
Essentials of a Post-War Program

Address by
Hon. James A. Farley
Chairman of the Board
of
The Coca-Cola Export Corporation
before the
Maryland Bankers' Association
Baltimore, Md.
April 12, 1945

also
Editorial

United States Government Printing Office, Washington : 1945

642635—11328

Address by Hon. James A. Farley Before
Maryland Bankers' Association

EXTENSION OF REMARKS
OF

HON. MILLARD E. TYDINGS

OF MARYLAND

IN THE SENATE OF THE UNITED STATES

Monday, April 16, 1945

Mr. TYDINGS. Mr. President, on April 12, last Thursday evening, in the city of Baltimore, the Honorable James A. Farley, chairman of the board of the Coca-Cola Export Corporation, and a former member of the Cabinet, delivered a very interesting and thought-provoking address to the Maryland Bankers' Association. I think this address can be read by everyone with great profit, and I therefore ask that it be printed in the Appendix of the CONGRESSIONAL RECORD.

There being no objection, the address was ordered to be printed in the RECORD, as follows:

I am happy and honored to be your guest speaker this evening—happy to be among my good friends of Maryland—and honored that your association should invite me to address your annual dinner meeting. To be perfectly candid, until a friend of mine suggested a possible explanation, I was not clear about why I was invited to take part in your program. My friend reminded me that as Postmaster General I had supervision of the Postal Savings System, a banking set-up which at one time was thought to be unique because its investments were limited to United States Government bonds. "With that background of experience," my friend told me, "you are a natural to talk to bankers these days." "Bank statements", he pointed out, "are getting to look more and more like the statement of the Postal Savings System." "Your banker friends," he warned, "will want you to tell them where this trend in banking will eventually lead or, better still, how it can be reversed."

These are difficult questions and I know you don't expect me to supply all the an-

swers this evening. You will recall, I am sure, that such reputation as I may have as a forecaster of future events was gained in a field having little in common with banking. Moreover, there is a good deal of the element of chance involved in any kind of prophecy.

Our primary task, that of winning the war, is one in which Maryland already has an outstanding record. Several billions of dollars of war contracts have been filled by the industries of Maryland on schedule and according to specification, notwithstanding the labor shortage in many areas which has seriously multiplied the problems of management. In ordnance and shipbuilding, in the production of steel, aircraft, chemicals, and many other vital products, your State has written a chapter in her glorious history never to be forgotten. In this great effort I know that you bankers have played an important part.

Directly, and through the Government, you have helped to supply the credit that was needed, and in other ways have facilitated the operation of the financial machinery essential to Maryland's great contribution to the war effort. It goes without saying that you will gladly continue to give your full energies to the winning of the war until the job is completely done. While still deeply engaged in war work you are and should be concerned with the welfare of the human factors and the well-being of our national economy. The questions are: Will our Government, after the war, live within its income and foster business growth, or will it take the easy way of deficit financing leading to political regimentation of business and unavoidably to the destruction of the American system of free enterprise?

As I consider these questions my mind goes back to 1933, when I went to Washington as part of an administration committed to the principle of a balanced Budget, to the correction of certain practices in our security markets, to the strengthening of our banking system, to the extension of certain benefits to labor, to the establishment of a plan of social security, and to certain other reforms—all of which, as then contemplated—were thought to be consistent with the tenets of free enterprise. In the years that followed, this purpose was sometimes

Printed in the Congressional Records of
April 16 and 17 1945

*Not printed
at Government
expense*

lost to sight in the scramble by opposing groups for power, for benefits, and for the advancement of pet theories of government. As Government yielded to the pressure of one group, others were encouraged to increase their demands and to exert greater pressure for the special advantages useful to them. Where, we are prompted to ask, is this trend leading us? The question, casually considered, may seem remote from everyday banking, but I submit that the changes which have occurred in your balance sheets in recent years are, in a large measure, merely symptoms of this growing tendency to look to Government for subsidy, for credit, for insurance; in short, for security against risk of every kind. I am speaking now of a trend which was pronounced at the time of our entrance into the war, and not of activities assumed by the Government in the promotion of our war effort. The question now is, Whether at the end of the war this trend will be accelerated, or whether we may look forward to a period in which a serious effort will be made to balance the Budget, in which business can be reasonably free from the threat of more controls and more Government competition, a period in which we can test by experience the value of the many new laws which have been placed on the statute books during the past few years.

