# THE ROLE OF THE TREASURY IN WAR FINANCE

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Honorable John Wesley Snyder, Secretary of the Treasury, was born in Jonesboro, Arkansas, 21 June 1896. He attended Vanderbilt University until shortly before entering the Army in May 1917. He received honorary degrees of LL.D. from Quachita College, George Washington University, and the University of Arkansas. He attended Officers' Training School and was commissioned a second lieutenant in the Field Artillery. He served with distinction in France and was discharged as a captain. After ten years in commercial banking, he entered the Federal service, aiding in liquidation of insolvent banks. Upon completion of the major part of the program of the Defense Plant Corporation, which he assisted in organizing, Mr. Snyder was awarded the Medal of Merit in 1947 for exceptionally meritorious conduct. Following the termination of World War II, he was engaged in helping business to meet the financial demands of reconversion. For almost a year prior to his present appointment, he served as director of the Office of War Mobilization and Reconversion. Since 25 June 1946 he has been Secretary of the Treasury. In addition to his duties as Secretary of the Treasury, Mr. Snyder acts as Chairman of the National Advisory Council on International Monetary and Financial Problems, is the U. S. Governor for the International Monetary Fund, and the U. S. Governor for the International Bank for Reconstruction and Development. He is a member of the Advisory Board of the Export-Import Bank of Washington and serves as a member on a variety of boards dealing with national and international financial activities.

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GENERAL HOLMAN: This morning we are highly honored to have with us the Honorable John W. Snyder. This is the third consecutive year we have been privileged to hear Mr. Snyder's views on the "Role of the Treasury in War Finance."

Mr. Secretary, permit me to assure you of our keen interest in this important subject and to express our appreciation for your interest in the work we are doing here.

For both the National War College and the Industrial College of the Armed Forces, I extend to you a hearty welcome to the two colleges. Mr. Snyder.

SECRETARY SNYDER: General and gentlemen: This is an annual privilege of mine. I have had the pleasure, as the General just said, to have been here on two previous occasions. I have also been privileged to go out to Leavenworth and up to Carlisle more recently. As I said to your predecessors, it has been, I think, one of the most stimulating experiences that it has been my privilege to have.

When we first started these visitations, we were working on theory largely; today we are facing cold realities. I have a formula of longevity that I always give these groups, because I know the tenseness under which you are working and the strains that are necessarily a part of this type of study. I think this will help you a little if you apply it.

There was an old colored woman who lived to be 100 years old down in Atlanta, Georgia. The Constitution, Journal, and other papers heard about her, so they sent feature writers out to interview the old lady and get her human-interest story. One said, "Mammy, we hear you are 100." She answered, "Yes, sir, I'se a hundred." He said, "Now, tell us, mammy, what made you grow that number of years when most of us drop off after sixty." She replied, "I rightly can't tell you, but you notice I sits loose, and when I starts to worry, I drops off to sleep."

As I said a moment ago, the occasions of my visits here in the past have been most stimulating to me in more than one way. The interchange of views and ideas which characterizes your programs could not but be helpful to a government official concerned with the same ultimate

ends as those with which these schools are concerned--the preservation of a peaceful and prosperous world.

I need not remind you that the destiny of a nation is not always decided on the battlefield, nor even in the sometimes equally hazardous and difficult paths of diplomacy. In any national emergency much depends upon our work in the factories and in the fields, and the keystone of our production and economic effectiveness is the financial stability of our country.

In the present crisis which confronts us, with Soviet imperialism threatening the structure of world peace, it is imperative that we have unified action on all fronts. All our power--moral, military, and economic--must be joined in the great cause to which we and our allies are dedicated, that is freedom with peace and justice.

And let there be no mistake about it--we want real peace in this world. To seek this we set up a forum in which men might work out their differences and arrange for solutions of common problems. We tried very earnestly to win an honorable peace across the council table, but the Russians have tried to make a mockery of the vital work and procedure of the United Nations. While we have tried to restore economic and financial stability to nations suffering from the ravages of war, the Soviet Union has sought to dissipate the efforts of our unprecedented and successful aid to free nations and are now trying to destroy the fruits of our aid with the blight of urgent and costly need for self-defense.

