

(For release 12:00 noon,  
Central Daylight Time,  
September 24, 1958)

Remarks of J. L. Robertson  
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of the  
Federal Reserve System  
Before the Annual Convention  
of the  
American Bankers Association  
Conrad Hilton Hotel, Chicago, Illinois  
September 24, 1958

## "Money in Peace and War"

I doubt that any speaker before a gathering of the American Bankers Association has ever introduced his remarks by observing that the situation appeared rather pleasant, quiet, and uneventful. Speakers always refer to the current period as "difficult" or "momentous" or "critical". As much as I would like to break this precedent, I cannot, for these are troublesome times: Peace is threatened by events overseas which seem at times beyond the control of any person, nation, or group of nations. Even now the comfort that we derive from what appears to be a prompt and vigorous revival in business activity is marred by our continuing concern over inflationary pressures. Nor does my subject - "Money in Peace and War" - lend itself to light or easy treatment.

Much has been written and said of the role of money in the affairs of men. I am sure that the phrase "familiarity breeds contempt" was never intended to apply to money, but just as a guide who works every day at the Taj Mahal might come to regard it as commonplace, it may be that in your intimate association with the flow of money and credit in our economy you lose sight of the dramatic importance of money to the functioning of our society. It is difficult to find better words to express this essentiality than those employed by Aristotle over 2,000 years ago when he observed that "the use of money was devised as a matter of necessity".

A more recent observer, whose views seem to be particularly apropos because so many of the seemingly bizarre devices his inventive mind created for science fiction now constitute the realities of modern warfare, is H. G. Wells. He said - with not very great exaggeration - 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 men's confidence in the value of money."

The institutions, laws, and economic relationships in the United States have grown up in the framework of a free enterprise system. We know that this system has operated and can operate to produce widespread economic well-being,

to direct resources to productive uses, and to distribute goods and services efficiently and widely among our citizens.

We know from experience that we have in it a hardy, rather than a delicate, system. It has shown an amazing ability to adjust to changes in its environment and to a steadily increasing complexity. While its philosophical roots are based on assumptions of perfect competition and freedom of resource movement, we know from experience that it can absorb many imperfections and still operate tolerably well.

For example, it has survived a vast expansion of the governmental sector of the market, which has now grown to the point where government purchases of goods and services account for 20 per cent of the gross national product. In spite of this, and the fact that a substantial part of the remaining 80 per cent is controlled or influenced by government policies of one sort or another, the system continues to work and to work efficiently. Prices move up and down - reflecting the shifting forces of demand and supply - and the thousands and thousands of individual items which we require for our personal and business existence are generally available, when and where they are needed, at prices which reflect their relative costs.

But if this system of free enterprise is to continue to serve us efficiently in peace and in war, we must not abuse it unduly or place intolerable strains upon it. While it is not rigid or uncompromising and does not demand perfection, there are limits beyond which we must not go if we would maintain it and expect it to continue to operate efficiently.

Clearly we should restrain further growth of the government sector, and reduce it if possible. We must prevent further inroads on the maintenance of competition. Monopolistic practices and monopolistic prices, whether in industry or labor, or among financial institutions, can destroy our economy as effectively as any outside enemy. We must be

alert to the possibility that we have foolishly or inadvertently allowed or even encouraged arrangements to develop which threaten the interplay of competitive forces in a free economy and move promptly to correct any such developments.

Another important condition to our survival as a free nation is the maintenance of a sound, but flexible, monetary system. Again, we are exceedingly fortunate that our free enterprise economy does not require perfection. Not only can individual prices fluctuate, the general price level itself can move upward or downward by substantial margins without disrupting the flow of production and distribution. However, we should not be deceived by this tolerance. The kind of rational, balanced decisions on the part of millions of individual citizens to spend and to save, to borrow and to lend, that are essential to the working of a free enterprise system, are incompatible with wide fluctuations or progressive deterioration in the real value of the monetary unit. We must, therefore, maintain a currency we can all rely upon to buy the product of our economy and to discharge our obligations, now and in the future.

A sound, flexible monetary policy can exert a tremendous counterbalancing influence against the forces which would otherwise cause inflationary and deflationary movements. In periods when widespread expectation of inflation causes reckless spending and borrowing, the effects of monetary policy may be largely frustrated - for a time - by the increasing velocity in the use of money and resultant expansion in purchasing power. But in the end, the steady pressure of monetary policy - making money harder to come by, making it more costly to borrow, making it more precious - can restore confidence in the value of the dollar and cause people to refrain from buying goods they do not need now but feel they might need later on, from speculating in stocks as a hedge against inflation, and from borrowing more than their present means or prospective income warrant.

