WAR FINANCE

3 January 1951

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Publication No. L51-78

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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CAPTAIN MILLER: When I first began my naval career, and I think this applies to the majority in this room, it was during an era of balanced budgets, disarmament conferences, the Locarno Pact, peace, and prosperity. On the other hand, when our speaker this morning entered the naval service, it was during World War I. He experienced that tremendous expansion of national debt when, as you know, we first heard about the factor of 10 to 1. The debt went from 2.9 billion to over 25 billion dollars. With his intellectual curiosity, he was determined to find out where all this money came from to finance a war. Well, he found out and this morning he is going to tell us exactly how to do it. It is a pleasure to welcome back to the platform Raymond Rodgers, Professor of Banking in the Graduate School of Business Administration, New York University.

MR. RODGERS: Gentlemen, it is a pleasure to be here at the Industrial College. I must say I am a little handicapped this morning because, despite everything I could do, Dr. Thomas of the Federal Reserve Board has been invited to come here! Dr. Thomas knows so much more about this than I ever will know that it kind of puts me under wraps. After telling you that, however, I will do my best, and if he should get troublesome, will you help me?

The first thing I want to say, gentlemen, is that this is going to be quite freehanded. Ordinarily when I talk to such an important group as this, I write everything down. I am not going to do it today because I found, in my previous experience in talking to you men who have this highly important military task, that it is better to be a little informal. So this is going to be a lecture, the like of which you have never heard before and possibly will never want to hear again! It is going to be freehanded and it is going to be largely original, whatever that may mean.

Nature of Banking

There is a great deal of misunderstanding about the whole field of banking. There is a lot of misunderstanding about finance. Some of this has been sedulously cultivated by the bankers themselves. For example, take the idea that a bank is an institution where people known as depositors leave money which the bankers in turn lend to other people known as borrowers. The bankers thought that description a pretty safe way to explain banking, and down through the years they have taken that position. You will find that some of the greatest bankers of all time start articles and books on banking with that sort of explanation.

Now, gentlemen, forget it. Right off the bat, a bank is not a money institution; a bank is a credit institution. Money is entirely incidental! As a matter of fact, in a commercial bank money may be as little as 2 or 3 percent of its total assets. I used to work in a Wall Street bank and you may be surprised to learn that this very large bank sometimes got down to where there were less in it than I have in my own pocket today--and that is certainly getting awfully low--because the Federal Reserve bank was right across the street. That bank could quickly send a man across the street when it needed money.

The typical bank, gentlemen, has 2 percent or maybe even less of its assets in the form of what you and I know as cash. Now that is covered up, of course, and I am speaking within the walls of the lodge by use of the term "cash and due from banks." The assets are almost entirely "due from banks;" They are not cash! The banks have very little cash. You must first understand that what we are talking about here is a vast bookkeeping mechamism. As the Scotchman said, "Who mentioned cash?"

Modern Banking Makes War Finance Easy

In the field with which we are concerned this morning, war finance, it is traditional and fashionable for the speaker to start by telling his audience that what he is going to talk about is terribly important, that it is the most important thing in the world, therefore, listen very carefully! That is not the case with me; I am not going to kid you. Financing war in a country with an ultramodern banking system such as we have in America is a relatively easy matter. I don't mean that we should kick it around; but I do mean that we can do many things with it. So, this is by no means the most important lecture that you will hear.

What I am going to do this morning is to try to put over two or three ideas about the marvels of this banking system. If I can get you to understand that we are able to supply our "music" as we go along, then I think our efforts will be very much worth while. In explaining this, I am going to be awfully simple. And when I say "awfully simple," that doesn't mean it is going to be easy to understand. In fact, the simple things are often the most difficult things in life to understand.

Creation of Bank Credit

What I want to give you first is how bank credit, that is "deposit money," is brought into existence. I am going to oversimplify it. There is a lot more to it than I shall expound. If what I am going to put on the board here were all there is to banking, you wouldn't need the Federal Reserve Board; you wouldn't need Dr. Thomas and his large staff of experts.

