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**Remarks of J. L. Robertson  
Member of the Board of Governors  
of the  
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at the  
Special Industrial Preparedness Conference  
of the  
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## Assuring the Continuity of Money and Credit

Nuclear war is not inevitable; but it is possible. Nuclear weapons exist in abundance. They can be delivered swiftly to any part of the world. There is no certain defense against them. Although these facts of the Atomic Age make the task formidable, we must do everything possible now to assure our survival as a nation in the event of an attack. By doing so, we may actually help to discourage an attack and to strengthen our nation's position to negotiate for world peace.

If an attack occurs, either by accident or design, many of our people would be killed and much of our productive capacity would be laid waste - but a great many of our people and a large part of our industry would survive, not to mention our vast store of natural resources.

Victory, if indeed one can speak of victory in connection with a holocaust, might go to the nation which recovered most swiftly from the effects of attack. Recovery would depend upon maximum utilization of surviving resources and people. This would require a high degree of organized economic activity - the specialized use of human and material resources - management and labor, skills and services, materials and equipment, plants and products. And in a modern nation, even under "national emergency" conditions, such specialization is possible only when there is a trustworthy money and credit system; one on which the people, as well as managers of business and industry, can rely. Without this, all other elements of emergency planning, including wage, salary, rent and price controls, have no meaning.

As for the role of money and credit in defense planning, we are reminded that Aristotle observed, over 2,000 years ago, that "the use of money was devised as a matter of necessity". More recently, and even more appropriately, H. G. Wells (who presumably would feel right at home in our science-fiction world) said that "without trustworthy money, a country is as paralyzed as a brain without wholesome blood. She cannot act. She cannot move. Employment becomes impossible and production dies away. Our civilization is, materially, a cash and credit system, dependent on man's confidence in the value of money." These are the reasons why a

workable system of money and credit must be maintained even in an extreme emergency.

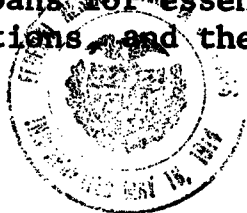
For more than ten years the Federal Reserve System has devoted an increasing amount of its time and attention to ways of assuring the continuity of our money and credit system. This activity was given official recognition when, in 1956, Arthur S. Flemming, then the Defense Mobilizer, on behalf of the President, assigned to the Federal Reserve Board extensive responsibilities in this field. Our approach was to identify those elements which would be essential postattack.

First, and rather obviously, the Federal Reserve System and the commercial banking system must have the physical capability to continue to operate. This involves preparations which are common to all businesses: physical protection, provision for continuity of management, establishment of alternate headquarters, and most importantly, the duplication and safe storage of essential records.

Second, the solvency of the economic system must be preserved despite the widespread damage which would accompany a heavy attack. The economy must be insulated temporarily from the financial effects of the attack in order to carry on its essential services.

Third, adequate but not excessive liquidity must be provided to banks, to businesses, and to individuals. Currency and deposit money must be available in sufficient amounts to assure continued production where it is physically possible.

Many of the plans necessary for the maintenance of these essential functions have already been made. The Secretary of the Treasury has issued an Emergency Regulation that requires all surviving banking institutions to continue operations, prohibits abnormal withdrawals and hoarding of currency, and restricts the use of balances in deposit accounts at the time of attack to essential purposes. The regulation authorizes the use of temporary banking quarters, the making of loans for essential purposes without regard to normal limitations, and the rationing of currency.



Authority has been delegated to the Federal Reserve Board to take action necessary to maintain banking operations after attack. It, in turn, has issued regulations that provide for the emergency operation of Federal Reserve Banks and authorize them to make reserve credit available to both member and nonmember banks, with the objective that no bank be inhibited by a real or fancied lack of funds from carrying out essential operations in support of essential purposes. In addition, Reserve Banks are authorized to make necessary credit available to businesses and individuals.

Both the Board and the Federal Reserve Banks have provided for the continuity of their operations by establishing alternate headquarters and duplicate record storage centers to which essential records are sent on a regularly scheduled basis. The Board's authorities have been so delegated that in an emergency they could be exercised by the management of any Reserve Bank.

In addition, the Board has distributed to the Federal Reserve Banks Guidelines for emergency monetary policy actions designed to help them launch operations that will achieve the twin objectives of providing liquidity and confidence, and curbing inflationary pressures.

The availability of deposit money has been assured by providing for the decentralization of check clearing operations. Check clearing areas have been delineated, in each of which a commercial bank or clearing house association has been appointed to act as agent of the Reserve Bank in an emergency. These agents will clear checks within their respective areas, and in some instances other areas, thus greatly reducing the volume of checks which otherwise would have to go to a Reserve Bank or relocation site. Reserve Banks have distributed to all commercial banks emergency operating circulars that describe the procedures.

