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"COMMERCIAL BANKING AND THE CAPITAL NEEDS OF BUSINESS"

The 1929-1939 depression

For nearly ten years the business situation in the United States has been considered to be in a depressed condition. In 1929 the volume of production and employment began a precipitate decline which was not arrested until 1932. From 1932 to 1937 a substantial and rather continuous recovery took place. However, this recovery fell considerably short of reducing unemployment to the levels of 1928-29, and per capita production remained upon a somewhat lower level. In 1937-1938 a reaction occurred which was much more rapid than that of the early thirties and carried business activity almost to the 1932 lows. A sharp recovery in the last half of 1938 regained nearly half the losses but current activity is still considerably below the level of early 1937 and far below the level of the late twenties. Thus for nearly a decade the business system has failed to operate even momentarily at a rate which we consider reasonable or normal. It has left unused an undue portion of our labor supply. Business activity seems very unstable and subject to violent fluctuations.

During this ten-year period two general points of view have prevailed. One view is that in the course of time business if left

to itself will automatically operate at a high level and make use of most of the labor of the country. The other view is that some special acts of government are necessary or at least desirable to help business to achieve recovery.

In this discussion I wish to give consideration to the part which is played by finance and financial institutions in business recession, in recovery, and in the propensity to violent fluctuations.

Commercial banking, 1929-1933

The commercial banks played an important part in the business collapse of 1929-1933 by selling securities and pressing for collection of loans. Banks sold securities to meet the demands of their depositors. Sometimes their cash was actually being depleted and sales of securities were necessary in order to restore cash to its customary level. In other cases the bankers became fearful of "conditions" and attempted to increase their cash above its customary levels. Or, their fear of "conditions" led them to sell long-term or low-grade securities and purchase shorter term or higher grade securities.

Likewise banks pressed for collection of loans, sometimes because their cash was actually being depleted below normal levels, and sometimes because their fear of "conditions" prompted them to increase their cash to unusually high levels. The attempt to increase cash to unusually high levels was due in part to anticipation of imminent withdrawals of cash, and in part to pessimism of the bankers concerning the future prospects of business.

Whatever may be the reasons for the concerted sales of securities or pressure for collection of loans, the effects of these acts

upon the economy are disastrous. When securities are dumped on the markets these markets collapse, the flotation of new securities becomes impossible, the flow of funds into investment ceases, the construction industry stagnates and industrial paralysis develops. When business men must repay the banks they must make a net reduction in their assets. This depresses the markets in which their assets are sold and makes it impossible for the businesses to carry on their normal operations. These processes are cumulative. When banks dump securities upon the markets, press for repayment of loans or refuse to make the customary extension of credit, the business situation further deteriorates and the banks are impelled to engage still further in their course of action. Thus the banks play a very important role in the vicious spiral of deflation.

The fact that the banks have contributed in this manner to depression does not mean necessarily that the bankers have been guilty of any malfeasance. Certainly to a very great extent, given the framework of conditions within which they operated, individual bankers could not have done otherwise. But it may be worth our while to inquire whether anything could have been done in the banking sphere to impede the downward course in 1929-33. Such inquiry is of course useful only if it may help us in meeting any similar situations which may arise in the future.

As we have seen, much of the deflationary activity of banks was carried on because cash was being withdrawn from the banks or the bankers feared withdrawals sufficient to force them into receivership. Two conditions would have made it unnecessary for the banks to sell securities, collect loans or refuse to make credit extensions in

order to gain cash, namely: (1) The existence of a government agency ready to advance cash to the banks to whatever amount was necessary, accepting as security the assets which the banks would otherwise sell or collect; (2) Willingness on the part of bankers to hypothecate their assets for cash rather than to sell them for cash.

Bank deflation because of banker pessimism

The structure of the Federal Reserve System was such in 1929-33 that it was of only limited usefulness in meeting the cash needs of the banks, and the government was loath to make the necessary changes. It may be, however, that many bankers would have dumped securities on the market, collected loans, and refused to make further extensions of credit even though their cash needs had been readily met. Availability of cash would not have affected the action of those bankers who were convinced that widespread bankruptcy faced the business system. The problem of counteracting this influence is a very difficult one. I think that there is nothing gained by condemning the banker who thinks that the bond market faces further substantial decline or that he can best serve his stockholders by calling in his loans. It is my personal opinion, however, that a banker is foolish to think that he can consistently outguess the business cycle, the interest cycle or the bond cycle. There are of course hundreds of bankers who liquidated early in the 1929-33 period and who appear to have profited therefrom. They will not believe me, but it is my opinion that they were lucky rather than wise.

