

BANKER LEADERSHIP
IN A
NEAR-WAR ECONOMY

Address by
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It is a distinct pleasure for me to welcome the banker-students, the faculty, and the guests of the Eighth Arkansas Bankers Seminar to our Federal Reserve Dinner, which I believe has become one of the traditions of the Seminar. I am delighted to participate in the excellent program being presented here.

At this particular point in the seminar schedule, you have completed four fairly strenuous days of classes, dinners, and round table discussions, with three class periods still to go before adjournment tomorrow afternoon. It is not an unreasonable assumption that, after four days and twelve school sessions, the cup of learning very nearly "runneth over".

I have sifted many things I would like to say, in order to get right at two most significant topics: The impact of rearmament on Arkansas; and the difficulty of the banker's task today.

Impact of Rearmament on Arkansas

In the past year we have lived through another serious price inflation which, temporarily at least, seems to have abated somewhat. We all know, only too well, that after June 25, 1950, a triple-threat inflation was built on top of an already fair-sized boom. First came sharply increased consumer spending, then a rapid growth of business investment in plant and equipment, and finally an expanding flow of government expenditures for rearmament purposes; all combined to provide the triple-threat. Presently there is a lull in inflationary pressures. Consumer spending has diminished and personal saving has increased, but the other two factors, business

investment and rearmament spending by Government are still exerting pressure.

The rapid growth in business investment and the gradually increasing flow of Government spending for rearmament have been important in Arkansas as well as throughout the nation. Two major Government plants in Arkansas which are being expanded to meet needs of the mobilization program are the Naval Ammunition Depot at Shumaker, close to Camden, and the Pine Bluff Arsenal. The Camden Depot is undergoing a \$35 million expansion and will eventually employ some 4,000 or 5,000 persons in the manufacture of rockets, an increase of 2,400 to 3,400 persons over the number currently employed. The Pine Bluff Arsenal, erected in World War II at a cost of \$52 million, is being expanded at a cost of \$18 million for the production of chemical items and related ordnance items. Employment on this project is expected to rise from the 2,200 persons currently employed to a total of about 3,900 persons in the next 12 months. Another large project which will add to the payroll of your state is the reactivation of Camp Chaffee at Hot Springs.

A second impact of mobilization on Arkansas has been the expansion of your essential, privately owned industries, especially those producing and processing aluminum. The expansion of the Reynolds aluminum reduction plant at Jones Mill, the new alumina plant being built by Alcoa at Bauxite, and the proposed General Motors plant for production of aluminum castings at Jones Mill, point up Arkansas' increasing capacity to produce and use this light metal.

Not counting the General Motors project, over \$60 million in tax adjustment certificates were granted for new facilities in Arkansas up to June 11.

In a defense economy the usual factors which determine the location of industrial plants are supplemented by new ones. Security of industrial plants from possible enemy action requires that our essential industries be dispersed as much as possible in order to minimize potential damage. Moreover, it makes considerable sense today to place new manufacturing plants in surplus labor areas rather than to move workers to already congested manufacturing centers where adequate housing is lacking. Indicative of the expansion which can be yet achieved in Arkansas, your current manufacturing employment of some 76,000 persons is substantially below the World War II peak of 93,000 such employees. Arkansas can undoubtedly expect still further growth in the location of new plants within its boundaries.

The present rearmament program has, then, brought new business investment and additional Government spending to Arkansas and has resulted in growth of important industries within the State.

Business investment and Government spending programs have also brought inflation to Arkansas. There has been a sharp expansion of bank credit in Arkansas and in the nation since Korea. From June to December 1950 commercial and industrial loans of all insured banks in the nation expanded from \$17 billion to \$22 billion, an increase of nearly one-third. In Arkansas insured banks the increase amounted to \$21 million or nearly a half. This expansion of bank credit, together

with a sharp increase in the rate of turnover of the existing money and credit supply, outran the increase in the flow of goods available for purchase. Prices zoomed, and that old "but-a-boo", inflation, once again made our lives more difficult. Now that we have arrested, at least temporarily, the inflationary threat, I might note in passing that two important financial developments were significant factors in meeting the post-Korean inflation. First of these was the Treasury-Federal Reserve accord of early March, 1951, which released Federal Reserve authorities from the strait jacket of rigid government security prices and thereby considerably improved the effectiveness of open market operations as a tool of credit control. Second came the inauguration of a Program of Voluntary Credit Restraint which strengthened materially the central bank's moral suasion tool. The latter is one of the main points that I wish to discuss this evening while considering the difficulties of the banker's task in these times.

The Difficulties of the Banker's Task

I believe that bankers have special responsibilities to their communities and to the nation. A few days ago I had the pleasure of speaking to the Rotary Club of Little Rock on the responsibilities of citizenship. I stressed then, and repeat now, that the actions of each individual are important, that the what-I-do-doesn't-matter attitude of so many of our citizens must be cured, and that the individual citizen's participation in local community affairs is not only profitable for the community but at the same time serves the citizen himself as a training ground for individual development. My Little Rock talk was concerned primarily

with our individual average citizens, the people recently referred to by Dr. Edwin G. Nourse as our "followership". At the same time I noted the need for leadership.