In periods of recession, of course, we see the other side of the coin: some people are out of work, and many more

are spending as little as possible and potential entrepreneurs are hesitating to go forward with new ideas and plans for fear there may be no market for their products. In such times credit should be made more plentiful and less costly in order to stimulate economic activity, as was the case last winter and early spring. Our recent experience has proved again that the day when you could not "push on a string" has passed.

The instruments of monetary policy available to us and the knowledge and judgment which we are able to bring to bear in using them fall far short of perfection, and we must strive continuously to improve both. As our economy grows and new institutions and institutional relationships develop, we will undoubtedly need to modify and develop both our concepts and the tools we use to cope with peacetime economic instability. While I think we should move deliberately in our search for solutions to new monetary problems, I am equally certain that we must move forward and that we will. With the resources at our command we would have to be incredibly stupid to allow the value of our money to melt away, and I am personally convinced that we are considerably smarter than that.

I have spoken so far of the role of money in peacetime and have expressed my sincere optimism that we can and will maintain our free enterprise system and a sound currency. I would be less than frank with you, however, if I did not reveal my much greater concern about our ability to preserve our way of life, and the money and credit structure on which it is based, in the event of another war. Perhaps some of you, along with a good many of your neighbors, feel that if we had another war money would not make very much difference - what with hydrogen bombs, continent-to-continent missiles, radioactive fallout, et cetera. Undoubtedly that would be true for some of us - but how many of us depends on what we do in advance.

One of my assignments, both as Deputy Comptroller of the Currency and as a Member of the Board of Governors, has been to work with a small group of men in government who are

wrestling with the economic problems that would confront our nation in the event of a nuclear war.

Without divulging any secret information, I should like to give you some idea of the kind of situation which might confront us. Let us assume that the enemy attacks with everything it has and that we have a half-hour's notice - which is about all we can count on, even with the warning devices which are still in the process of construction. This would be time enough for our own military forces to launch appropriate retaliatory action. Our planes with their hydrogen bombs would be in the air and our submarines with their guided missiles would be under the water. These measures would probably be supplemented by intermediate-range missiles from launching sites located elsewhere. There is little doubt that this combination of forces would strike a devastating blow to the enemy. But try as we might, it is doubtful that our interceptors would be able to prevent more than half of the enemy's bombs and missiles from hitting their marks. Of course, some would veer off and miss the strategic cities, factories, and airfields for which they were intended; and the wind, being from a given direction and at a particular velocity, would in some cases carry fallout away from rather than toward the intended target, but it would be just as deadly to the people it enshrouded as it would have been to those for whom it was intended.

While no one can predict the exact pattern that would emerge from a particular attack on a particular day, it is not too difficult to calculate the kind of thing that might happen. Imagine, if you will, on the wall behind me a huge map of the United States. We can assume that, in the upper corner, to your right, bombs have struck in a dozen locations, and what with fallout, the whole of New England is substantially out of the picture. Other bombs struck in Pennsylvania, the District of Columbia, the Carolinas, and Georgia. Still others hit the upper Middle West, destroying much of our industrial development; one landed not far from where we are meeting. While my home town of Broken Bow, Nebraska, escaped unscathed, scores of bombs hit along center

and far western tiers of states. In fact, the coast from Los Angeles to Seattle is left with only a few pockets where normal human activity is possible.

Since we have no shelter program worthy of the name, partly because our civil defense organization has received only apathetic support from a disinterested public, this assumed enemy attack has left with us roughly 40 million dead and another 30 million either injured or sick from radiation exposure. Large geographical areas suffered little or no damage, as you can see, and millions of people are unhurt but frightened to the point of true panic. Hordes of refugees from the edges of the devastated areas are moving into the less damaged islands seeking food and shelter.

It is obvious that the enemy would have been hurt just as badly since our planes, ships, and missiles were under way, and therefore victory - or perhaps more accurately, survival - will go to the nation that can first rise to its knees, then stand up and re-establish itself as a living and fighting power.

Perhaps the picture I have painted is too black, although I have tried to avoid exaggeration - an interview with experts will probably show that I have engaged in understatement. My purpose is not to play the role of an alarmist, but simply to point up the job that has to be done; for no matter how insurmountable the problems may seem at first glance, I am convinced that workable solutions can be found and developed - if we have the will and the courage to think and to act.

