

A PRACTICAL APPROACH TO POST-WAR PLANNING

Address

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Before the Missouri Bankers University War Conference

University of Missouri, Columbia, Mo.

Thursday morning, January 6, 1944

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The Missouri Bankers' Association and the University of Missouri are to be congratulated on restoring the University Conference as we turn the calendar to 1944. Banks of this state face years of operating under conditions totally unlike those to which we had grown accustomed.

The University is dedicated to learning and provides intellectual leadership to the entire state. As such, it provides an atmosphere in which we can best exchange views upon the many problems which lie before us. Certainly no one knows all the answers. At best we can seek through frank discussion to obtain a better understanding of the kind of world we will live in after the war and make some progress toward the solution of the particular problems that will have to be faced by the banking fraternity.

The label "post-war planning" has been attached to so many various types of undertakings that it has come to have a vague and impractical ring. Consequently some people are inclined to shy away whenever the subject is mentioned. This is particularly true of those who are not directly engaged in war production and consequently have not had such a complete conversion from their normal activities.

In my opinion this is an unfortunate attitude. A business need not have war contracts to run the risk of grave post-war dislocations. Our modern economic system is so interdependent that no single unit or group can hope to isolate itself from repercussions when great economic changes are in process. Bankers, of course, appreciate this fact better than many others because they have learned that significant changes in general economic activity carry with them financial consequences that directly affect the banking system.

The war has produced profound changes in the condition of banks. Deposits have increased at an unparalleled rate as the result of bank purchases of Government

securities to meet the tremendous cost of war. At Missouri banks, total deposits rose from about \$1.6 billion at the end of 1939 to over \$2.6 billion at the middle of 1943. Government security holdings of Missouri banks went up from \$400 million to over \$1.2 billion over this same period. Loans, on the other hand, showed very little change. In fact they declined slightly at the smaller banks which did not share in the large war production loans.

All of us are wondering whether peace will bring equally profound changes, and what will be the direction of the change. We are asking ourselves whether the banking system and the state and federal institutions concerned with banking are in a position to meet the important adjustments that may be required.

These are vital questions for bankers as they plan to meet the challenge of the post-war world.

There is nothing new about the fundamental character of post-war planning. It is simply "planning ahead" just as every successful banker always tries to plan for his future operations. But it is planning ahead which requires more than ordinary care because so many of the factors are uncertain. Moreover, the rapidity with which conditions may change means that any set of plans must be subject to constant revision as the actual picture becomes more clearly defined.

With these premises in mind, your Committee on Post-War Planning decided that its primary objective should be to assist and stimulate the individual bank to undertake a post-war planning program for itself. The Committee recognized that this approach places a lot of hard work upon the bankers who participate. To do a good job will involve digging into every nook and cranny of your bank's operations. No one can draw up a blueprint of procedure that every individual bank should follow. Each bank has certain problems that are peculiar to itself alone.

These must be given careful attention in considering the question "Where do we go from here?" Your files contain a great deal of material which can be used to obtain a sharp picture of every detail of your operations. Even the skeptic will agree that a systematic start toward post-war planning will encourage a bank to find out just where it now stands; my contention is that it may also lay the foundations for more efficient service in the future.

Recognizing, therefore, that most phases of the individual bank's post-war operations can be appraised and planned for only by the institution itself, the Committee has turned its primary attention to a practical program that may assist individual banks to meet certain problems that will be faced by bankers generally.

I would like to devote most of my talk to our preliminary efforts in this direction. I am sure that I express the views of all my associates when I say the Committee wants and needs the suggestions of all who are attending this University Conference before it draws up a program to recommend to the bankers of Missouri.

First of all I repeat that we are trying in everything we do to bring the program down to earth so that it will be of practical value to the individual bank. Naturally, in using any material which the Committee finally develops, a banker must bear in mind the particular circumstances which surround his own business. He must select only that portion of the Committee's material which promises to help him meet his own problems.

In outlining its course of action, your Committee felt that post-war planning by the individual bank should embrace the following major questions that have general application to most banks:

- (1) Analysis of ownership and changes in its deposits
- (2) Government bond and investment policy
- (3) Loan portfolio and opportunities
- (4) Obligation of a banker to exert leadership in his community by stimulating post-war planning of his customers.

The next task before your Committee was to put some flesh on these bare bones. As is customary of Committee procedure, our Chairman, Joe Williams, assigned the major responsibility for this difficult job to a Sub-committee under the able leadership of Hord Hardin of St. Louis. This Committee has already worked out a tentative program for consideration.