I know of no means by which to convince the bankers that it

is not to their personal interest to try to outguess the business, interest and bond cycles. Indeed I fear there is a growing belief that banking consists primarily of that guessing. The more bankers make such guesses and operate upon them, and insofar as their opinions coincide, the more market gyrations are intensified. The one sure thing which will cause a security market to collapse is a consensus of opinion of the holders of securities that the market will collapse. The collapse of bond prices in the early months of 1937 may illustrate the results of the opinion of many bankers that they can "get out" when a market begins to fall. My opinion is that a banker may best buy his securities with an eye to holding for the long pull and save the brokerage fees which are involved in buying and selling. The banker may best stick with his borrowing customers through a depression period because he can not know whether decline or advance of general business conditions is imminent. If he guesses on the pessimistic side he stands only a fifty-fifty chance of being right, while he is certain to gain the ill-will of his customers. The commercial bankers, I believe, will never again be permitted to lack cash in a crisis when their customers demand it. If this is true, bankers may devote their time to choosing their risks on a basis of the relative prospects of various borrowers rather than with an eye to fluctuations in the economy as a whole.

But the fact remains that in the 1929-1933 collapse many bankers did rush to liquidate even when they were not pressed for cash, and they may do so again. The question then arises as to whether there is anything which can be done to offset the depressing

effect of such action. Asset purchases may be made by government institutions to offset the sales by the banks. Loans may likewise be made by government institutions corresponding to the loans collected by the banks. Whether such activities should be carried on by the Federal Reserve Banks or by some other agency such as the Reconstruction Finance Corporation need not concern us here.

Bank failures, 1929-1933

Finally, in discussing the role of the banks in the 1929-33 period, it is necessary to note the disastrous effects of bank closings. Some banks closed because sufficient cash was not made available to them to meet the demands of their depositors, while others were closed because of the misapprehensions of public officials concerning the public interest. I submit that the public interest was ill-served during the 1929-33 period or any other period of crisis by the closing of any bank unless the bank was being robbed through the self-dealing of its managers and its closing was the only way to stop the robbery. The time to close banks is when other banks are in a position to assume the functions of the closed bank and there is a market for bank assets. The closing of banks deprived businesses of the funds necessary to their operations. The collection activities of receivers still further impaired their position. The closing of the banks deepened the depression while the deepening of the depression resulted in the unwarranted closing of further banks. I trust that in any future crisis the government will follow a more enlightened policy.

We are of course hopeful that in any future crisis the existence of the Federal Deposit Insurance Corporation will be a beneficial factor. Knowledge that their deposits are insured should prevent depositors from withdrawing cash and shifting deposits in time of crisis. The banks, recognizing this, should be less prone to sell securities and collect loans. It is along such lines that the chief justification of deposit insurance lies.

Banks and business, 1933-1939

I find it quite impossible to say anything nearly so definite about the role of the banks since 1933. Hence I can only outline the controversies which have taken place.

Failure of government agencies to supply banks with the cash which they needed ultimately resulted in the closing of all the banks of the country at the beginning of March 1933. Many banks were not permitted to be reopened, thus contributing still further to the embarrassment of business. Soon after the reopening of the banks, a great deal came to be heard about the failure of the banks to meet the needs of business. It was maintained that if business was to expand to pre-depression levels the banks must extend funds to business in an amount comparable to the period of prosperity; that the banks were failing to do this and were therefore in part responsible for the failure of business to achieve more rapidly its prosperous levels. Those contentions have been made intermittently from that day to this. Over a period of not less than six years it has been maintained that bank credit was not being extended to an adequate extent to business and that something needed to be done about it.

Have the bankers done their duty since 1933?

It is maintained by some that the bankers have failed to re-extend credit since March 1933 at certain vital points when business was ready to go ahead. These charges seem to me much more doubtful and certainly less capable of proof than the thesis which I have just outlined concerning the role of the banks during the course of the 1929-1933 decline. However, they may contain some merit. In the first place, I suppose that in general the bankers who have survived the cataclysm are those who were more prone to keep their funds invested in the types of assets which the government and the Federal Reserve System have in the past kept liquid, namely, short-term paper and government bonds. If the men who were left in the banking business after 1933 were those who always had invested in assets most nearly approximating cash, or who had first fled to such assets during the crisis, then it may be true that they have not been inclined to make extensions of credit since 1933 in a manner conducive to business expansion. Furthermore, it may be that the other surviving bankers thought that they had "learned a lesson" from the experience of the early thirties and that while they financed business freely in the twenties they would henceforth invest only in those assets which had proven impregnable during the depression. It may be that the bankers thereby created both the supply of and the demand for government securities. By failing to expand their loans and investments to private business, they may have necessitated the government deficit, thereby creating a government obligation in which they could invest.