Now, when you go to the bank and borrow, you say you borrow money. Actually you don't borrow money. You may think that you do. You go to the bank and sign a piece of paper called a note. That is an asset for the bank. I take it that all you gentlemen know about double-entry bookkeeping. A banker puts that note on his balance sheet. He puts it on the balance sheet in this fashion--loans and discounts--and just to keep you awake--we will make it a million dollars! (It's a happy idea anyway!) There it is--loans and discounts, one million dollars. Now what is the other entry? A credit to the deposit account of the borrower, one million dollars. Here are the entries.

Banks of the United States

Assets	Liabilities
Loans and discounts For example--$1,000,000	Deposits (of borrower) For example--$1,000,000

What has happened here? Some bookkeeping? No one has taken anything out, no one has put anything in, and no one has done without anything. There hasn't been any more paper money printed, any more folding money. We have, however, created some "bank money," some "deposit money," which can be used from now on!

Of course, before the banker can expand credit like this, there are certain prerequisites. The banks must have a reserve over at the Federal Reserve Bank if they are members of the system, or they must have a reserve some place else if they are not members. They also must have some earnest money--some real cash in the teller's cage, and so forth. They must have something to "sit in the game!" But all that is incidental at the moment.

What we want to understand now is, that you go to the bank and borrow a million dollars and what you get is a bookkeeping entry. You can then draw checks on this deposit account entry. That is better than if they gave you the million dollars in actual money--far better. Why is it? Well, if you told the banker, "I will take a million paper dollars," he would call the paddy wagon because it would be dangerous for you to walk around with it in your pocket. Actually he wouldn't lend it to you if you were going to take that kind of money. Why wouldn't he? Because those are the blue chips in the game. You know if you take the blue chips, there is no game!

What the banker has agreed to do is to credit your account and to do something about those little chits of paper you are going to sign, paper known as checks. What does he do about it? Well, when they come in, he charges them against your account, and he can do that very freely as you see, this is "Banks of the United States;" that is all the banks. Therefore, the banker can charge the checks against your account very freely because he is going to credit somebody else's account--no money, just bookkeeping!

So far as all the banks of the United States are concerned, what do we have? We continue in balance. You know, in double-entry bookkeeping you have to be in balance or somebody goes to jail! So you are still in balance. And what happens then? Well, you have a sort of rat race here from account to account, but there is one thing you can be certain of, so long as this is over here (pointing to the asset, loans and discounts), this will be over here (pointing to the liability, deposits). It is button, button, you don't know who has the button, but you know it is there somewhere; it is in circulation.

This explanation is much too simple for this audience, but if you will get this idea--forget about money, forget about cash--and understand that purchasing power has been created and that it is good purchasing power, you will have come a long way in understanding the process. As a matter of fact, you would just as soon have a check on the Riggs National Bank or the American Trust Company as you would the money, wouldn't you.

So, it is not currency, it is the "bank money" that we want to keep our eye on. We want to keep our eye, not on the 1 or 2 percent of cash, but on the 98 percent of credit. It works out very nicely at the moment to remember this. At the moment we have about 98 billion dollars of demand deposits; and as I said, they circulate from account to account. But again, the one thing you should realize above all things is that so long as the asset is on this side of the combined balance sheets of the banks, the liability has to be over here on the other side.

Bank Credit Expansion for War

Now let us take the next situation; the one in which you have a great interest. Along comes a war. We want to finance the war. How do we go about it? Exactly the same way. Back in World War I--during my own time--as an emergency proposition an account was opened on the books of the banks "War Loan Account, Treasurer of the United States." It has been changed now--very appropriately, too--the word "tax" has been added to it! The word "Treasurer" has been taken off, but we are going to use the old term here. So we will erase this deposit account and put on "War Loan Account, Treasurer of the United States," in place of the original account.