Let me throw it open to this forum by taking up the major topics in order:

(1) Analysis of ownership and changes in deposits.

Deposits constitute the most important source of the individual bank's funds. Consequently, an appraisal of the post-war position of the individual bank must start with an analysis of its deposits. The Committee proposes to prepare for distribution a schedule designed to assist banks in making that analysis.

In this connection, consideration has been given to the ownership classifications of demand deposits of individuals, partnerships, and corporations now being used by the Federal Reserve System in its surveys of deposit ownership. The Committee believes that this classification provides a starting point that will help the individual bank to estimate the volume of deposits it may have in the post-war period.

Some idea of the problem of the smaller Missouri bank in analyzing its deposits may be indicated by the figures of the 400 odd banks that are not members of the Federal Reserve System. The total deposits of these banks on June 30, 1943,

were \$418 million. Of this total, \$269 million represented demand deposits of individuals, partnerships, and corporations, and \$77 million time deposits of individuals, partnerships, and corporations. These two classes, therefore, represented 83 per cent of the total. Of the remainder, \$46 million, or 11 per cent of total deposits, were deposits of state and local governments, and nearly \$18 million, or 4 per cent, were deposits of the United States Government, mostly War Loan Accounts.

Thus for the smaller Missouri bank, a classification of its demand deposits of individuals, partnerships, and corporations and an estimate of the amount that the bank will hold in the post-war period appears to be most important in appraising the future deposit level which will provide the major source of its funds. At smaller banks the Federal Reserve survey calls for ownership classification on deposits of \$3,000 and above. The banker, by listing his demand accounts of this size and making an estimate of the amount that each depositor is likely to hold with his bank after the war, should obtain, within reasonable limits, a fairly good idea of the total amount of funds that his bank will have available for use after the war.

Some of you may be somewhat skeptical as to your ability to analyze the post-war deposit holdings of even your more important customers. It is, of course, difficult. The matter is, however, of such vital importance to the future of your institution that if you are seriously interested in post-war planning you cannot afford to throw up your hands until you have taxed your ingenuity to find the answers. Obviously your estimates will be tentative and subject to constant revision as the future unfolds. Also, it may be well to be somewhat pessimistic in estimating your possible deposit losses.

Just as the uneven stimulus of war industries and military centers and relatively high agricultural income has resulted in somewhat uneven distribution of

the tremendous growth in deposits during the war, so shifts of deposits after the war are to be expected. As an individual bank it is important to try to analyze the position of your community in the post-war world. Your community will tend to gain deposits as your business and individuals sell their products and services outside, and will tend to lose deposits as they buy elsewhere. Your net position will be influenced by many factors: changes in population and working force; the maintenance of high agricultural income; the adaptability of your local productive facilities to post-war demands; the expenditures of your community, especially for durable consumers goods; and the financial needs of your business concerns as they reconvert operations to a peacetime basis.

In analyzing your post-war deposit position, you should always bear in mind the influences that may be expected to affect the total volume of deposits for the banking system as a whole. It seems unlikely that total bank deposits will materially decline in the early years of the post-war period. In contrast to the last war when deposit growth was largely based upon private loan expansion, in this war it has been based upon increased investments in Government securities. During the last war, also, banks borrowed substantial amounts in order to finance their customers. Consequently, the reduction of this indebtedness contributed to the contraction in bank credit and deposits which followed the last war. With the banks having virtually no indebtedness to retire and with such large holdings of Government securities, the deposits of the banking system as a whole should be well maintained except as Government debt is reduced after the war.

The Committee urges that as many banks as possible participate in the Federal Reserve survey scheduled for the end of February, 1944, with the thought that the consolidated data will provide a useful benchmark for individual banks in analyzing their own post-war deposit situation.

(2) Government bond and investment policy.

After analysis of the probable movement of its deposits, the bank can turn to an appraisal of its cash position and Government security holdings. Such an appraisal might involve the following questions:

- (a) Does my bank have sufficient cash assets and short-term Government securities to meet a possible decline in deposits that may be experienced after the war;
- (b) Is my bank maintaining too liquid a position in view of fact that the general level of deposits in the country as a whole will remain high?
- (c) What changes in the maturity distribution of my investment portfolio appear warranted?
- (d) Can I take care of the local loan demands that may develop without letting go of desirable and remunerative investments?

The Committee proposes to draw up a schedule as a suggested aid to banks in analyzing whether their investment policy is keyed properly to anticipated change in their deposits.

