

# “The General Welfare”

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at the New Hampshire Bankers Convention*

My desire today is to draw from history some events of the past that can serve as a useful guide to our course in the future. Men have greater opportunities than monkeys for men can read history and thus better shape their future from the experiences of others. Man has experienced 5,000 years of recorded history; and throughout most of that period, the average man has had little to look forward to for himself and his family. Our ancestors were a living part of that procession, and your ancestors were there.

We are now living through another period in the procession of man, and there is just as much time ahead as that which has passed. So, with time in such abundance, the speed of our travel is not as important as the direction in which we are headed. Throughout these past ages, a few men have stood out boldly in contrast to the masses of men. It is those men who stood out that have made history worthy of recording and study.

The Greeks from the 4th to the 7th century, B.C., produced some of the greatest men ever known. They made the first start in the direction of a capitalistic democracy. Some historians have compared early Greek history with our own history, as neither people was tied down by tradition. Both were able to profit from a knowledge of history and so were able to select the best from the past and avoid some of the pitfalls from the experiences of others. The Greeks learned from the experiences of the Babylonians, the Egyptians, and the Phoenicians.

The Greeks were the first to give individual rights to their citizens. They could own property and use it

to make a profit. They were the first to recognize that laws for governing men should be complete and leave as little as possible to the discretion of administrators.

Had the Greeks been able to retain the good start they made at democracy, history since then might have been far different. The fact that they did not reach or maintain their goal does not detract from the fact that they made a noble attempt at freedom and were the first to lay its groundwork, and our ancestors who followed were guided by their example.

To the next important period of bringing freedom to man we must make a long, long jump—clear to the 13th century A.D. During the reign of King John of England (1199-1216), the nobles forced him to sign the Magna Charta which guaranteed them, the nobles, some very important individual rights. Next, the system of parliamentary government was placed in use under his grandson, Edward I; and thus a tremendous step forward was achieved toward the emancipation of man.

#### LESSONS OF HISTORY IGNORED

Not many centuries after this, our ancestors started settling on American shores in order that they might gain greater freedom, not just for the aristocracy but for the average man. After two hundred years, the colonists realized that they had been so negligent in their new world that again minorities were being suppressed and situations created which they had come here to avoid. They were ignoring some of the lessons of history.

This led to another great step in man's progress toward freedom. Thirty-nine remarkable men (and remarkably young men, for their average age was about forty) created the greatest document ever known for the general welfare of man. They were trying to establish a pattern that would protect man from his own natural weakness.

May I read to you the preamble of the Constitution of the United States of America:

We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.

When Benjamin Franklin was leaving the final meeting of the constitutional convention, he was questioned, "What kind of a government have you set up?" Mr. Franklin replied, "A Republic, if you can keep it."

There it is—A Republic, if we can keep it.

In recent years, we have been straying, little by little, from the original pattern and concept of a free economy. It is very easy to drift gradually away from our original high principle or good pattern. To illustrate this point, I remember very clearly the boyhood story my father used to tell me about his building of an old-fashioned board walk. Grandfather started him out with a pattern—a board exactly two and one-half feet long—and father was to saw a great many pieces and lay them side by side. He started out bravely enough and the walk looked all right at first, but it gradually grew wider and wider until it lost its original form. Father had used each board he cut as a pattern for the next one instead of measuring each board by the original correct pattern.

We, the people, in our original pattern—the constitution—were given the responsibility for determining our own private destiny; but through neglect we have failed to comprehend some of the insidious processes that have been chopping away at our original pattern.

#### A MORE STABLE ECONOMY NEEDED

Many of the forces that contribute to our general welfare are financial, and therefore they are right in the bailiwick of bankers.

I want to comment on several situations which have bearing on the attainment of a more stable economy. It is not so important that you agree with my view-

points on these subjects; but it is important that more bankers read and think and understand about them, for it is the combined, informed intelligent thoughts of many people which bring sound decisions.

One—A balanced international exchange of goods and dollars. The attainment of a peaceful free world is much dependent upon a balanced international exchange of goods. Proper methods for expediting world trade are vital considerations facing this administration and the congress.

We should recall the sound principles established in our constitution. Among them was the prohibition of tariff barriers between the states. In fact, the desire to curtail internal tariffs was one of the arguments in favor of the constitution; the trade wars between the jealous states had developed to the proportions of economic suicide. Undoubtedly the elimination of trade barriers between the states helped to set the stage for the economic development of our young, debtor nation.

#### THE SCHUMAN PLAN

Now the Schuman Plan, for the six debtor countries of Western Europe, already has eliminated tariffs and the snarl of trade barriers for the coal and steel industries. The objective is to increase production and make more steel available at lower cost. If it achieves this high purpose, and cartel agreements are avoided, it will also stand as a model of free trade accomplishment.