As the economic and financial stability of our friends and allies in western Europe became more certain, Soviet imperialism became bolder and laid down a barrage of direct and indirect assaults on the free world. While we are at this very moment hoping for an end of fighting in Korea, we must not let the truce negotiations blind us to the fact that the armed aggression of Korea was but one spearhead in the Communist drive against the security of the free world. We cannot afford to overlook the obvious possibility that the reason for the enemy's willingness to discuss peace in Korea may be the hope that we will be lulled into complacency and will relax our defense mobilization effort. We must face the reality that the forces of Red imperialism will be poised to strike wherever and whenever weakness appears.

This does not mean, however, that we have abandoned hope that the ultimate road to peace can be found through honorable means--a just disarmament plan. On the contrary, we are still endeavoring to work out such a solution through the United Nations organization. But it does mean that until the time comes when Russia is willing to back up its protestations of peace with deeds and not by mere words--until the time when Russia is willing to lay its cards on

the table along with those of other nations and keep them there--we cannot afford for one minute to lower our defense guards. So long as the Communist menace to peace and order throughout the world exists, we and our allies must continue to build up and maintain a defense strength of overwhelming superiority.

Determined efforts and concentrated energy are needed to secure this goal. And in all of our defense planning, it has become increasingly evident that the potency of the free world's strength depends in large measure upon the stability and productivity of our own domestic economy.

This was made even clearer to me at the North Atlantic Council meetings in Rome from which I returned only last week. These were, as you are aware, meetings of the twelve North Atlantic countries which have banded together against the threat of Communist attack. The fact that the finance ministers met there together with the foreign and defense ministers underlined the vital necessity of a sound financial base for our foreign policy and our mutual defense effort. As the discussions proceeded, I was impressed anew with the special necessity for safeguarding the economic stability of the United States economy, upon which, in the last analysis, depends to a great extent the ability of this alliance to meet the attack of communism when and if it should materialize.

From the earliest days of our country, the Secretary of the Treasury has been charged by law with important responsibilities affecting almost every sector of our economic life. The first and basic policy directive laid upon the Secretary of the Treasury in the original act creating the Department in 1789 was to "prepare plans for the improvement and management of the revenue, and for the support of the public credit."

Ever since that time, maintenance of confidence in the credit of the United States has been the number one objective of the Treasury. Every Secretary of the Treasury has recognized that, in peace or war, any substantial impairment of the credit of the Federal Government would be a major blow to the maintenance of high-level production and employment and to the orderly operation of our private enterprise system. Every effort has been directed, therefore, toward maintaining confidence in the Government's credit.

In the broadest sense, safeguarding the credit of the Government depends on our ability as a nation to keep our free enterprise economy healthy and growing and to use our governmental instruments wisely in promoting this end. In the financial area alone, however, maintenance of confidence in the credit of the Government requires action on many fronts. With respect to our domestic policies, it requires sound

revenue and expenditure programs operating within the framework of a Federal budget policy which is appropriate to economic conditions. It requires continuing attention to greater efficiency and lower costs of governmental operations. It requires a debt management policy which acts to counter any pronounced inflationary or deflationary pressures; which provides securities which meet the current needs of various groups for investment outlets; and which succeeds in maintaining an orderly situation in the public market for United States Government securities. It requires the use of debt policy cooperatively with monetary-credit policy to contribute toward sound economic growth and reasonable stability in the value of the dollar. It requires the conduct of day-to-day financial operations of the Treasury in a manner most conducive to the maintenance of sound conditions in the Government's financial markets. It requires keeping down the interest cost of the public debt, to the extent that this is consistent with other policy objectives. And, finally, in matters which reach out into the international area, maintenance of confidence in the credit of the United States Government requires management of the country's international monetary relations and the gold and silver reserves. The aim is that of maintaining a sound currency domestically and internationally, and promoting a better trade and exchange situation between our country and the countries with whom we maintain friendly relations.

I do not at this time intend to go into a detailed or abstract discussion of these many responsibilities of the Treasury Department. But I do want to give you in broad outline the essentials of a sound financial program if we are to keep our domestic defenses at full strength and our productive power unimpaired in the current crisis.

The very heart of a sound financial program is adequate and timely taxation. Such a course is essential if we are to preserve our public credit. It is also essential if we are to keep inflationary pressures generated by a defense economy from disrupting our productive efforts.

Inflation is one of the most serious threats to the strength of our economy. And it is a threat which could develop into disaster. With every step in the productive process, every commercial transation, every investment program--depending on the smooth functioning of the financial system in every area of our economic life--a sustained inflationary spiral could totally disable a modern industrialized economy. Confidence would give way to fear and uncertainty; working contracts would be disrupted; and the flow of operations necessary to any long-range production program would be slowed down at every turn. Most harmful of all, a continuing inflationary spiral would impair the incentives to work and to save.