Now under this War Loan account arrangement, banks are authorized to subscribe to securities by means of crediting that account. Of course, banks can buy securities for cash; they can swap cash for securities. The Republicans have been saying for years that the Democrats wait at the back door of the bank and, when a man puts a dollar in the front door, they take it out the back door! Gentlemen, I assure you, there's not a word of truth in it! The Democrats have a much better system than that. They don't have to wait at the back door. If anybody puts a "buck" in the front door, they take out five or six through sale of the public debt to the banks; and, mind you, the banker comes and gives it to them gladly. As Dr. Thomas can testify, the Federal Reserve Authorities have to wield a "big stick" to keep the banks from giving the Treasury too much, because this credit expansion we are talking about is a very neat thing. So, let us get at it.

Now, let us assume that the planning experts of the armed forces decide that they are going to need 10 billion dollars worth of equipment and war materiel. The banks will get a letter from the Federal Reserve banks as fiscal agents for the Government, announcing that there is going to be a new offering of securities; and would the banks like to subscribe? They would like to! There is no question about it! (So would you, if you could make an entry in a book and get interest on it. You would have a big book, I know that.) As a matter of fact, the banks are so eager to subscribe that restrictions are always put on the offering. They provide that the banker can subscribe to a certain percentage of his total deposits, or a certain percentage of his capital, or a certain percentage of his time deposits. They have to put some limitation on the amount or the "boys" will "balloon" (inflate) their subscriptions.

As soon as the Federal Reserve banks get these subscriptions in, **they** notify each bank, on behalf of the Treasury, of the amount it has been allotted. This notification is authorization for the banks to make entries as shown below (using the old title of the account):

<u>Banking System</u>

Government securities	War loan account, Treasurer of U. S.
For example—$10,000,000,000	For example—$10,000,000,000

So far nothing has really happened; we have just made an entry. The next thing I am going to explain is not an integral part of the expansion process. I am explaining it only because I don't want to be picked up by the experts here this morning. For auditing and other reasons, the Treasury pays its bills by drawing drafts on itself and making them payable at the Federal Reserve banks. They don't draw checks on the banks—it hasn't for a long time—it transfers this money to the Federal Reserve banks by means of transfer orders. You will see in the newspapers now and then that the Class B War Loan accounts, for example, have had a call ordering them to transfer 10 percent or 5 percent to the Federal, as of a specified date. Well, that means they are transferring out of this kitty (pointing to the War Loan account) over to the Treasury account at the Federal Reserve banks. Disbursing officers then draw checks on the Treasury account and those checks are given to you gentlemen and to your suppliers. Those checks are cleared and eventually are credits to the deposit account of John Q. Public.

The point is that the expenditure goes via the Federal as it is the Government's fiscal agent; but eventually it comes back here; it has to come back here. Otherwise, this wouldn't balance. So, as I said, all this purchasing power is transferred through the Federal Reserve banks and ultimately comes back as a credit to the demand deposit accounts of the general public.

What, then, do you have when this money is spent? Here is the heart of what I am trying to say this morning. The public has 10 billion dollars in deposits that they would not have had if the banks had not bought that 10 billion dollars worth of bonds! It is as simple as that.

The implications of this, however, are really enormous. In ancient times if you wanted to have a war, you had to build up a war chest. In World War I the German Government had accumulated a war chest of approximately four billion dollars--real wealth, real value. Nowadays you don't have to do that. Of course, it doesn't hurt if you have it; don't misunderstand me--I don't want to oversell you on this thing! But the fact is, as you saw a moment ago, when the armed forces spend 10 billion dollars, instead of the public having less to spend, the public has more. You have heard the old saying, "You can't have your cake and eat it, too." Well, there it is! It may give you indigestion when you eat it, but there it is!

How about the idea that there is just so much credit and that when some get it, others must do without? In any economic field when anyone begins to insist that there is just so much quantity and no more--I don't care if it is quantity of money, quantity of labor, or quantity of wages--when anyone says we are a slave to quantity in a dynamic economy, I begin to get a little worried; I begin to get a little fretted because there is not just so much of this money. As you can see, if 10 billion dollars goes to the Government via the Treasury accounts at the Federal Reserve banks that does not mean there isn't 10 billion dollars for everybody else. It doesn't mean that at all. In fact, it means just the opposite!