To develop by proper training, encouragement and practice the qualities of Intelligence, Self-control and Conscience in our citizens calls for leadership of the highest order. It calls for leaders who understand that their effectiveness depends not so much upon their own efforts as upon the might of their fellow citizens united for the public good. It calls for leaders who are able to envision means of enlisting the active participation of individual citizens in consideration of common problems. I have often expressed the belief that, in the very nature of things, widespread citizen participation in public affairs can come about mostly at the level of the local community, which is the training ground for citizenship. However, local and community programs are not self-starters. They are the product of vision, imagination, hard work, perseverance, and intelligent leadership, and that brings me straight to my central theme, "Banker Leadership".

Bankers are leaders especially in the work-a-day world of community activities. Your responsibilities as civic leaders are heavy, but you have a still more onerous burden, an especially difficult responsibility in your own businesses. In passing judgment on the requests for credit that come into your banks each day, you have a dual responsibility for satisfying legitimate needs for productive credit and at the same time helping to check undue growth

in the total volume of bank credit.

What do we mean by "satisfying legitimate needs for productive credit"? In comparison with some other states there is relatively great need for capital investment in Arkansas, in both industry and agriculture. In agriculture, for example, a large proportion of your farm people live on a lower scale than your more fortunate neighbors in the Mid-west. The farm operator level-of-living index for Arkansas in 1945 was 37, in Missouri it was 93, and in Illinois 139. Arkansas has made rapid progress in the last five years but as compared with Illinois or Missouri it still has a long road ahead.

What are some of the possibilities in Arkansas agriculture for increasing production and raising the average level-of-living for farmers? The use of fertilizer has increased threefold in Arkansas since 1940. That illustrates progress that is being made. However, 366,000 tons of fertilizer used in Arkansas in 1950 is less than 60 pounds for each acre devoted to crops and pasture. Right here on the University Experiment Farm at Fayetteville, and on outlying experiment fields, experience has proven that considerably heavier applications of fertilizer result in sharply increasing returns. In the 1950 report of your agricultural experiment station it is noted that the addition of each pound of nitrogen per acre may result in increasing the annual yield of such a crop as oats as much as one-half bushel.

Pasture improvement likewise affords an opportunity to increase productivity in a relatively short time. Utilizing roughage

production through expanded livestock enterprises permits a larger volume of business, more efficient use of labor, and a higher standard of living. Again referring to one of your experiment stations, published reports of the Livestock and Forestry Branch Station spotlight ways to change idle land into improved pasture producing 250 to 350 pounds of beef per acre, year after year.

These things are challenges to farmers, agricultural technicians and bankers, particularly in times when there is so much talk about beef shortages and expanded beef demand.

Take another illustration. Many farmers have relatively unproductive assets in their farm woodlands on which meager earnings of maybe \$2.00 an acre or so could be more than trebled under better management and practices. Most unfortunate is the fact that these farmers are losing such a substantial amount in stumpage values on $5\frac{1}{2}$ million acres of Arkansas farm woodlands. It is estimated that if they could be induced to adopt good management practices on these woodlands, Arkansas farm income could be increased as much as \$50 to \$60 million a year.

These are but a few examples of opportunities in agriculture to improve the level of living. The over-all possibilities of expanding agricultural production in Arkansas are truly tremendous. If time permitted, examples could be multiplied not only in agriculture but in potential industrial development as well. The main problem which these things pose for bankers is not a mere problem of accepting opportunities to make safe loans. It is not so simple a problem by any means. It is a complex and vexing problem which must

take into account some fundamental and basic principles influencing the operation of our economic system - a system, by the way, which we have developed in this country and which suits us because it offers a maximum of liberty and individual freedom of choice - a system whose preservation is a prime subject of our most anxious care. I think we can afford the time to examine your special and peculiar problem as bankers with some particularity.

When from the vantage point of your bank the outlook is fairly rosy, when you have funds available for lending, and when various demands for credit plainly exist, how do you discharge your duty to decide in the public interest where to extend credit and where to withhold it? Realization of your heavy responsibility to appraise the varied aspects of your problem and to be worthy of the power to create money impresses you with the need for statesmanship in banking as well as in Government. Perhaps a few observations can help you as you think upon these things.

In this country, more than a third of a century ago, we chose to make a division of labor in the dual tasks of (1) regulating the aggregate supply of credit and (2) selecting from among the many applicants for credit those who should be permitted to have it. The central bank, the Federal Reserve System, was given primary responsibility for regulating the supply of credit, for seeing that the supply of credit is appropriate to the needs of business, industry and agriculture.