Whatever the truth of these accusations against the bankers,

one positive result was the growth of a widespread demand for government promotion of loans to business. Upon the basis of our previous analysis, it would seem that the best time for government agencies to buy securities and make or induce loans to business would be during the deflationary period when banks are liquidating. Actually, as far as the 1929-1939 depression is concerned, with minor exceptions, such a demand arose only after the bottom of the depression had been passed and commercial loans of member banks had levelled off from the decline of more than $6 billion during 1929-1933.

The original movement for the extension of government loans or government guarantees of bank loans to industry apparently accompanied or closely succeeded in point of time, if not in idea, the establishment of special institutions for the benefit of farmers and home owners. Complete understanding of the subject we are treating, hence, would necessitate an analysis of the logic of organizing special institutions for the financing of any particular group of the population. However, we must ignore this question here.

After much discussion of plans for insurance of bank loans and for special government banks to extend loans to business, existing laws were amended in June 1934 to permit the Federal Reserve banks and the Reconstruction Finance Corporation to extend loans directly to business. When a halt was called to the further extension of credit by the RFC in the autumn of 1937, business firms owed $108 million to the Federal Reserve banks under Section 13(b) of the Federal Reserve Act and to the RFC under Section 5(d) of the RFC Act. Credit extensions under these sections had stood at

approximately this level since the beginning of 1936. After the decision to cease extending credit through the RFC at the very moment that the country was experiencing one of the most precipitate declines in business activity in its entire history, a renewed political demand for such credit appeared. During the early part of 1938 the same plans which were seriously discussed four years before were again widely considered. But instead of providing for the insurance of bank loans or the establishment of special lending institutions, the RFC was authorized to resume credit extension, and Section 5(d) of the RFC Act was liberalized.

Current proposals for business financing.

At the same time as business improved rapidly in the last half of 1938 the RFC was extending credit to business at a more rapid rate than at any previous time. However, by the end of 1938 the rise in business activity had ceased and pretty much of a dead level of activity has been followed since. Because the present level of business activity is below that achieved in 1937 and far below the late twenties, and unemployment is large, there is again a multitude of plans current for financing business.

Brief summaries of the leading Congressional bills on this subject may be appropos. The Patman-Voorhis-Logan bill would set up federal intermediate credit banks and local investment associations. Similarly, Senator Pepper proposes to establish regional industrial credit banks but, unlike Representative Patman and his associates, makes no attempt to employ the cooperative principle locally. Congressman Brown of Ohio sponsors a measure to permit national banks to

make loans for a period up to ten years. Senator Mead advocates outright insurance of bank loans by the RFC.

Outside Congress the Securities and Exchange Commission is continually seeking for means whereby business may float its securities more readily, though there are those who maintain that the net effect of the operation of that organization is to impede rather than to promote financing.

The plans for insuring bank loans appear to be designed to provide for loans involving so great a degree of risk that the banks otherwise would not be willing to make them. On the other hand, the plans for a special system of banks to make loans to business apparently aim primarily to encourage credit extensions with a longer term than the banks are disposed to make. Of course, these two points of attack are not entirely dissociated since many people feel that a long term credit extension as such is more risky than one of shorter term.

If there is merit to the insurance scheme at all it would seem to be desirable that it be confined to loans which the banks would not otherwise make. However, I see no practical way to keep the plan from applying to a very great portion of the assets of a bank.

Financing small business.

Most of the plans for doing something about the financing of business are particularly concerned with relatively small business. I am most sympathetic toward public policy designed to maintain small competitive enterprise. I believe that we can maintain

the kind of government and social system which we consider tolerable only if we have a large number of independent business men in the country. To the extent that the overwhelming bulk of the population becomes wage earners, salaried workers and absentee security holders, the foundations of a free social system will be undermined. Today, despite the growth of gigantic corporations, we still have a great number of business units. It is estimated that there are in the United States about 10 million business enterprises and persons engaged in selling their services direct to the public. Thus it seems that we still have not reached the stage at which the typical business enterprise is carried on by an impersonal quasi-public corporation. It has not yet become futile to work for the preservation of a free economic system. I am skeptical, however, whether the most fruitful action to this end can be taken in the field of finance.