The overall position of banks to meet shifts in deposits appears strong. Most bankers have followed an investment policy that will enable them to meet any probable deposit losses from surplus cash funds or from run-off of Government securities. The Treasury financing program, which has included a large volume of short-term obligations such as Treasury bills and certificates of indebtedness, has given alert banks the chance to keep fully invested and liquid at the same time. In addition, there are the Federal Reserve open market techniques which have been largely developed since the last war. Finally, the banks themselves have become more accustomed to investing surplus funds in Government securities.

Consequently when shifts in deposits occur, the banks that receive funds are likely to turn to the Government security market for investment. This, of course, tends to make a market for Government securities which the banks losing funds may desire to sell.

(3) Loan opportunities.

The Committee has asked a number of bankers who are specialists in particular fields to assist in drawing up analysis schedules to assist the individual bank in determining the financial requirements of its customers in the post-war period. In order to be of the most practical value, it is felt that separate schedules should be prepared for several major types of customers such as (a) farmers, (b) industrial concerns, (c) mercantile establishments (wholesale and retail), (d) utilities, (e) transportation companies.

The Committee believes that a systematic review by individual banks of the financial needs of their customers will uncover opportunities for profitable and sound loan business. In recent years the banks have lost loan business to other financial agencies. Consequently the suggested schedules should aim to stimulate the banks to furnish as much of the prospective financial accommodation as is consistent with sound banking principles. In this connection, however, it should be recognized that many banks have been slow to change their credit practices in response to changing conditions. In analyzing the financial requirements of their customers after the war, banks must give careful study to the possible use of some of the newer forms of credit extension, such as term loans and accounts receivable financing.

The proposed schedules for credit analysis are especially timely since banks will soon be receiving the end-of-year financial statements of their customers. These statements will reflect to the banks the effect of the war on the men

and companies they serve, and will provide an excellent starting point for appraising the effects of changing over to peacetime activities.

Before leaving the question of loan opportunities, I would like to make a few brief remarks upon the subject of competition. Over a long period of time an institution must serve the needs of the general public in order to justify its existence. I mentioned above that in recent years banks have been losing loan business to other financial agencies. In addition to this, many business concerns have been building up an extremely liquid position and no longer find it necessary to obtain any accommodations from credit-granting institutions.

Bankers cannot afford to sit idly by, but must be always alert to see that their credit facilities are keyed to the general public's requirements. In the agricultural credit field, for example, the operations of Government credit agencies have been the subject of a great deal of comment in banking circles. In my opinion, bankers through their national organizations should continually keep the spotlight of publicity upon these agencies to be sure that their practices are sound and do not involve an undue burden upon the Government Treasury. However, the individual banker on the firing line must not be content with this. He must review all phases of his agricultural loan activities, including his rate structure, to be sure that he is serving adequately the needs of agricultural interests in his community. I am impressed by the fact that many of the more aggressive and forward looking bankers find that they are able to hold the desirable agricultural loan business in their communities.

(4) The banker's responsibility in stimulating post-war planning by his customers.

As you know, businessmen and community groups are giving increasing attention to the question of post-war planning. Bankers are participating in these

programs and in many cases are assuming leadership in the work of Committees for Economic Development, Chambers of Commerce, and other local post-war planning organizations. Such activities are desirable and may prove of vital importance in aiding in the solution of post-war problems at the community level.

No one is competent to attempt to present a blueprint of the method by which a banker can stimulate post-war planning by his customers. Financial plans, however, must be an essential feature of any comprehensive post-war planning by an individual business concern. Consequently if Missouri bankers undertake an analysis of the financial requirements of their customers such as is suggested above, it will lead into many phases of business operations. No doubt the banks will wish to discuss certain aspects of the analysis with their customers. Such discussions should serve to stimulate the customers to undertake post-war planning for their businesses.

Before I sit down, I want to try to fit our small piece of the post-war picture into the world scene in rough perspective. My approach thus far is wide open to criticism; the war hasn't been won yet. We stand on the threshold of a new year, a year of war, a year in which the number of American youth sacrificed in battle may exceed our total casualties in all previous foreign wars combined. We've got that war to win, and no thought of the future can be permitted to detract one featherweight from our effort to that end. The banking fraternity has provided much of the leadership in financing the war; that job stretches on indefinitely into the future. It isn't spectacular, but it is vital. You will not tire or falter as you push successive war loan drives through with brilliant records. But you can render this and the countless other services a nation at war exacts of its community leaders without losing the sense of touch with the future which you must

cultivate and use to survive. We are unsure and uncertain as to much that lies ahead, but on one thing we may plan with confidence: the world that emerges after this war will be very unlike the world we grew up in. Adjustment to change will be the keynote of banking for 1944 and thereafter.

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