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By General of the Army Dwight D. Eisenhower
34th President of the United States

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Although I shall deal primarily, this evening, with some aspects of the American economy, I hope you will indulge me in a preliminary review of events of recent years. At times, this may seem to you little more than rambling reminiscence. My justification is that we can hardly discuss any problem of major moment to Americans except in the context of our relations with the Soviet Union since 1945.

The Cold War, then beginning, affects all our living. It colors whatever we, as a nation try to do to increase our own spiritual, economic, intellectual and military strength; or to exercise, on behalf of freedom, the leadership that fate has thrust upon us. Moreover, a review of our own actions and reactions of the recent past gives us a measure of perspective in viewing present problems.

We come to recognize that cold-bloodedly logical, or starkly factual, or grimly realistic, argument may not be the most effective or persuasive in our country where the people have the final voice. Almost every subject of national interest contains within itself some emotional element and has an emotional impact on public opinion. The heart of America is often more important than the head of America in its influence on public thinking -- cynical politicians to the contrary.

In this talk, I may seem to belabor the simple and the obvious. But the growth of the American economy is dependent on such simple notions as: individual confidence in the future; individual hope for reward; individual devotion to the

country's security. With that prelude finished, let me refer, for a moment, to my personal situation in an earlier November; and review quickly the events of a few years thereafter.

Seventeen years ago this week, I was clearing off my desk in Germany. Within a few days, I was to leave my headquarters in Frankfurt to move to Washington. Six months earlier, we and our allies had completed the destruction of the Nazi and Fascist armies on the European continent. Three months after that triumph, America and her allies accepted the capitulation of the Japanese Empire.

But, then, in the month of November, 1945, the paramount preoccupation of the American people was with the demobilization of our armed forces. "Get the boys home," was a national command upon us; so loudly voiced in every area of the country, so emotionally charged, that it became the first policy of government itself. Immense problems were involved in its speedy execution; from the global transport of millions of men and millions of tons of supply to the minute details of each discharge paper. This was the one big job that America wanted done. Everything else could wait. In fact, everything else did wait.

Here, in the lifetime of us all, we had dramatic and overwhelming proof that emotionalism can dictate high government policy and set national priorities through many months. Out of hindsight, some may now argue that the maintenance of American military strength -- despite the emotional cry for demobilization -- would have blocked Communist designs. I doubt the truth of this opinion -- but I do believe that such strength would have made them more cautious. The Korean War might have been avoided. But the zones of Communist influence, which even then were becoming zones of Communist domination, had largely been set up by political agreements, made before the liberation of Europe. Our forces, standing in strength on the Elbe, had to be withdrawn, for example, not because we were unable to maintain them there; nor because we were afraid of conflict with the Russians, but

simply because, in hot pursuit of the Nazis, they had advanced many miles beyond the frontiers of the allied zones set up for Germany by the European Advisory Commission in 1944. This incident illustrates the inseparability of various aspects of American life and policy.

A prior political decision, arrived at by negotiation around a council table, had adverse effects upon our later military situation in middle Europe; and those effects have caused us much in money and effort. However, even if an emotional wave had not swept us into a quick demobilization; even if political decisions had not set geographic limits to our military position, the Communist menace would still have been dangerous and global. The character of the threat quickly became as much economic as military. On the Communist side, a stupendous effort was begun to build heavy industry as the base for an expanding economy and military power. The effort involved a concentration of enforced labor on dictated goals. And, consequently, it moved with an initial momentum impossible in the free countries.

The first major American challenge to the Communist purpose of gaining supremacy over Europe was an economic counterattack -- the Marshall Plan. As presented by General George Marshall, then Secretary of State, the plan was economically sound and obviously in our own enlightened self-interest. But its greatest appeal, I think, was to the heart of America. In it, we saw an opportunity to help the victims of war once again to stand on their own feet and to prosper. And around the Marshall Plan a united America rallied because -- aside from the logic and profit of this Plan -- our hearts were committed to it.

Against Communist encroachments, however, the immediate post-war years were marked, inside America, more by day-to-day improvisation and expedient than by a consensus of opinion on grand objectives that should be pursued by the nation. A rising cost of living, strikes, depressed areas, inflation and still more

inflation -- these constituted our economic news in the immediate post-war period. A climate of frustration grew in the country. By that time we had been, for more than a dozen years, wandering from the free, competitive economic system within which our country had developed its resources, expanded its strength and attained the highest standard of living in history.

During the depression years, for example, we were told by important officials of government that our industrial plant had been completed; that we had achieved a mature economy without little further growth potential; that only Federal pump-priming could maintain a respectable economy; that public works, Federally financed, constituted the last frontier of American expansion. Thereafter, through World War II, our economic system was primarily devoted to the purposes of war and secondarily to a completely controlled production for civil purposes. Rigid controls were continued even after the war ended. And before the economy could return to a free and competitive way, the Korean War once more reduced it, in large measure, to production for military operations.