In this illustration, the armed forces have spent 10 billion dollars for goods which have probably been destroyed or used up. Yet, after the armed forces have taken 10 billion dollars worth of goods out of the economy, the American people have 10 billion dollars of purchasing power here with which they can continue to take goods out of the economy. How long? As long as the bonds are over on the asset side and that may be an awfully long time.

Actually, this increase in the means of payment is a more serious thing than the total indicates because it is spent over and over again. Take this 10 billion here (indicating), at the moment the turnover is—and I am making a very rough average—in round figures about 25 times a year. (It is higher for New York and lower for the rest of the country, but over-all we turn demand deposits over about 25 times a year.) What do we have then? This 10 billion here will add how much to the income stream, spending stream, expenditure stream? If it turns over 25 times, the sum of 250 billion dollars a year is being spent. By the armed forces? No, by John Q. Public. But there aren't any more goods! And, that, gentlemen, is the picture of bank credit expansion through the purchase of government securities by means of War Loan accounts.

Another issue comes out, and they do it again; and, over and over again.

The Present Situation

This type of war financing continued until at the end of World War II, we had about 65 billion dollars of government bonds held by banks, ascribable largely to War Loan account operations, although, of course, a few were bought for cash. The point I am trying to make is that you have a setup like this at the moment: 65 billion dollars of bonds held as assets by the banks and, on the other side, 65 billion dollars of deposit liabilities. This 65 billion dollars of deposits is bank "money." It is just as good as any money that has ever been minted or printed so long as we have confidence in it, and we do have confidence in it despite what some people may tell you.

We could go on for hours on the implications of this, and what it does to the economy and all that sort of thing, but if you will just understand here that we make this purchasing power as we go, I'll be satisfied.

How Far Can Expansion Go?

Harper's has an article this month by Colin Clark in which he holds that total taxation in excess of 25 percent will cause the economy to break down, and so forth, and he gives lots of arguments. I don't agree with him. Don't misunderstand me; I don't like 25 percent taxes! I don't like any taxes—I am a mountaineer! I don't even believe in taxes, but that is not helping me any! We have to live in the world as it is! So how much of this can be done? How far can this debt go?

In other words, this is so easy, this is such a convenient system, why stop? The economy didn't "take off" when we reached a public debt of 55 billion dollars as President Roosevelt's old professor warned in the thirties. We are past 257 billion dollars at the moment; (it was even higher right after the end of World War II); but we didn't "take off" at 257 billion. If you can go from 55 to 257 billion dollars, and get away with it, why not go to 500 billion and everybody will have plenty? After all, from 55 billion to 257 billion, that is a several-hundred-percent increase, in fact, almost five times, whereas from 257 billion to 500 billion is only approximately double! So, why can't we do it?

Well, I would be the last man in the world to tell you that we can't do it. I would hate to see it, but I will assure you, here and now, supported by the patriotic fervor of all-out war, we could pass 500 billion so fast we wouldn't have time to say, "How do you do?" I wouldn't like it, but let us not kid ourselves as to how much the economy can bear.

As you can see, I am one of the freehanded boys. I don't think we can know what we can stand until afterward. Nonetheless, I don't like to strain the economy any more than we have to. I don't believe in using a dangerous thing any more than we have to. We have a marvelous tool here, a powerful helper, but it is equally powerful for ill, if improperly used. It follows that we must do everything possible to avoid overtaxing it because if it ever once blows, it is blown for good! So, we have to learn to live with it. And, I must say, we have done a good job so far.

At long last, you can see why I told you at the very beginning not to worry too much about the financing element. Of course, you should understand that there are limitations; in fact, somewhere there is an over-all limit. But in plain English, your chief interest in "War Finance" is as individuals. In other words, gentlemen, whenever you spend money—you men here are going to spend most of these billions—part of your "hide" is riding with every dollar! In short, it is not the war effort that is going to blow sky high; you are the fellows that are going to do the economic suffering. When you sign a voucher or a requisition, send along a little prayer because you gentlemen eventually will either live on annuities or private savings and investment, and, in either event, you have a direct personal interest in keeping the economy from "taking off." And, as I said before, you don't know when it is going to "take off" until after it happens—then it's too late! But one thing you do know, whenever you expand the means of payment in this fashion, you have an ultimate, if not immediate, attrition of the dollar.