What can we do to assure that the surviving Americans - still as numerous as the entire population of this country at the time of the first World War - would have at least an equal chance to be the first on their feet?

Some say that there is nothing that we can do now, that the range of possibilities is so wide and the ensuing chaos would be so overwhelming that no advance thinking or preparation would be of any avail. Certainly the prospect of

nuclear war is frightening and the devastation it might bring would be horrible, but I am convinced that public and private preparedness can make a difference - in fact, the difference between national survival and annihilation.

Others apparently believe the solution will lie in martial law and the immediate imposition of a blanket of direct controls over all economic activity. This is pure nonsense. There is every reason to suppose that the military itself will suffer heavy casualties. It will certainly be in no position to take over all the problems of maintaining order, much less the problems of regulating economic activity. The Federal Government will surely be scattered and the operable fragments will be preoccupied with solving the most basic sorts of policy problems. It is foolish to assume in these circumstances that ration books would be promptly distributed; that the amounts of goods available to be rationed, in all of the various circumstances which would prevail, could be determined at a national level; or that government lending agencies would replace banks in every remaining town and hamlet in the United States.

While the Federal Government would certainly attempt to re-establish itself as rapidly as possible and begin to take measures to husband critical materials and to direct production to the most essential purposes, many areas would be dependent for a long time on their internal resources and it would be up to local authorities to direct the initial reconstruction. They would unquestionably rely upon the banks in the area to provide the money and credit essential to finance their efforts. Money, both cash and deposit money, would be an essential element in the painful struggle for survival.

At first thought it would seem that money would be redundant in these circumstances and that our main problem would be to soak up large amounts of excess cash and deposits which would be competing for the limited supply of available goods and services. This might be the case, and it is a situation with which we must be prepared to cope. On the other hand, there is at least an equal possibility that cash

and deposit money would be too scarce. As you all know, demand deposits make up far and away the bulk of the money supply in the United States. If the banks were closed and people were unable to effect transfers of funds through the check clearing mechanism, this would automatically shrink our effective money supply to a small fraction of its previous volume. An attack such as the one we have just contemplated would bring about technical insolvency on the part of almost all banks in the United States - in the absence of preplanned action. This could have almost as damaging an effect on economic activity in the surviving areas as the bombs themselves created in the areas where they fell. Thus, we must be prepared to do whatever is needed at the time, to restrict the supply of money and credit, or to restore solvency and thus make money and credit more readily available.

A number of things are essential if we are to be so prepared. Banks must be in a position to operate even after suffering serious personnel losses and physical damage. The solvency of the financial structure must be protected and maintained. And a mechanism must be worked out which will permit the customers of banks that are unable to reopen to have access to pre-existing deposits and to new loan facilities at banks that can reopen. If we are to accomplish this, a great many things need to be done by the government as a whole, by the bank supervisory agencies, and by the banks themselves. Some of these things have been done and others are being actively pursued at the present moment.

For example, in our own field - and, of course, the same sort of thing has been done and is being done by other arms of the government - the Federal Reserve Board and each of the Federal Reserve Banks has established and equipped alternate headquarters and maintains duplicates of essential records elsewhere. We have established lines of succession of authority in the event of casualties, prepared instructions for operation, and tested their adequacy in a number of "alerts". Reserve stocks of currency have been built up for emergency use and stockpiled throughout the country.

As just another example, I might mention the huge electronic brain at the government's principal relocation

center. For several years experts have been feeding into this machine information regarding our basic resources, from drugs, chemicals, and metals, to factories, banks, and manpower. By feeding into it information as to the nature and location of an attack, the machine can produce within minutes realistic estimates of the amounts and location of resources still available after the attack.

Some time ago certain defense mobilization responsibilities were assigned to the Federal Reserve Board, among which was "to develop plans, in cooperation with the Department of the Treasury, including the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, to encourage preparedness measures by the commercial banking system designed to assure continuity of operations of the banking system in the event of enemy attack". As a result, two committees were established - composed of active members of your Association. As I hope you are aware, recently these committees sent to all banks five pamphlets describing certain highly desirable preattack preparations. They are now working on a second series of pamphlets which are concerned with the measures and operations which would be called for following an attack.