The prospect is not altogether encouraging. The appetites of many special groups have been whetted in past year by the tender morsels served them at the Washington table. They have succeeded in placing representatives in many important places in Government, and their spokesmen have become adept in special pleading. Let us consider the problem of attaining a balanced Budget. It is estimated that the annual cost of servicing the debt after the war may equal or exceed the total National Budget for any peacetime year prior to our intensive preparation for war. This fact alone should be sufficient to direct the thinking of all Americans along the lines of effecting, when the war is over, every possible economy in Government expenditures. Instead, we find that the groups which advocated liberal spending in the past have even more grandiose plans for the future. One such advocate had occasion not long ago to expound this philosophy of Government to a committee of the United States Senate. The statement was a

sort of blue print for a fuller, richer life. No man interested in the welfare and happiness of his fellow citizens could read it without hoping that the time may come when Americans may enjoy the great advantages there enumerated. The first point mentioned was the need, when the war is over, for full employment, with higher wages and shorter hours. This, it was argued, should be accomplished by having the Government stand by, ready at all times, to provide employment for those not absorbed by private business. Nor was the farmer forgotten. It was proposed that Government place a floor under farm prices and so insure the farmer against a fall in the market value of farm products. And that is not all. The farmer would be provided with better housing, and rural electrification would be expanded to the utmost to make rural life more comfortable. Turning to the problem of improving the health of the American people, this remarkable document would have the Government assume the responsibility of building hospitals in all communities not now having such facilities, and of providing adequate medical care for all citizens. Likewise, under this philosophy, better education would be made available to everyone. The statement was made that technical and higher education must, in the future, be made just as universal as secondary education has been in the past. There were other recommendations for Government guaranty of a better life and greater individual security. Many were laudable objectives, but there was one point, to some of us a very important one, which received only casual reference. I refer to the simple question of "Where is the money coming from?"

The school of thought which has been prominent in recent years in advocating public spending would answer simply by saying that if Government sees to it that we have a high national income, the Budget will take care of itself. One group of self-appointed experts on budgetary matters would go even further and assure us that a balance between income and expense is not necessary, and that there is no reason why the Government of the United States should not go on indefinitely spending more than it collects. We can be thankful that this brand of "progressive" thinking is not accepted by the great majority of our Representatives who

make the laws and administer the various departments of Government. The fact remains, however, that the advocates of liberal spending are still retained in important official positions. Periodically they are allowed to expound their views on financial questions under circumstances seeming to indicate that they have substantial official backing. This sort of thing has been a constant deterrent to the development of confidence in the financial policies of the Government on the part of people in every walk of life. It is my considered opinion that nothing could contribute more to the building of confidence in the future of this country, here and abroad, than unequivocal assurances, backed by action, that we will strive to attain a balanced National Budget at the earliest possible time. In this respect perhaps we could learn a lesson from Prime Minister Churchill, who recently had occasion to define the position which he believes the British Conservative Party should take in the next general election. He said: "There is one thing we shall certainly not do. We shall not bid for votes or popularity by promising what we cannot perform, nor shall we compete with others in electioneering baits and lures. It would be very easy for us all to promise, or even to give each other, presents, bonuses and gratuities in a most enthusiastic manner; but if we woke up in the morning and found that the pound sterling only bought 5 shillings' worth of goods or services, we should have committed a great crime."

We must, of course, achieve and maintain a high national income after the war, and we must reconcile ourselves to carrying a heavy tax burden for many years. At the same time we have to recognize that the levying of taxes is not the sole means of bringing the Budget into balance. Control of expenses is also important, and we must give due regard to both factors if we are to solve the enormous financial problem which will confront this country at the conclusion of the war. This is no time to lay plans for things which are not essential and which we cannot afford, no time to encourage pressure groups, no time to lead people to think that all self-denial and sacrifice will end with the armistice.

I want this gathering to understand distinctly, that in what I have to say about the need for economy in government I have made no reference to post-war expenditures

for the maintenance of our armed forces. I would here give great weight to the advice of Secretary of War Henry L. Stimson and Gen. George C. Marshall, Chief of Staff of the United States Army, and Secretary of Navy James V. Forrestal and Admiral Ernest J. King, Chief of Naval Operations, as to the extent of our military and naval needs in time of peace. They are entitled to our respect and confidence on questions concerning appropriations for the Army and Navy in the years ahead.