You can't escape this decrease in the value of the dollar. True, you may partially offset it by increased production, but the major part of the increased purchasing power is permanently on the books of the banks as a practical matter. You have this 65 billion dollars more in the banks, a huge volume of the means of payment which is used from 15 to 50 times each year (depending on the stage of the business cycle and so forth), but there have been no commensurate goods created against which this great purchasing power total can be expended.

As you can easily see, you have pressing personal interest in the way war is financed. The Government will get by; don't worry about that. The economy will get by. The question is, will we, you and I, get by? That is the real problem. My advice to you is, don't ever forget that you have a personal interest, as well as an official interest, in keeping the credit expansion method of war financing at the lowest possible level, subject, always, to the necessity of winning the war--nothing is more important than that!

QUESTION: I wonder if you would like to comment some on the possible shutting off of some of this tremendous credit by the requirements of a certain percentage of reserve against government deposits?

MR. RODGERS: Reserves now required of the banks, with the exception of the Central City banks, are at the maximum, so the law would have to be changed. Obviously, if the Congress wanted to throw sand into the machinery, it could raise the requirements all along the line, even as high as one for one. Mr. Eccles, Vice-Chairman of the Federal Reserve Board, as a matter of fact, has a proposal for taking some of the joy out of future credit expansion; and, of course, there are many other ways it could be done.

We now have a situation for the whole country in which the multiplier is about five for one, maybe a little less or a little more, but say five for one. What does that mean? It means that when a banker has 20 cents over at the Federal, he can lend a dollar. How can he lend a dollar? Because he has to keep only a reserve against his deposits. And how does he get the deposits, you say? Through loans and investments as explained earlier. Although the reserves are required against deposits, the trouble starts on the other side of the balance sheet. So, keep your eye on developments in loans and investments because they give birth to the deposits.

Now if the reserve requirements are changed, obviously you reduce your multiplier. That is all; just as simple as that. But again, under present conditions it doesn't mean much so long as you have anything less than 100 percent reserve requirements. I will tell you why.

Suppose the multiplier were changed so that you had only a two for one expansion. Suppose you wanted to lend 10 billion dollars at the moment. On your five-for-one basis you would have to send over 2 billion dollars to the Federal Reserve bank for your reserve account. Right? Under the new deal you would have had to send over 5 billion dollars. Have we got it? Let us not kid ourselves, gentlemen. Since the Federal Reserve System was founded in 1913 the banks have been able to create their reserves, as needed, by borrowing at the Federal Reserve bank or by selling securities to it. This has been possible because we have, fortuitously, to be sure, had plenty of gold to support our credit structure. This all means that ever since the Federal Reserve System was founded in 1913, we have had the ability to "go to town" on inflation at any **time.** It has been the good sense of the American people, including the bankers and the money managers, that has prevented us from really "going to town." We have had the ability to have inflation because our banks can borrow their reserves!

What is there today about the Federal Reserve System that makes such expansion possible, even if it should want to prevent it? Back in the days when the Federal Reserve didn't have the responsibility for supporting the government bond market, it could always raise the discount rate and it really did on occasion. The Federal Reserve even used a progressive discount rate at one time. After World War I, the Federal Reserve got it up past 60 percent; in fact, the last dollar borrowed was approximately 64 percent, down at the Atlanta Federal Reserve Bank. Beyond question, the Federal Reserve could take the joy out of credit expansion by boosting the discount rate now if it didn't have the responsibility of maintaining "stability" in the government bond market.