There is a growing public consciousness of the mutual advantages of a freer world trade. A durable world trade must be a two-way street. We are beginning to realize that the living standards of other people must gradually be improved in order to maintain our own living standards and in order to live in peace. We also know that we must rely on the underdeveloped foreign markets, for they are the outlets for the volume of goods which flow from our ever increasing technological production. Our markets must be open

to foreign goods so they will have the dollars to buy our products.

Since we have achieved such a high level of productivity and are now a creditor nation, it becomes necessary that we reappraise our position on world trade. The stimulating of world trade must be accomplished through numerous methods, and the present concern is when and how.

Trade barriers should be adjusted to allow more foreign goods to move into our markets. We should not base a broad policy on isolated situations, even though such cases will need special consideration; but a broad policy must be based on what is good for most of our people.

For years there was opposition to labor-saving machinery and techniques because of the fear of reduced employment. However, we learned that greater efficiency led to increased production, which created more employment and greater purchasing power. Likewise a stimulated world trade should bring greater world employment and prosperity.

#### ONLY PRIMED THE PUMP

Of basic importance is the fact that while stimulating prosperity abroad, we must keep a stable economy at home. Moreover, a foreign country which desires to expand its flow of world trade must place its finances on a sound basis. Since 1946, our congress voted thirty billion dollars of foreign aid to prime the pump of trade. In our noble efforts, we were willing to strain our own economy in order to try and improve the welfare of other people. It does not appear that we got our money's worth. In many cases, we merely strengthened socialistic regimes and delayed those countries from taking the initiative in working out their own problems. From now on, the prosperity of other countries must become increasingly dependent upon their own ability to soundly manage their own affairs.

A commonly mentioned method for bolstering the financial condition of other countries is through the

investment of American private capital. This offers great possibilities, providing the foreign country can assure a proper economic climate and legal stability. A proper climate is created between governments. Then when private enterprise has reasonable protection, it will seek outlets where its funds will be useful and without government guaranties.

Foreign investments must be mutually advantageous to both the investor and the people of the foreign country. There are many examples of where U. S. private enterprise has successfully invested in foreign countries and at the same time pointed the way toward enlightened economic know-how. To help foreign peoples develop their own production facilities through our technological knowledge will be much more effective and less costly. This can be a most proper type of Point Four program.

Our people should start now to acquaint themselves with the pros and cons of foreign trade. They should make the decision of whether we reduce trade barriers and allow foreign goods to compete more freely in our market, or whether we wish foreign aid to remain as a fixed charge against our government. People must decide what is in their best interest.

World trade is the lifeline of a dynamic, free world economy.

#### LESS DEPENDENCE ON GOVERNMENT

Two—the stability of banks. One of the important ways to strengthen the capital structure of banks is by the establishment of adequate reserves for losses.

We can't have a stable economy without strong banks. If we are to maintain a strong free economy in America, it is a "must" that banks be able to meet a crisis without depending on government for financial support. Banks should be bulwarks of strength in a crisis. (This was not true in the last depression). Otherwise they add to the emergency instead of being able to lend a supporting hand. The association is studying formulas and working with the treasury

department toward a workable solution of the reserve problem.

The present statutory law in the internal revenue code permits as a deduction for income tax purposes a reasonable amount which can be added to a reserve for bad debts. In 1947, when mimeograph 6209 was adopted, under the law, it was the understanding of the treasury department and the American Bankers Association that the method would be tried on an experimental basis. The original formula had considerable merit because it was an effort in the right direction, but through use it has been found to be inadequate.

It is the firm belief of the A.B.A. that a more realistic, workable, and equitable formula should be substituted. The present regulation should be broadened and simplified, and this can be done under the existing statutory law.

Here are two basic principles which are necessary for a proper reserve:

1. The reserve must be large enough to do a complete job—covering losses that tend to be concentrated in poor years.
2. The same reserve formula should apply to all banks since they operate under the same economic conditions.

We believe the treasury department has men in it who recognize the wisdom of a broader reserve formula. What they need is to be convinced that the public will recognize the propriety for an adequate reserve and that such reserve will give protection to the public's best interests in times of stringency.

Just as any business man depreciates his fixed assets over a period of years, so all bankers should provide deterioration reserves for their loan portfolios over a period of years.

The public, and men in government, must be made to understand that an adequate reserve allowance is distinctly not a device for tax avoidance. An ade-

quate reserve can be made one of our useful tools for ironing out the peaks and valleys and perpetuating a strong economy in this country.