The basic fact about inflation which I should like to emphasize today--and which I wish every citizen of our country could fully appreciate--is that the fulfillment of our present defense program, together with essential civilian needs, necessarily means the creation of a volume of purchasing power large enough to represent a real potential inflationary threat.

Until the Korean outbreak our Nation was making steady economic progress. During the fiscal year ended 30 June 1951, as you may know, the Federal Government showed a budget surplus of 3.5 billion dollars. Over the past five fiscal years we have operated the Government with a surplus of nearly 8 billion dollars. That means that the Government has collected in revenues approximately 8 billion dollars more than the Government has spent in expenditures in that period. This can be a matter of gratification to every one of us. It provides reassuring evidence that the tremendous business represented by the Government of the United States has been conducted with due prudence during the dynamic period of reconversion and readjustment following the close of World War II.

But now we are engaged in another struggle--one short of all-out war but still requiring many of the sacrifices and burdens of an all-out war effort. On the basis of present estimates, which take into account the effect of the tax bill enacted in October, revenues for the fiscal year 1952 will still be considerably short of anticipated Federal expenditures.

The prospect of a sizable deficit comes at the very start of a period of prolonged preparation for defense, the length of which no one of us can at this time predict. And 1953 will undoubtedly bring much larger expenditures, as actual output and delivery of planes, tanks, and other defense supplies gain momentum.

The tension to which this program subjects our economy is quickly evident in a brief review of the comparative figures. As recently as the third quarter of 1950, only about 6 percent of our national product was utilized for defense purposes. Most of our resources, consequently, were still available for civilian purposes. And that fact, I might note, provided a sort of Indian summer of plentiful civilian supplies--a period which lulled many people into believing that the possibility of a serious increase in inflationary pressures could be brushed aside.

That period, as our defense administrators have recently made amply clear, is rapidly ending. Actual deliveries of military end items, or manufactured military equipment, now total nearly 2 billion dollars a month--three times what they were a year ago. The steady rise from now on is expected to reach a peak of about 4 billion dollars monthly in 1953. At the height of our presently projected defense program, it

will be taking about 20 percent of our total national output. Incomes and therefore purchasing power will continue at high levels, but the goods available for civilian purchase will be in restricted supply. All of the goods which consumers may want to buy with their high incomes cannot be turned out in sufficient amounts to meet demands without danger to our rearmament program.

A strong and broadly based program to counter the impact of these developments on the economy is clearly necessary. It is evident, first of all, that we must maintain a very high level of taxation for a considerable period to come.

Adequate revenues, however, are only the first step. Our public debt is already very large. It amounts at the present time to around 260 billion dollars--approximately one-half of the entire debt of the country, public and private. It is the single most important factor in the financial markets and the major investment of millions of American citizens. Under these circumstances, successful debt management is of vital concern to every one of us and of vital importance to the maintenance of a sound financial situation throughout the economy.

Sound debt management, under present circumstances, depends heavily on savings. It depends on the individual decisions of millions of our people to buy and hold the obligations of their Government. There is no compulsion on them to do so. One of the rights which we cherish is the freedom of each individual to invest his surplus funds as he sees fit. This right, we believe, is a vital part of the incentives which make our free enterprise system the most productive in the world.

But that system depends on a recognition of public as well as private interest. We must voluntarily take whatever steps are required to keep our economy strong. Widespread ownership of Federal securities is necessary to keep our large public debt from exercising a disruptive influence in the economy. To the extent that the securities of the Government are not bought and held by the citizens and private institutions of the Nation, the Government must resort to borrowing from the banking system. Commercial bank holdings, as you know, represent the most inflationary type of debt ownership. Increasing reliance on bank financing would strengthen, rather than weaken, the upward pressure on the price level.

That is why the Treasury is so deeply concerned with protecting the incentives to save and with promoting all measures and programs which encourage the habit of thrift. With a debt the size that ours is now, this is important at all times. At present, however, it is vital--not only to the sound conduct of the Nation's finances, but to the successful functioning of the entire economy during a period of heavy defense output.

I have emphasized higher taxes and greater savings because these are the foundations of a successful fiscal policy during the period when we are readjusting our defenses to the realities of the present world situation. Essential as these two fiscal measures are, however, we cannot expect that they alone can assure our economic health. The restriction of credit to essential uses, the allocation of scarce materials, and various direct measures for assuring the stability of wages and prices are also necessary. The job is a big one but I know that it can be done.