To come back, in the olden days banks could borrow their reserves; they still can. In the olden days the Federal Reserve authorities could take the joy out of borrowing by raising the interest rate and could make it "stick" by refusing to buy securities. In those days, it did not have to buy governments; but, not any more! All a member bank has to do nowadays to get reserves is to sell governments to the Federal Reserve banks—and remember, they have some 65 billion dollars of government bonds, which can be converted into reserves!

QUESTION: Sir, this process that you described seems to be a very neat trick of sleight of hand. I wonder if you could tell us any difference, so far as end results are concerned, between borrowing through the banks and just printing money to be distributed to John Q. Public? After all, money is a form of government security, too.

Your question, as to what is the difference between the credit expansion process and the actual printing of paper money, is a very practical one because there is a lot of talk now going around, especially about the "E" bonds.

As you know, something has to be done about the "E" bonds. At the time they were issued 2.9 percent was a very attractive rate. That 2.9 percent was for real savings--not for bookkeeping. At the time that rate was established, savings banks rates were from 1 to 1.5 percent, and the alternatives were around similar levels. But now savings banks rates are 2 percent and savings and loan associations offer up to 3.5 percent. So, something has to be done about the "E" bonds. There is no question about it. This is a problem the Treasury has to face.

Some insurance salesmen are running around selling insurance and some of the boys in the investment trust business are selling securities on the basis of what is happening to the purchasing power of the "E" bonds. But remember, whatever happens to the purchasing power of the "E" bonds happens to savings deposits, demand deposits, life insurance and everything else.

To address myself more specifically to your question, sale of bonds to the banks increases deposits, that is, "bank money." Issuing paper money also increases the means of payments. So, what is the difference? Well, printing money is very crude; it is very obvious. It is the direct, meat-ax way of doing it. Everybody knows about it; moreover, the Government is afraid of it and its consequences. On the other hand, credit expansion is a little hard to understand. After my explanation, I think you will all agree that this credit expansion deal "has been difficult for the college"! Certainly, it's not very obvious. Also thanks to deposit insurance and many other things people have more confidence in it. It follows that bank credit expansion does not have as immediate or direct effect on prices--in short, dollar for dollar, it is not so inflationary.

Last month, I attended a meeting of bankers out in Seattle. Several Canadian bankers were present and after a couple of highballs they took me apart on the basis of how much better they had financed their war than we had. And, it's true, they did finance more of World War II by taxes; they did a better all-round job in their financing than we did in America. From 1 July 1941 to 1 July 1945 the U. S. Government paid out 317 billion dollars. Of this great amount, the sum of only 126 billion dollars was raised through taxes. We should have raised more by taxes--the wartime mushrooming of dog tracks, black markets, and so forth, proved that many a dollar was overlooked by the tax collectors. The Canadians largely avoided these difficulties; we have to admit it. Nonetheless, we didn't do too badly, everything considered!

May I summarize: Issuing paper money is crude. It is obvious. It is what people expect. It is what they keep their eye on, and all that sort of thing. On the other hand, bank credit expansion is the smart, modern, high-powered, easy way of doing it.

QUESTION: Mr. Rodgers, my question relates to a trend that may or may not be a trend, but during the civil war, I understand, the public debt increased by a ratio of 20 to 1--the figure may be wrong--World War I, 10 to 1; World War II, 5 to 1. Is that a trend that has any significance?

MR. RODGERS: I don't know whether you have in mind relating the ratio of increase to the national income or what you think ought to be used as a measuring device. First, I would want to know what kind of dollars they were at both ends of the ratio. The national debt of 257 billion dollars has no significance whatsoever unless you relate to it the value of the unit. In other words, 257 billion in ten-cent dollars is an awfully little debt. You have to look at its purchasing power. You have to relate it to the economy. You have to relate it to many things. That is the whole burden of my talk this morning. We have a dynamic economy. We have a dynamic banking system. If you just take quantity and look at it, it can scare you terribly. For example, take such questions as how are you going to pay off 257 billion dollars, and so on.