#### CREDIT NEEDS OF SMALL BUSINESS

Three—Congress actually is considering measures to broaden the authority of existing government agencies, or to create a new agency for the express purpose of making direct, guaranteed or insured loans to small business. These bills are being considered despite the fact that congress has not decided definitely what disposition should be made of the Reconstruction Finance Corporation or the Small Defense Plants Administration, or the authority given to the Federal Reserve Banks under 13 (b) of the Federal Reserve Act.

I would like to comment on small business credit needs and the ethics of lending by any governmental agency. It is estimated that more than 90 per cent of the four million business establishments in this country are small business. They are the bulwark of our free enterprise system, and we must remain constantly alert to see that they have a healthy climate in which to operate.

It often becomes a moot question as to the exact line of demarcation between the constitutional responsibilities of government and the inalienable rights of the individual. Consequently, citizens must guard vigilantly against any attempts on the part of the government to extend its jurisdiction into the field of private enterprise.

If the sound credit needs of the four million business enterprises are being met satisfactorily through private credit sources, but the government nevertheless enters into this field of credit extension, then the line of demarcation has been crossed and the free enterprise system guaranteed by our constitution is placed in jeopardy. On the other hand, if the worthy credit needs of business, large or small, are not being met by private enterprise in some period, or in times of national emergency such as war or depression, then

it does become the duty of the government in the public interest to meet such needs, but only during the time of emergency.

An emergency existed from the R.F.C. was formed, and it filled a gap in credit availability during the time of the depression in the 30's and during World War II. Trouble arose because its areas of operation were not clearly defined and because it was not permitted to expire when it had served its purpose.

So the question of extension of credit to small business through the R.F.C. or some other government credit agency depends upon whether or not the banks are meeting the worth-while small business credit needs.

Business requires financial assistance from banks for operating purposes. Equity capital is also needed by small business, but furnishing equity capital is not the function of either the government or banks.

#### THE BUILDING OF EQUITY CAPITAL

Primarily, equity capital should be obtained through private investment or by retention of business earnings. Excessive taxation has limited the capital funds which are available to small business from private sources. Instead of spending money to create another government agency, the proper way to help small business is for government to continue to reduce expenses and to reduce taxes, and then private enterprise can supply its own capital.

It can also be said that if the Bureau of Internal Revenue provided banks with a better formula for loss depreciation, banks could do an even better job of extending credit to small business.

There is no question but what there are today ample banking facilities in this country to meet the worth-while credit requirements of small business. Banks have been doing an increasingly constructive job in meeting such needs. The volume of bank loans and the competitive position and strength of banks are convincing arguments on that point. In the period we

have just passed, had there been no R.F.C., I firmly believe that the worth-while credit requirements of small business would have been cared for by the banks.

The Reconstruction Finance Corporation or any new government agency conceived for similar lending purpose is not only unnecessary but is placing the government squarely in competition with banking institutions, and thus violates the principles of free enterprise.

The trend for the moment is toward less government in business. If this trend is to continue, business men and bankers must do a selling and a telling job of what they can and will do. If we keep the government out of the credit business, then we must take full responsibility for meeting proper credit requirements. We must do our jobs well, or the trend toward government competition will again gain momentum.

#### EQUITABLE INTEREST RATES

Four—During the past several years, there has been a growing understanding of the role that sound money management plays in our economy and how it helps to protect the purchasing power of the dollar.

Business men and bankers have consistently criticized controlled markets and for twenty years have been crying for an honest dollar. Now we are returning to our traditional "supply and demand" philosophy of government. Interest rates have increased, but the rates have been established in a free market and not by government edict.

It is disheartening to hear and read of the criticism of higher interest rates and the suggestions for a return to government bond price support. Many who have criticized are confirmed believers in soft money, while others have failed to realize that stable money sometimes comes at a cost. Artificially stimulated easy money would be a return to inflation and detrimental to the value of the dollar which is now beginning to stabilize in terms of its purchasing power. The

Federal Reserve Board could have pumped much credit into the banking system, but such a course would have been inflationary and not in keeping with its obligations to assist in maintaining a well balanced productive economy.

Interest rates have gone up because supply and demand is again at work. Money is tight with many banks because of the increased demand for loans, and the fact that the Federal government may need to borrow about six million dollars before the year is over; state, municipal, and corporate needs are high; and there has not been the usual seasonal loan decline.

In view of this boom demand for dollars, money is bound to be tighter in a free market; and the fact that interest rates have worked up means that a more stable America is in the making. High interest rates are an antidote for excessive dollar demand and are healthy in correcting overexpansion.

We can't expect some of our citizens to understand the justification for higher interest rates unless they are told the reasons. We don't need more tinkering—it's less tinkering we need. Bankers should explain to their customers the role of interest rates in a free, competitive economy. Support must be given to men in government who are trying to map "sound dollar" policies.