Just as there has been no absence of convincing assurance that all possible effort will be made to balance the Budget after the war, so we are left to speculate on the question of the post-war attitude of Government towards private business. Businessmen are aware of the challenge confronting them. Their appreciation of the importance of maintaining high employment is evidenced by the fact that they speak of the number of post-war jobs which they hope to offer as an objective of at least equal importance with the volume of goods which they plan to produce. It can be said with certainty that business leaders are in a frame of mind to make free enterprise work more effectively than ever before. But what will be the attitude of Government? Will business be encouraged to go forward, to expand and improve plants and to make commitments with labor, with producers of raw materials and the distributors of finished products? This question is uppermost in the minds of bankers and businessmen throughout the Nation. Not that we are fearful of the avowed enemies of the free-enterprise system. They are few in number and they seldom attain positions of power. The men who will bear watching are those who profess to believe in free enterprise, but with certain conditions always attached, such as: provided it is helped by government, supplemented by government, regulated by government, protected by government against its own weaknesses, etc., etc. These are the same self-styled friends who say: "If industry doesn't provide full employment, government must step in and take over," having all the time a plan for that purpose in their inside pockets, ready to be flashed on the public the minute industry fails to perform to their liking.

This constant goading of business, of threatening more regulation and more Gov-

ernment competition has prevented us from realizing the full benefits of a free economy. You bankers have had first-hand experience with Government competition. I understand that in the lending field you are required to compete with 46 different public agencies, and that you are now being threatened with more. You have indeed had a full experience with that technique by which officials soberly proclaim that credit for this or that is needed, and that unless the bankers meet the situation Government will do the job. This kind of announcement, as we have seen many times, is an invitation to all groups to come in and ask for help. Soon a new pressure group is organized, and free enterprise is threatened with the loss of another foot of precious ground.

In the early years of the depression it was necessary for government to supply credit for certain purposes which could not for good reasons be satisfied by private lenders. The need then was obvious to everyone. Today the situation is entirely changed. Our capital markets are functioning vigorously and effectively, both as regards equity and long-term debt. The banks are on the job looking for chances to lend money. I know that you are pounding the pavements and pushing into the byways looking for businesses requiring bank credit. I have been particularly interested in reading of the formation by banks in various parts of the country of your so-called "bank credit pools." The wisdom of adopting these measures is clearly apparent. By these means you have made certain that no credit application need be denied before it has been carefully scrutinized by a group specially set up to find ways of satisfying credit requirements which, for one reason or another, fail to meet the tests of a particular lending institution. To me, and I am sure to many people, these credit pools are symbolic of the desire and determination of bankers to make sure that no legitimate business will be hampered by lack of bank financing in the great program of production and employment to which we look forward after the war.

What more can bankers do to insure a healthy economy after the war? What more can they do to help arrest this invasion of Government into the sphere of business? The methods of influencing Government

642835-11328

which have been most popular in recent years are not available to you. You cannot go to Washington and, by the sheer weight of your numbers, computed in terms of ballots, have your views accepted, no matter how sound they may be. You have to rely instead upon your ability to search out the truth and lay it clearly before your fellow citizens. Your motives will often be questioned by people who claim to know better, and your recommendations will be trampled upon by groups bent upon immediate gains without regard to final consequences. In time, however, your opinions will be heeded, and it will be found that you have contributed greatly to intelligent public thinking. It is vital that you continue to study and express your thoughts on the great issues confronting us. All have financial implications, all have a bearing on the momentous question of whether we shall restore order to our domestic financial affairs, and so maintain the strength to exert wise and constructive influence in the solution of international problems.

The banks have made a real contribution in keeping inflationary tendencies under control. From the beginning of our war effort your leaders have been outspoken in recommending measures to prevent prices from getting out of hand due to the high national income and a limited supply of goods. Bankers have welcomed the opportunity to play an important role in the plan to divert income into Government bonds. They have gladly carried a heavy burden, both in spreading the Treasury message to save, and in processing the sale of bonds. Thus far we have been remarkably successful in keeping prices under control, but the threat is by no means ended. As purchasing power piles up the task is likely to become more difficult. We must remember, too, that a return to the manufacture of civilian goods will not, in itself, end the threat of high prices. The process of making such goods also generates purchasing power, which in turn adds to the pressure on prices. The fight against inflation will therefore go on even after the struggle on the battlefield is won. To you who appreciate the importance of the effort, to you who are capable of devising means of combating this threat to the integrity of our

economy, falls the duty of continuing leadership.