So noteworthy progress has been made, but much remains to be done. The most urgent thing at the moment is that responsible bank officers ponder the situation of their own bank in the event of a nuclear attack and then consider what measures the bank can reasonably take to safeguard its existence and assure the discharge of its responsibilities to its customers, to its business community, and to the nation. Not all banks will come up with the same answers. The problems of a large institution serving other banks and corporate customers located throughout the country will be different from those of the smaller institution serving only its immediate locality. Appropriate measures for a bank with widespread branches may well differ from those having no branches.

I urge you to consider seriously, as a matter of good business and normal prudence, the steps which you should take

to protect your institution. Obviously you cannot move the center of your operations to a cave hundreds of miles away from the customers you serve from day to day. There are, however, a great many things that you can do, some of which involve little expense and little time or effort but which might make a tremendous difference. You can find many valuable suggestions in the pamphlets which have been issued. This is not only a broad public responsibility, but an immediate and direct responsibility of bank officers to the depositors and stockholders who look to you to take appropriate measures to protect their interests in all eventualities.

One of the reasons most frequently raised for doing nothing is "the cost" of doing anything. I frankly admit that if all goes well, I am counseling "waste"; "waste" like your insurance premiums; "waste" like the defense expenditures which make up most of the federal budget; "waste" in the form of necessary high-premium insurance against the collapse of our civilization.

Certainly we all hope devoutly, that our plans and our expenditures for defense preparedness will be wasted in the sense that we will never use them. They will not be wasted, however, if they serve, as the experts think they will, to deter an enemy attack on this country.

There is another major reason for our reluctance to take up and carry through this thankless task. Most of us work in fields of activity that existed for decades or centuries before we got into them. The machinery ordinarily has been developed through trial and error by our predecessors. No man that ever lived could develop the internal combustion engines that Detroit turns out by the millions every year - the contributions of even a Kettering do not create the whole structure, but simply add a self-starter, or change the design of the engine.

In our own field, no one ever "invented" - or could invent - a banking system that furnishes and channels the lifeblood of a capitalistic economy. In the hundreds of years since European goldsmiths began to lend out some of the wealth deposited with them for safekeeping, hundreds of

features of the modern banking system have been added and refined through the efforts of intelligent, trained, ingenious and daring men. We regard the introduction of term loans, or electronic bookkeeping, or drive-in banking as considerable steps forward - as they are. But viewed as parts of the banking structure, even these developments are no more than refinements of detail that improve the operation of an enormous and smoothly functioning apparatus.

Preparation for rehabilitating the banking system after a nuclear attack on our country is a very different matter. We have to work without the benefit of laboratory experiments that would disclose the "bugs" to be eliminated in the next model. We cannot effectively conduct pilot operations on a small scale. The task is enormous almost beyond calculation, and we must prepare for it theoretically - by a process of deductive reasoning, the validity of which cannot be determined until (heaven forbid!) it has to be applied "for real".

For most of us, it is not easy or pleasant to grapple with a task of this character and magnitude. Before they begin such a job, men fear that they can foresee only a fraction of the needs and problems - that the blueprint they devise will not produce a machine that will meet the needs that will actually confront us. In such circumstances, unless we think through all the implications, it may appear that the job is not worth doing - particularly because we all hope that we will never need the machine. But the existence of a blueprint for a machine that is sound in principle, and the existence of cylinders, a power shaft, and a lubricating system, may very well make the difference between the ability to get some sort of machine going within a reasonable time and never having any machine at all.

So we must never lose sight of the fact that - if we do need an all-out emergency plan for the banking system - whatever intelligent, conscientious planning we have done will pay off a thousandfold, despite the inevitable defects. If the plans we make now - while there is time - should enable us to reconstruct a banking system that could perform at even

a fraction of our present capacity and efficiency, that could make the difference, on that dreadful day, between the survival of western civilization or its destruction.

I think you have already inferred that I regard the job of planning for a banking system that could be reconstructed among the ruins of nuclear bombing as second to none in our planning for the continued existence of a free society on this planet. Like you, I find the job distasteful, frustrating, and complex - but not insurmountable. It is with real regret that I give you my opinion that American banking has not, to date, set its shoulder to the wheel in a real concerted effort to get this job under way. As bankers, you have a large portion of the responsibility for seeing that we have the necessary machinery to assure sound money in all circumstances. This is not just a "fair weather" responsibility, to be shifted to the government in time of trouble. The American people look to you for protection and for leadership - both in peace and in war. This is a role you can not, you must not, you dare not decline.