20's which we thought was pretty bad, taught us nothing and we had to have the devastating one of the 30's and it seems to me that we have learned little or nothing from the past, judging from the programs that seem to be discussed for the future.

I hate to end upon a note of what might appear to be discouragement, but certainly unless we face the realities of life, unless we cease to be Pollyannas, we have very little chance of doing any better in the future than we have done in the past.

I thank you.

(Standing applause)