Another problem, in the solution of which the Nation will look to you for guidance as the war draws to a conclusion, is that of reconverting our industrial machinery from war production to its normal peacetime functions. Bankers are specialists in credit operations essential to the full production of war goods. From now on you will be called upon increasingly for expert assistance by industries which are planning for peace. The prospect of Government contract cancellation is grim, indeed, for industries whose working capital is largely tied up in receivables, inventory, and partially completed goods. They must find ways of converting these assets into cash if they are to contribute to the production of goods and the employment of returning veterans. You can't solve all such problems, but you can advise customers and exert wise influence in dealing with such cases.

In recent months it has become important to consider some revision in the law to enable companies to have the benefit of their post-war refund during the period of reconversion, when some of them may face a serious struggle for survival. Likewise, it is important to remove from the tax laws impediments to post-war business activity. I am not suggesting that the Government can do with less income. Everyone recognizes that tax receipts in the future must exceed by a wide margin our pre-war revenues. But we should use the taxing power in ways that will encourage and sustain the spirit of enterprise. Whether we call it incentive taxation or something else, the fact remains that moderate taxation on a large volume of business is much to be desired over high taxes and only moderate business.

We must not permit the magnitude of the task ahead to dull our hopes or determination to build a better America and a better world. We can find encouragement in the emphasis which Government leaders now place on the need for post-war jobs. Perhaps this is a sign that Government in the future may give more consideration to the problems of the great body of American employers. Perhaps it foretells a renewal of faith in the dignity and strength and ingenuity of the individual, whether he be a

642835-11328

worker on the line, a scientist, or just a plain business manager.

In mobilizing its great human and physical resources for war production American business sought no favors, only a fair chance to meet the greatest challenge in its history. It asks no favors now, only a fair chance, when peace arrives, to accomplish reconversion and set in motion our great industrial machinery in the interest of a better life for all.

Deficits Are Political—Editorial From New York Herald Tribune

REMARKS

OF

HON. MILLARD E. TYDINGS

OF MARYLAND

IN THE SENATE OF THE UNITED STATES

Tuesday, April 17, 1945

Mr. TYDINGS. Mr. President, I ask unanimous consent to have printed in the RECORD an editorial entitled "Deficits Are Political" from the New York Herald Tribune of April 15, 1945. The editorial comments on the speech recently delivered by Hon. James A. Farley in Baltimore before the Maryland Bankers' Association.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

DEFICITS ARE POLITICAL

Speaking before the Maryland Bankers' Association on Thursday, James A. Farley took occasion to utter some wholesome truths about the new philosophy of planned economy, which in most cases is, of course, merely a synonym for planned spending. With the business of waging the war and getting back to a peacetime economy completed, he observed, the country will have to choose "whether it will live within its income, and foster business growth, or take the easy way of deficit financing, leading to political regimentation of business and unavoidably to

the destruction of the American system of free enterprise."

It may be asked, perhaps, what Mr. Farley, who is regarded primarily as a politician, is doing in the arena with men like Keynes, in Britain, and Hansen, in this country, who have marshaled elaborate and fine-spun economic and monetary theories to support the doctrine, so fashionable in New Deal circles at the moment, that it is the State's function to solve all of the individual's economic problems and to meet all his social needs. The answer is that the emergence of such a philosophy at this time is essentially a political phenomenon, and not as some of our economic dilettantes in Washington would have us believe, the flowering of a new, streamlined system of economics. As Rufus Tucker pointed out in his excellent treatise on the subject before the Academy of Political Science the other evening, there have always been people to rationalize "the easy way" for governments to solve their problems, and there always will be.

What has actually happened, as Mr. Farley has seen too well in Washington, is that the administration, which came into office pledged to a balanced budget, has lost sight of its original purposes in the scramble of opposing groups for power. As the Govern-

642835—11328

ment yielded to the pressure of one group, others were encouraged to increase their demands, and to exert pressure for special advantages." Mr. Farley asks, "Where is this trend leading us?" A great contemporary economist, in a great book, has not only told us recently where it will lead, unless it is halted, but has shown us precisely why it must inevitably lead to that end. The economist is Friedrich Hayek, and the book is the *Road to Serfdom*. And a great statesman, Mr. Winston Churchill, speaking to his party members only a few days ago, expressed the same philosophy when he declared: "There is one thing we certainly shall not do. We shall not bid for votes or popularity by promising what we cannot perform, nor shall we compete with others in election baits or lures."

Thus, Mr. Farley, the practical politician and businessman, may find himself out of fashion at the moment, but he finds himself in good company. Mr. Farley may not be at home on the dialectical tilting grounds of Mr. Keynes, but he knows what produces deficits, and has given some thought to their effect in terms of private enterprise and personal liberty, matters which Mr. Keynes is frank enough to admit worry him little, if at all.