This means neither too much credit, thereby tending to generate inflationary pressures, nor too little, tending to bring about deflation, stagnation of business and unemployment. The other of these dual tasks, the task of selecting individual applicants for credit who shall be permitted to have it, was left where it had always been - in the commercial banks, for the most part. As you well know, it is the business of commercial bankers to make these selections as to a very large proportion of all the credit granted. However, the division of labor was neither perfect nor complete. The fact remains that while you bankers have the major part of the task of making the hard decisions of selection, you cannot escape responsibility also for the total supply of money and credit, particularly in periods when by reason of war or other causes the central bank needs your assistance in carrying out its portion of the dual task.

It is, I believe, typical of our system of liberty and individual freedom of choice, which I mentioned a moment ago, not to depend altogether on the governmental power to regulate, but to place great dependence also on the intelligence, self-control and conscience of private citizens engaged in private business for filling in gaps where regulation does not go the whole way. It is a compliment to the institution of banking and to bankers that when we came to make a division of labor in the field of monetary and credit management, we left a part of the job to voluntary, self-disciplined restraint on the part of commercial bankers.

For several months now we have been witnessing what has been described as the greatest adventure in the history of modern finance, the Voluntary Credit Restraint Program. The heart and core of the effort is the commercial bank program. Leadership among bankers has been sought and has not been found wanting. But leadership is not needed exclusively in the national and district committees. It is needed in every bank in every community in the country, because the extent to which we shall be successful in our effort to aid in the control of inflation by voluntary, non-governmental means depends in large measure on the extent to which every banker in every community disseminates among his customers and neighbors an understanding of the purposes and objectives of the voluntary program. This is what I mean by "Banker Leadership in a Near-War Economy". The banker can assist in solving a national problem and at the same time contribute to the solution of his own problems by enlisting the support and cooperation of his community in voluntary means of preventing undue expansion of bank credit. No greater challenge to leadership was ever offered to bankers.

The kind of leadership I am talking about will drive home in every community the obvious point that in the allocation of bank credit "first things come first". Defense contracts must be financed; and defense-supporting activities must be financed. If they cannot be handled in a single bank, correspondent banks may help, and in other cases the V-loan program will be found appropriate and helpful. The first criterion should be to use bank credit to help produce the military goods needed to rebuild the strength of our armed services and to help produce the basic materials, the power, and the transportation facilities

needed to support rearmament. So much, I say, is obvious.

Next the kind of leadership I am talking about will be able to gain willing acceptance in the community of this point, that the choice between productive and speculative uses to which a bank's funds and credit might be put is easy. If bank credit is desired to promote withholding of goods from the markets beyond necessary seasonal storage requirements, then the credit should not be granted regardless of the certainty of repayment. Speculation for the primary purpose of making a profit on a probable price rise or for excessive inventory accumulation should not be financed in inflationary times with bank credit.

The kind of leadership I am talking about will go far toward solving the difficult problems of selection among credit applications for productive purposes. Clearly our productive capacity must grow. The struggle with Communism is basically one of resources, know-how, and production. The armed forces have properly been called only the cutting edge of our defense machine. Back of this is the civilian economy, important in itself and vital to the operation of the defense mechanism. A large and growing population, along with industries and businesses which supply and maintain it, also requires expanded output of food and other goods, more transportation facilities, and more power. Moreover, the increase in productive capacity, followed by increased production, is an essential long-run corrective measure in the fight against inflation. Loans for productive purpose must be made, but since it may not be possible to accommodate all credit-worthy productive loan requests at this time, the selection of which applicants are and which are not to get credit involves a thorough understanding of the proper priorities, -

an understanding which should be possessed not alone by bankers, but by their customers as well.

Such an understanding involves an appreciation of the requisite of timeliness. Productive loans that will get there "firstest with the mostest" should receive priority. The matter of urgency of the need for civilian goods or services should be another consideration. Some goods may be in short supply. Loans to further their production might well receive priority over loans to increase production of goods already in plentiful supply. The type of goods should also be borne in mind. Clearly we need food before improvement in recreational facilities, and we need utilitarian goods before decorative items. I am not suggesting that these last items on the totem pole need to be cut off completely. It is rather a matter of favoring those with high priorities by accommodating their credit needs first, and then accommodating the others if possible in view of the general inflationary situation.

These things I have just mentioned are only samples of the concepts and principles which need to be widely disseminated among our people. That need is present in Arkansas as well as elsewhere. The rearmament effort has brought new business to Arkansas and it has brought again the threat of inflation. Arkansas bankers face exceptionally heavy responsibilities today not only as custodians of credit who must channel an appropriate amount of funds into the areas of greatest and most urgent need, but they have equally heavy responsibilities as leaders in their communities. Today and for the foreseeable future the wise and intelligent use of credit is a matter of concern in every community throughout the length and breadth of

the nation. The banker is the man in every community to whom the people instinctively turn for leadership in matters of finance and credit. It is his privilege and duty to marshal the qualities of intelligence, self-control and conscience which are inherent in his fellow citizens and bring them to bear on these vital problems. I am confident that when the history of this near-war economy is written, it will be recorded that the banker-leaders of Arkansas have met their special responsibilities and have measured up to the challenge to their leadership.