Despite the upheavals and strains of the past 10 years, today we can build up the defenses of our country with a national economy which is sounder, more flexible, and more vigorous than it was 10 years ago or even 5 years ago. Our production plant is more efficient than ever before in our history. Since the close of World War II, private industry has put close to 140 billion dollars into new plants and equipment, and plans for further expansion and increased efficiency of operation are moving rapidly ahead. Employment and incomes in recent months have reached new records--with civilian employment currently topping 61 million and personal income now estimated at a rate exceeding 257 billion dollars a year.

Our economic progress in recent years, moreover, stands out in even sharper light when we examine the position of the individual consumer today as compared with the standard of living prevailing on the average during the prewar years. We all realize that prices have risen sharply since 1939. Taxes, also, have increased greatly since that time. But the truly significant development--the one which drives home the measure of our progress--is the fact that the average income available per person today will buy about 40 percent more goods and services than the average per capita income in 1939, after adjustment for price changes and for local, state, and Federal taxes.

That statement, which I have made on several occasions recently, has surprised many people, and, from the murmur in this audience, I think it surprises you. Yet the steadily advancing well-being of great numbers of our citizens, which figures such as these reflect, represents the very essence of the working of the American free enterprise economy. In this country we have constantly striven to spread the beneifts of science and technology, of improved techniques and improved ways of using our resources, among all our people. This has meant volume production and record incomes for the people engaged in it. Our workers have become their own best customers. The greatest discovery of American business--and a major source of our economic strength during the postwar period--is the broadly based mass market within our own borders for the products of American industry and agriculture.

The implications of this fact, in both our past history and the formulation of present national policy, are very great. Our modern American economy is strong and vital, responsive to change, and toughly resistant to shock because it has adapted itself to a nation of free men, all of whom take an active and interested part in shaping the surroundings in which they live. This makes for a constant striving on the part of business to maintain position by means of a better product and a greater volume of output. It makes for a constant stream of new ideas, new processes, and new ways of doing things contributed by the individual and collective actions of an entire people--from the workers at the machines right up to our top business executives.

There has never been a time in the history of our country when the need for new ideas and for a free play of thought in relation to our resources has been of greater importance. You in this audience are perhaps in a better position than any others to realize the need for maintaining world leadership at the present time in the planning and production of new weapons for defense. Stockpiles of necessary materials and armaments are essential at all times. But it is equally important, if not more so, that we keep our production plant on the very frontiers of scientific and technical knowledge.

The ability to do this rapidly and successfully--to make bold use of new ideas, new inventions, new products of the laboratories and the test tubes--is one of the unique strengths of our American system. Our enemies are well aware of the crushing power of our present production plant. But what they have failed to see--what they have constantly underestimated--is the dynamic strength of a nation of free men, living and thinking and working in an environment conducive to the maximum employment of each citizen's individual abilities and resources.

It was this heritage and this environment, when put to the test, which made possible the production miracles of World War II. And it is this heritage and environment which will protect us now if we have the wisdom and the courage to pursue those national policies necessary for safeguarding our American way of life.

The problems raised by the necessities of large-scale defense financing, as I see them, are only a part of this larger whole. To preserve our economic health, we must keep our fiscal position strong--difficult as that may be in terms of the individual burdens involved.

It is but a natural reaction to hope, in an emergency, that we can preserve our freedom and save ourselves from danger, without sacrifice. Any such hope runs counter to all of human experience. Readiness to sacrifice for freedom is the first requisite of life in a free land. I have every confidence that whatever sacrifices are

required of our people to repel the aggressors will be willingly, earnestly, and confidently made. 953

What we face is obvious. What we must do is plain.

We shall diligently continue our efforts with free nations to help establish peace and prosperity in the world. But, in the meantime, we shall face realities--face them in the knowledge that our pride in America's past and present, and our confidence in its future, permit no passive acceptance of the dictates of a foreign aggressor.

We are going ahead with our military and our financial mobilization measures to whatever extent the unfolding disclosures of Communist intentions make necessary. In justice to ourselves and to all other believers in freedom, we can follow no other course.

COLONEL HARDENBERGH: Mr. Secretary, on behalf of both colleges I thank you for a most interesting lecture. Thank you, sir.

(5 Mar 1952--750)S/VJM