Parenthetically, may I say, I don't think we have to pay off the national debt, at all. But in saying that, I don't want you to associate me with those fellows, like Hansen, at Harvard who say we don't have to pay it because we owe it to ourselves. I don't go along with that school of thought at all. In my book, a debt is a debt, and it is always a headache. But, on the other hand, we have to be practical and realistic about the public debt. We have it and we must live with it. Paying it off is greatly to be desired, but if we don't pay it off, we must do the next best thing, that is, live with it--peaceably if possible!

QUESTION: Isn't there a danger in such a spending tide developing that once you start, you can't stop it, that private savings and things are just out the window, and a person would be foolish to save?

MR. RODGERS: Of course, there is no question about it, it is dangerous. Life is dangerous. Isn't there danger in everything? I am not recommending this credit expansion method of financing war. (Taxation is an infinitely better method but you can't tax heavily enough to do it in a democracy!) I am explaining it. You understand, it is not my baby. Surely, there is danger. Similarly, as you gentlemen know, there is danger in dealing with high explosives, but you have learned to live with them. Of course credit expansion is dangerous. All history shows it is liable to be a one-way road.

But, on the other side of the scales, we must recognize that America has such fantastic production ability and our people have shown, down through the years, such amazing common sense (let me repeat, any time since 1913 we could have had wild inflation) that credit expansion is safer in this country than anywhere else in the world. I am so optimistic chiefly because we have such a marvelous production system, as you well know. And, production is the answer to the dangers of credit expansion. For example, even if we do expand our purchasing power 10 for 1, if we also expand production by the same ratio, or if we can get people to save proportionately, if we can get them to slow up proportionately their deposit turnover, runaway prices can be avoided.

Along these lines, let us see what history shows us. During the thirties, for example, the whole effort of our Federal administration was to do what? To get people to go from dollars to goods. Every effort was made to reduce the value of the dollar, which is to say, to put prices up. Everything was done in that direction—to start a flight from the dollar into commodities. Among other things, the gold value of the dollar, the actual gold content was reduced. Then the very same "experts" who said if you take half the gold out, the value will drop and prices will double—the very same boys advised, "Take all the gold out," and they took all the gold out. If taking half the gold out would make the dollar half as valuable and cause prices to double, if you took all of it out, where would prices go? But prices didn't go to infinity. They didn't because of the great confidence our people have in the American dollar.

Suppose you had stopped a man in the street in 1934 and said, "Brother, do you know what the Washington experts did? They took the gold out of the dollar; you have been ruined." He would have called a cop and said, "Take him to the psychiatric ward and lock him up." The value of a monetary unit in some respects is like a fight—if you don't know you are licked, you aren't licked. If you don't know you are ruined, you aren't ruined. And I am not admitting for one minute that we are ruined. The antidote to all credit expansion is goods and services, more goods and services, and still more goods and services; that is exactly what this wonderful capitalistic economy of ours has given so acceleratingly down through the years.

Further evidence of the faith of our people in the American dollar is the fact that all during the thirties, we engaged in pump priming and yet, every time they put another billion or two into the pump to prime it, what did John Q. Public do? He just slowed up his spending, slowed up reaching for his checkbook. In this fashion, turnover was reduced faster by the public than the quantity was increased by the authorities. The Administration did everything it could to cheapen the dollar (increased prices), yet, to the American people, it was still that old reliable dollar.

To bring this up to the present, I think that unless we have total war or unless politics intervenes, we have seen the end, <u>for a while</u>, of sharply increasing prices. In other words, if left alone, the money managers can control money rates; they can largely control the rate of borrowing; and, they can powerfully affect the psychology of our people vis-a-vis spending and saving.

Of course, in the last analysis, it is whether or not Joe Blow reaches for his checkbook that tells the tale. In other words, to completely manage a money you must have the power that Hitler had, and even he had his troubles! Every now and then you have to be able to "shoot" a few people that get out of hand. But, short of such extreme measures, much can be done and will be done if pressure groups permit.

COLONEL HARDENBERGH: Mr. Rodgers, on behalf of the Commandant, the students, and the faculty, I thank you for a most informative lecture.

(22 March 1951—300)S.