Possibly in the 1920's small business was more dependent upon bank credit than was big business though I know of no figures to prove this to be the case. If such is the case, then it may be that contraction of bank credit in 1930-1933 had an especially bad effect upon small business and the failure of bank loans to expand may correspond to a continuance of depression among small businesses. Special financing mechanisms might be made available to competitive businesses but denied firms which appeared to hold a dominant position in their markets.

There can be no doubt that if a reasonably full recovery is to be achieved and pathological unemployment eliminated, business must have considerably greater financing. But that does not necessarily

mean that the promotion of special financing devices will contribute substantially to recovery, or that when recovery comes through other means the existing financing devices will not prove adequate. Business firms hold some idle balances which they can employ when expansion becomes profitable and the profits themselves will provide additional funds. Some individuals likewise will be willing to invest balances now held idle as soon as the profit prospects of business improve. The banks will be willing to lend more freely with a rise in profits.

To those who place great faith in deficit financing by the government or who think that the government must play an active role in the investment process, the use of government credit in promoting the financing of private business may make an appeal as an alternative or supplementary approach. But it is difficult to construct a rationale for government investment in an enterprise which is called private business but for which private capital is not available to assume a substantial portion of the risk. The situation would be comparable to one in which the government guaranteed the deposits of a banking system in which the capital was negligible.

Assuming that government agencies are potentially an important source of credit for business, it is worth noting that loans to industry by the Federal Reserve Banks have a quite different monetary effect from loans by the RFC. Direct loans by the Federal Reserve Banks increase deposits in those banks and, consequently, the reserves of member banks. Loans by the RFC, on the other hand, probably increase

the volume of government securities and deposits held by the banks and reduce excess reserves. Since on the whole excess reserves have been a source of worry over the past few years there has been reason for making the credit extensions through the RFC rather than through the Federal Reserve Banks. On the other hand, in accord with the classic doctrine that the central bank should attempt to increase bank reserves in time of depression the Federal Reserve Banks would be the preferable source of such credit.

The banks and long-term financing

We have all been brought up on the classic doctrines that commercial banks should make only short-term loans which will be repaid at maturity. The cold fact that the demand for such short-term funds is but a fraction of the funds which the banks have to invest has led to an amendment of the doctrine to permit banks to invest in long-term securities provided they were readily marketable.

The insured commercial banks of the United States have $41 billion of net deposits and $6 billion of capital funds, or a total of $47 billion to hold in some kind of assets. Since they have $10 billion of cash and deposits with the Federal Reserve

banks, there remains $37 billion to be invested otherwise[1]. Now apparently there is nothing like $37 billion of demand for short-term loans from the banks, loans which will be paid off within a year out of receipts from sales. Very likely the amount of such loans is not more than $5 billion, and it seems reasonable to suppose that even with a complete healthful business recovery the demand for such loans would not amount to more than $10 billion. Assuming $7 billion of such loans, there still remains $30 billion of funds for the banks to invest.

It appears that there are two chief avenues for using these funds; they may be invested in the more or less long-term capital of businesses or they may be invested in government securities, (which also, in a sense and to some extent, constitute capital investment). Thus, the question becomes one of whether or not the banks should invest any of the $30 billion in anything but government bonds. I should hate to think that it was proper, as a general rule, for the bankers simply to invest 80 per cent of their available funds in governments and use their talents as judges of credit risks only in connection with 20 per cent of their funds. I should hate to think that government was obligated to keep $30 billion of debt outstanding for the sole purpose of supplying banks with

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[1] This paragraph is not written in ignorance of the existence of excess reserves or of the doctrine that bank loans and investments precede and "cause" deposits. It is believed, however, that this presentation is of some value in showing that in the absence of revolutionary change in our banking structure the major portion of the credit extensions of banks cannot be of a seasonal nature.

assets. People who think that the banks should invest in nothing but self-liquidating commercial loans and government securities must think that the government is obligated to stay in debt simply in order that the banks may have the proper opportunities for investment.