Steps also have been taken to assure the availability of currency. Emergency supplies have been stored throughout the country on the basis of vault space available and relative security from direct attack. Plans are being developed

to store additional supplies in very deep underground storage vaults. A cash agent plan similar to the check agent plan has been established. In an emergency, designated banks, acting as cash agents of a Reserve Bank, would distribute currency among other banks.

Commercial bankers have been actively engaged in defense planning for a long time. In 1956 we established an Advisory Committee for Commercial Bank Preparedness and a Banking Committee on Emergency Operations. These Committees produced and furnished to every bank in the land a series of seven booklets, five dealing with preattack preparedness measures, and two with postattack operations. The work of these Committees has recently been assumed by the Bank Management Committee of the American Bankers Association, which will continue to press for bank preparedness.

The federal supervisory agencies keep informed of the status of commercial bank preparedness through their examiners, who discuss preparedness measures with lagging bank managements, with a view to speeding up the program and assuring a higher degree of readiness.

Our country has about 14,000 banks, with 10,000 branches, holding more than \$270 billion of deposits. Banks holding approximately 65 per cent of these deposits have launched preparedness programs. You may know better than I whether there is any other industry composed of a comparable number of plants that has a preparedness program covering 65 per cent of its total capacity.

Now, let me illustrate what has been done to assure the continuity of money and credit. In my home town, Broken Bow, Nebraska, there are three banks. I doubt that any nation would intentionally aim a missile at Broken Bow, so let us assume a heavy attack on the United States, in which Omaha has been hit and normal banking channels have been disrupted. With the information presently in the hands of all banks throughout the country, the banks in Broken Bow should know:

That they are to remain open and to continue banking operations;

That, in accordance with the government's policy for the equitable sharing of war losses, any impairment of their assets by reason of war losses will not be permitted to affect their operational solvency;

That Federal Reserve credit will be available to them, and since they are not member banks, emergency clearing accounts will be established for them at a surviving Federal Reserve office - which in this case may be the Kansas City Federal Reserve Bank's relocation office located 650 feet below the ground in central Kansas, if the regular offices of the Reserve Bank in Omaha, Kansas City, Denver, and Oklahoma City should not be in operation;

That they may safely accept, and will receive Federal Reserve credit for, valid checks on banks in Omaha or elsewhere, even though the drawee bank may have been destroyed by the attack;

That there is an adequate supply of currency which may be drawn from cash agent banks, but that they must conserve it and prevent hoarding - by rationing, if necessary;

That they are to make cash and credit available for essential purposes; and

That their banking operations and number of customers may be greatly expanded as a result of damage elsewhere.

In a word, not only the banks in Broken Bow, Nebraska, but all banks in the United States now have sufficient information to enable them to continue operations in an emergency and to provide the money and credit needed for the support of military, survival, and reconstruction activities.

I have spent most of my time describing what has been accomplished. We are proud of the progress that has been made. However, several things remain to be done before we achieve a satisfactory degree of preparedness.

The federal government has a major unfinished task. It needs to follow through on its announced policy for the equitable sharing of war losses by developing a stand-by operational plan to make that policy effective. Such a plan - needed to maintain the solvency of the economy in the face of war losses - is the keystone of emergency financial planning.

Banking institutions have a major unfinished task. That they have been informed of policies, plans and regulations for the continuity of money and credit is not enough. They need to become more familiar with these documents. The fact that banks representing 65 per cent of total deposits have launched preparedness programs is not enough. They need to complete such programs, and the many banks that have not yet initiated preparedness measures should do so. At best, the program I have described for assuring the continuity of money and credit can be successful only to the extent that surviving banks, large and small and wherever located, are familiar with the program and are prepared to continue operations.

Managers of business and industry also have an obligation. Now that they have been advised of plans for the continuity of the money, credit, and banking system, they must avoid the impulse - in periods of grave international tension - to withdraw and hoard currency. To do so, in spite of the measures outlined, would be a disservice to the nation and might subject them to war losses which could not be readily proved.

In conclusion, let me emphasize that we regard defense planning as a practical way of expressing our determination to survive and to protect our way of life - not because a nuclear attack is inevitable, but because it is possible. Planning of this nature is burdensome and distasteful. Our willingness to undertake it reflects our conviction that the more adequate our preparedness, the less probable is nuclear war, and - if it comes - the less horrendous its consequences for survivors.