By 1952, the wonder is that any faith in our traditional economic system was left in the United States.

Washington had been long in the saddle; government had widely come to be accepted as the overlord of the economy. We had been living a life that, for America, was unnatural; almost bewildering. Reaction was inescapable. Citizens, by the thousands, began an organized effort to change the political philosophy of Washington and its role in the economy. In late 1952, they were successful. National objectives then announced were a modern expression of our earlier history and traditions. Among them were: A halt to inflation. Restored confidence in our free economic system. Steady, dependable economic growth. Equality of citizenship and opportunity. A program of construction in our basic national plant. Modernization of our Armed Forces.

And, most importantly, a sense of national purpose to which the individual, his community, his state could contribute -- under the leadership and with the help of the Federal Government whenever necessary -- but essentially rooted in the capacity of individuals to work together for local, regional and national objectives using government at appropriate levels as an agent or a partner. Such objectives appealed to the pride and self-respect, vision and patriotism of individual Americans. They appealed to the good will, the decency, the humanity of individual Americans. In these respects, the approach may have been emotional -- it was clearly directed to the heart of America. These objectives appealed also to the common sense, the enlightened self-interest, the expectation of reward for work well done. And, in that respect, the approach was to the head of America. At no time did the people espousing these objectives assert or even admit that all wisdom and knowledge were concentrated in Washington.

On every problem, those of us who were in Washington sought the advice of men and women around the country -- specialists in particular fields; not absorbed in partisan politics; concerned with the merit of proposals -- not their vote appeal. And, there was developed at the grass roots a better informed public opinion, which helped the nation to arrive at a national consensus on what should be done.

I may be, of course, a biased witness about the results achieved during the eight years following 1952. Political critics, I understand, now charge the government of that period with the high crime of producing tranquillity in America. If tranquillity and smugness were the same thing, they might have reason for complaint. But America was far from smug. Speaking relatively, it was tranquil. But tranquillity is evidence of confidence in the country's strength to meet effectively any crisis, foreign or domestic. And indeed America did so -- every time crisis erupted -- domestic or foreign. Moreover, the nation had increased in prosperity and opportunity at home, in influence and prestige abroad.

Now, in the light of my own experience through the years I have so quickly reviewed, what conclusions can we logically form as to our present and future? First of all, I am sure that the Republic will, for several reasons, survive domestic confusion and Communist menace. Some of these reasons are because we still have an economy, fundamentally strong, needing only a reasonable encouragement by government and a renewed confidence in the future, to resume its dynamic progress. Because our military posture, modernized through a ten-year program, enables us to confront any enemy unafraid. Because the common sense and wisdom of the people, when flouted, will be re-asserted in the conduct of government. Because America's spiritual strength, comprising a deeply-felt religious faith, love of country, dedication to the indestructible rights of individuals and confidence in ourselves, always seems to flourish best when problems of grave import confront us.

Of course, trends have developed recently that -- I, at least -- consider damaging to our prosperity and over-all national strength, if they are permitted long to continue. Among them are: Concentration of power in the Executive Branch with a consequent reduction in the role of Congress. Preoccupation with what are called "Pocketbook" issues which in fact seem to be "something for nothing" appeals. An economic philosophy that proposes constantly increasing federal expenditures and federal intrusion into the economy as an inescapable reality of life -- expressed in deficit spending.

In the election last week, the American Electorate had -- rather it seemed so in early October -- a clear-cut opportunity to express their judgment about these trends. The Cuban crisis, of course, somewhat obscured the issues in the Congressional races. A natural and patriotic desire to rally about the President, undoubtedly and understandably, distracted attention from domestic matters. Nevertheless, Governors were elected in key states, committed to no further surrender of

state responsibility to Washington. And there is other evidence that the American people, in general, are opposed to the trends toward centralization of power and deficit spending. But among them must be developed a sharper realization that the economic battle against Communism has three fronts:

- a) Our economic freedom at home.
- b) The integrity of the dollar.
- c) The need for revitalizing our economy.

I should like to address myself briefly to each of these three points.

First: On Economic Freedom -- The trend toward concentration of too much power in the Federal Government has both political and economic implications. The political implications of such concentration are both unmistakable and deeply disturbing. Further diminution in the role of state and local governments, with consequent increases in the role of Washington and further transfers of authority from the Legislative to the Executive Branch within the Federal Government, can only reduce the power of the people and increase the power of government officials.