Even if there is to be an amount of government debt equal to or greater than the long-term investment which must be held by the banks, it does not appear altogether reasonable to me that the banks, rather than other investors, should hold the government securities. Government securities seem to me to be especially well adapted for the investments of trusts and those who are not in a position to exercise a high degree of judgment concerning investments. Bankers who specialize in evaluation of investments can make the best use of their talents by investing a considerable portion of their funds in business enterprise. Bankers seem to me to be in a better position than any other group to judge the merits of local firms.

Now if we should grant that banks may legitimately use some of their funds for the long-term needs of business enterprises, the question arises as to the proper form for making such investment. The three chief forms are (1) loans on stock market collateral, (2) investment in readily marketable bonds, (3) investment in bonds or long-term loans of local firms. Without entering into an analysis of these alternatives, I suggest tentatively that each of them is legitimate and none of them can be categorically condemned.

We frequently hear that since the liabilities of banks are short term, the assets should be short term likewise. But the trouble with this doctrine is that when assets are available on demand the deposits are not demanded, and when deposits are demanded to any serious or embarrassing extent the assets which were thought to be available on demand are found to be frozen. When only one bank is faced with deposit withdrawals it can readily meet them by transferring its sound assets to other banks even though the assets may be of a very long term nature. On the other hand, if banks in general are faced with deposit withdrawals they will be unable in the absence of special government institutions to realize upon their assets no matter how short term they may appear nominally to be. Consequently, I conclude that the bankers should be willing to make sound long-term extensions of credit to their customers. No type of bank asset can be healthily liquid in time of crisis except insofar as the central bank is willing to make it liquid, and there appears to be just as much reason for the central bank to stand ready to make the sound long-term obligation of business liquid as the obligations of government and the short-term obligations of business.

Can bankers outguess the markets?

There is a popular doctrine to the effect that good bankers will continually scrutinize their bond holdings with a view to selling those bonds which show signs of deterioration. I am very doubtful whether much good can come of this doctrine. It

assumes that the banker can know when the credit status of one of his bonds has become impaired so that its price is out of line and he can sell it before the price has fallen to reflect the impairment of credit status. This implies that the banker as seller will know something which the buyer does not know. I do not believe that there is available a very sizeable group of ignorant buyers ready to take the banker's sour bonds off his hands at an advantageous price. Consequently, I think that bankers as a whole are wasting their time in watching their bonds with a view to selling them at advantageous times. I have never been able to get very enthusiastic over organizations which purported to make money for banks by advising them when to sell and buy.

Bank credit now outstanding

It seems almost impossible to say anything about what the banks should do for small and medium-sized business when we know nothing of what they are doing. We are woefully ignorant concerning the nature of credit extensions made by banks. We are often told that the banks are unwilling to make any except the shortest term loans, that they fail to make the type of loans needed by business. But so far as I know, such statements are made without any knowledge of the facts. We know how much the total loans of the banks amount to, but do we know to what extent they are used for long-term and to what extent for short-term financing? I submit that we do not. It has sometimes been suggested that statistics should be collected

concerning the maturity distribution of the note portfolios of the banks. However, since short-term loans are often used to carry long-term assets and are repeatedly renewed, such statistics would surely be of very little use. Indeed they might be positively misleading.

Some light might be shed on the problem by an analysis of the portfolios of banks which classified the credit extensions on a basis of the rate of turnover of the assets carried by the borrowing firms by means of the credit. Since it is fallacious to suppose that an item on one side of a balance sheet corresponds to a particular item on the other side, this method certainly has its limitations, but it appears to me to offer the only possible way to throw any light whatever on the subject. I do not know whether it would be worth the cost and the bother, but before anyone can make statements as to what extent banks engage in short or long-term extensions of credit, trained analysts will have to ascertain the facts. During the last few years we have heard a great deal of talk about the desirability of further research in the field of banking. If such research is to be on a very serious scale, I would consider this one of the most desirable projects.

Research concerning the credit needs of business

Attempts to discover unmet financing needs by the case study method have been most discouraging. In 1934 both the Treasury and the Department of Commerce made inquiries concerning the unmet credit needs of business. The survey made by the Treasury is best known and is probably in many ways the most reliable. It was conducted

with care under very competent supervision. But I fail to find that it was able to contribute much to the problem. The conclusion was reached that "there exists a genuine unsatisfied demand for credit on the part of solvent borrowers many of whom could make economically sound use of working capital." But I have an idea that even in 1928 there were solvent borrowers who were unable to secure all the credit which they thought they ought to have.