#### GOVERNMENT EXPENSES AND TAXES

Five — Government expenditures and taxes and what you can do about them. We have some unusually able and high-principled men in government. They have just told us that reductions in expenditures have not yet reached a point where the budget can be balanced and emergency taxes allowed to expire. That information coming from men who have the facts and who are making an intelligent study of the problem is thoroughly disappointing to a people who are expecting relief from exhorbitant taxation.

This can be said to the administration: People have deliberately declared themselves in favor of a sound,

honest leadership; and this high public regard must be jealously guarded through frankness and cold facts. Information and utterances made to the citizens must always be clearly stated and logically based. Plain speaking will clear up a lot of confusion and doubt.

This can be said to the people: An administration is subject to terrific pressure for more and more expenditures. The only possible way to neutralize these specific pressures is for the voters over the country to build a sustained demand for economy. The determination of leaders in government to cut expenditures must be stimulated constantly and reinforced through the unrelentless demands of the people.

A second and equally important consideration for the people is that they and their pressure groups abstain from making financial requests from government while such dogged efforts are being made to prune expenditures and reduce taxes. People realize that they cannot be prosperous with oppressive taxation and a rotting dollar which steals a part of their wages and savings.

To achieve our goal of reduced taxation, leadership must be supported by a crusade of the people for reduced expenditures. If we continue with public support, a reduction in taxes will be achieved.

#### POLITICO-ECONOMISTS AS POLICY MAKERS

I have mentioned just a few of the fundamental issues which affect every one. Most of our people are in a receptive mood and realize that they must understand more about these issues if they are to guide intelligently the course of a free enterprise republic.

In this country, two distinct groups of people have been forming. One group, with scientific, inventive, and productive genius, has developed the most amazingly prosperous nation ever known. This group has been responsible for the development of new frontiers in America.

Another huge group has been developing. They are the politico-economists who assume the responsibil-

ity for policy-making. They manipulate, control, and disburse the vast income and taxes derived from the productive genius of the first group.

Within this group of politico-economists, there are two distinct philosophies. One philosophy advocates that values should be kept on a gradual but perpetually rising plane by administrative controls and mild inflationary measures. The other philosophy advocates free, competitive market, and individual decisions with a minimum of governmental control, and a sound dollar kept stable by the effect of supply and demand.

Our government has just changed hands from the proponents of the inflationary technique to those favoring a sound, stable dollar. I know which philosophy you would choose, but I am concerned about the choice the man on the street will make. I am not one who believes that people have turned against Santa Claus, and they won't, unless they are convinced that there just "ain't no Santa Claus."

As long as the "sound money" men can function in government and maintain public confidence, I firmly believe that the people of this country will have unlimited opportunities to develop and prosper.

We Americans are justifiably proud of our glorious country. We cherish, among many other things, our high standards of living and our traditional freedom. There is, however, a general restiveness and a growing concern among our citizens that high cost of government, war, controls, and oppressive taxation are taking too great a toll of our resources and incentive. Unless these conditions are changed, a young man cannot build an estate and provide for his old age as our fathers did, for too large a part of his profits and savings will be consumed by taxes. In many instances, he can look forward to becoming a ward of the government. What a pity that our young people, after all our talk of incentive and freedom, may come to this. No wonder people are worried. There are things to be worried about.

## CITIZENS MUST WORK HARD

There was never a more logical time than now for our people—all of our people, in all walks of life—to reappraise the situation and awaken to what is responsible for this state of affairs in our economic outlook.

The strength or weakness of an organization or a government starts from the top and then filters on down. We should implore Divine Providence to give our new leaders the strength and wisdom to direct our government along the right path. Believing in the old adage, "The Lord helps those who help themselves," I want to say that all of us, as American citizens, must work—work hard and long—to keep those new leaders on the right course.

We have leaders in government and high places who say that the public is to be given frank information; but we, as citizens, must assume our responsibilities for knowing what to do with the information when we get it. We have leaders all over our nation in every city, village and rural area. These civic leaders must do everything within their power to bring honest, unbiased information to the people of their communities.

Many industries are forming groups, or classes, to study our economic system, money, jobs, profits, supply and demand, the ethics of capitalism, etc. This method of education by industry is developing into a nationwide movement.

Yes, we have come a long way along the road to freedom and private enterprise since the Greeks during their Golden Age became concerned with improving the general welfare of man. We must not allow these gains to be dissipated. The American people are anxious and are asking what is happening to our economy and what we can do about it. We need men in every community who can answer those questions. What a challenge this is, and what an opportunity for bankers. Where else can people go for financial and economic information if not to their bankers?

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