From the economic standpoint, the growth of federal and executive power can only serve to impair the functioning of our competitive economy and obstruct our efforts to win the economic Cold War. The wellspring of economic progress and prosperity lies in the decentralized decision-making of a market economy. That lesson we should have learned -- once and for all -- between 1932 and 1952. All of us who are concerned about our economy should likewise be concerned about the tendency to establish a "guiding hand" in some branch of the government to replace the "impersonal hand" of the marketplace. As an inevitable result, the politically expedient displaces the economically sound. The over-all result is: Impairment of investor confidence; and fear of a philosophy that claims free people working together in a free economy cannot be trusted to reach the right decisions; that only government officials can be expected to act in the public interest.

Now -- The Integrity of the Dollar. Toward the end of my latest tour in Washington, it became clear that the United States policy of promoting recovery in Western Europe and Japan had been spectacularly successful. As a consequence, the dollar shortage abroad had been replaced by a dollar surplus and short term security holdings in central banks all over the world. We began to face a severe balance of payment problem. As it mounted and deficits became cumulative, some of our large supply of gold began to flow to other countries. While admittedly some redistribution within limits of the gold supply among the free nations of the world might have been desirable, the continuous outflow of gold in large amounts accompanied by the rapid rise of the price of gold in the free London gold market in October, 1960, created a complex problem, difficult to solve. In Washington we had started over a year earlier to implement policies aimed at reducing the deficit. These policies were intensified over the latter part of 1960, especially as related to the outflow of dollars associated with foreign military expenditures and economic aid.

The present administration has continued most of these policies, in addition to developing other useful techniques, particularly in discouraging speculation in currencies. For these actions, the Administration, and particularly, the Treasury, deserve the commendation of the country. But it would be both premature and dangerous to conclude that the balance of payments problem is no longer with us. We must therefore continue our efforts to maintain the stability of the dollar. To cease or to diminish our efforts, could deal the free world a crippling blow in the economic cold war. Among other things, we must lower costs; we must remain competitive; we must continue to increase our exports; we must minimize the outflow of dollars associated with military spending and assistance; we must provide adequate defenses against speculators.

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And, finally, a word about revitalizing our domestic economy. We should not be satisfied with growth for growth's sake, growth that is merely statistical. Several billion dollars increase in the GNP, if it is only in services and not in goods, is hardly evidence of increasing productivity. Our primary purpose should be to expand the production of things that solidly fortify our standard of living. This requires an economic climate in which both business and labor will work and invest with confidence about the future. While I am sure there are many influences to cite as drags on our economy, one undoubtedly is the structure of the income tax. This system was substantially devised in the depression and shaped further in war. It is not suited to the 1960's. In its present shape it stifles incentives, impedes investments and has weakened us economically at a time when we should be gaining strength.

I do not intend here to propose any specific proposal for tax reduction or improvement in the tax structure; rather I would like to outline some simple beliefs with reference to it. In the first place, any modification of our tax system should be designed to create incentives; to provide a wider purchasing power for all the people; and to encourage business expansion by providing for adequate after-tax profits. Especially it should improve the ability of industry to modernize -- and keep modern -- plants, machinery and techniques. Fully as important as the form of any tax modification, is the need for carrying it out within the bounds of fiscal prudence.

Consequently, any proposals which result in a substantial lowering of taxes should be accompanied by straightforward and explicit commitments to hold federal spending constant for the next two years or, far preferably, to see that such spending declines. Moreover, policies and programs respecting spending and tax adjustments must reflect reasonable appraisals as to future income and outgo, so that deficits, if necessary, may be kept at acceptable levels. Sound priorities for

governmental spending should be announced to the public. In all this area, one conviction and one desire are held in common by most Americans; we can and must regain our confidence, and we must so expand our economic strength that we shall win the economic war now conducted against us by international Communism.

I can sum up my own judgment on how that expansion can be best achieved in three points.

First: If we commit ourselves to the preservation of economic freedom by ending the drift of power toward Washington and stop the encroachments of executive power at the expense of the Legislative, we shall make progress.

Second: If we continue strong and effective efforts to correct the balance of payments and to maintain the strength of the dollar, we shall make further progress.

Third: If we so modify our tax system that it does not obstruct investment and initiative, we shall go farther still.

Unfortunately, such economic objectives lack the glamour of political panaceas. They must be translated into human values; into their meaning for the prosperity of the wage earner and the farmer and the merchant; into their contribution to higher living standards, to the dignity of the individual, to the well-being of the family, to the richness of the American heritage. This translation is an imperative on all who believe in the productivity of our economic system.

I suggest that, particularly, it is an imperative on you in this room whose daily concern is with our economy and our system. On the clarity of the translation and its communication to our people, made by you and like groups, depends the future of the free enterprise system. You cannot leave the field to the doctrinarians and to the bureaucrats. You cannot merely talk it up among yourselves; you are already convinced. You must be missionaries, evangelists, preaching an economic gospel. The cause is worthy of your best and enduring effort. You will be working for the power and progress of the Republic and its world leadership -- both of which are based upon the constant renewal of our moral strength and the sound expansion of our nation's economy.