No attempt was made to ascertain the significance of the dollar volume of refusals of good loans in relation to the total business of the district covered or in relation to any other base figure. However, since the study was able to find refusals of only $17 million, over an 18-month period, while bank loans of $629 million were made in the same district in the last eight months of the period, the refusals do not seem impressive.

The study concluded that about a quarter of the loans which were turned down between the banking holiday and September 1, 1934 were good loans. Whether this was a significant volume we do not know. It was not possible to compare the loans the banks did not make with the loans they did make.

Proposals are frequently made for further field studies of the unmet credit needs of business. However, a review of past investigations does not indicate that such studies could yield conclusive results.

Bank examination and the capital loans of banks

Allegations have frequently been made that bank examiners since 1933 have prevented banks from making certain loans simply because they appeared to constitute more or less permanent financing of the borrower. It has also been alleged that examiners have required bankers to collect loans merely because the funds were being used to supply permanent capital. In the Seventh Federal Reserve District Credit Survey 205 out of 283 bankers commenting on the subject said that because of the attitude of examiners they had refrained from making in 1933-1934 certain types of loans which they otherwise would make. If these figures can be taken at their face value they constitute a severe indictment of the system of bank supervision. Since that time examiners have been given instructions to avoid criticizing any loan on the grounds of the length of time it has been in the bank or the amount of time which it may yet remain.

Interest rates

In talking about the credit needs of business I suppose we should recognize that there may be some relation between the interest rates charged business men and the amounts which they think they can profitably borrow. The Treasury credit survey of 1934 in the Seventh Federal Reserve District found that the business men interviewed would borrow $7 million at 8 per cent, $26 million at 6%, and $43 million at 4%. These figures are inconclusive since they may largely reflect the fact that at low rates of interest the business men would like to refinance present

indebtedness. However, I think that at many times and places the banks do not make the adjustments which they should in interest rates charged their customers. It may be that many of you could expand your sound loans substantially if you charged lower interest rates. I do not know that this is the case but it may be worth thinking about. We may not like low interest rates but they are a fact which we must face. I see no reason why the banks should let the government and big business have funds at bargain rates and at the same time charge customary high rates to local business. While we cannot be certain that the present low rates will last, I suggest that the banker has no very good basis for operating on any other assumption. The business man wants the security of long-term credit, while the banker is afraid he will be caught if interest rates rise. Possibly a satisfactory compromise would be long-term credit with provision for periodic readjustment of interest rates. So far as short-term credit is concerned there is surely no justification for the rigid interest charges which take no account whatever of changes in the supply and demand for bank credit.

The amortization principle

The last few years have witnessed a great deal of discussion of the amortized loan and a substantial adoption of the principle. Generally speaking, I believe that this has been a sound development.

The fundamental justification for placing a loan upon an amortized basis is to insure its reduction along with the probable depreciation of the security. If a mortgage loan is made on security of a house to the extent of 60 percent of its value, and a loan of more than 60 percent of value is considered unsound, it is desirable that provision shall be made for reduction in the loan at such a rate that it will continually amount to not more than 60 percent of the value of the property. Repayment of the loan shall be at a rate not less than the estimated rate of depreciation of the property. A plan for periodic payments may be useful in reducing a loan which is too large in relation to the security.

But except for the loans which are secured by property subject to probable depreciation and reducing inadequately secured loans, I have never been able to construct much of a rationale for the amortization principle. It is true that there must be means whereby a banker can protect himself if a borrower's position is worsened relative to the position of other business men. But the problem is one which the banker must meet on a case by case basis and not one which can be solved by rule. Furthermore, there is no magic rule by which a banker can avoid all risk of loss. When he makes a loan he recognizes that it involves some risk and there is no formula for avoiding occasional losses.

In my opinion there is considerable confusion of thought on the subject of repayment of debt. As we have seen, there needs

to be a plan for repayment of debt in the case of depreciating assets. But in other cases there is no foregone conclusion for the necessity of repayment. The important thing is not repayment but certainty that the borrower will be able to maintain interest payments and certainty that the debt can be paid in case of liquidation of the business.

Conclusion

In conclusion, let me say that I do not wish to be classed as one of those who would blame the major ills of the world upon the bankers. Neither do I think that armchair philosophers can tell bankers how to run their banks. Every bank has its own specialized situations. The bankers must analyze those situations and make their own judgments. It is absurd to try to place a bank in a mold which has been outlined by some distant theorist.