# NEWS RELEASE


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## MANAGEMENT TOOLS FROM SUPERVISION

by

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MANAGEMENT TOOLS FROM SUPERVISION

The current economic expansion is now in its 57th month. This statistic may seem insignificant to an industry that next year observes the 150th anniversary of the founding of the first savings bank in this country. On closer inspection, however, we might well conclude that these two statements have quite a bit in common. The savings industry is at an important crossroads--created in part by itself in the course of its development and in part by a convergence of economic circumstances over which the industry has had little direct influence or control. The direction in which you will turn--and the speed, determination, and effectiveness with which you move--will have an important bearing on your future. What has brought about the present environment in which you are operating? What are the fundamental problems which you face? And what kind of solutions can be found?

First, let us look back over a somewhat longer period of time--back, say, to 1958--to gain a longer perspective on the current scene and a better understanding of the current situation. Then, let us look at the problems that have arisen. And, finally, let us examine areas where I think the FDIC could make a new and important contribution to savings banking--where we could provide management with some of the tools and techniques with which to deal with these problems.

Our responsibilities revolve primarily around our efforts to supervise the financial institutions under our jurisdiction in a manner best designed to serve the public interest effectively and at reasonable cost. This public interest can best be served in the final analysis by fostering strong, efficient, competitive, and viable financial institutions. Savings banks, in particular, have been uniquely associated with the economic development of our country. They typify the virtues of thrift and the values of homeownership that have helped to make the United States the leading industrial nation in the world, with high and rising standards of living.

Within the past decade, there have been major changes in the U. S. economy. To a greater extent than ever before, they have been importantly influenced by developments abroad. Foreign economies and the international payments mechanism never fully recovered from the disruptions of the two World Wars and consequently were particularly vulnerable to any political or economic setbacks. Thus, it was not until the late 1950's that the task of economic reconstruction and rehabilitation overseas after World War II was largely completed.

Attainment of this goal by the major industrial countries of Europe about seven years ago permitted them to make their currencies convertible for non-residents for current payments. By this time, the U. S. dollar had emerged as the leading international reserve currency and a major means of international settlement for trade and financial transactions. This role for the dollar was not one that we deliberately sought but one that devolved upon us because of our economic strength. In the immediate postwar period, our balance of payments deficits were considered symptomatic of an almost insatiable foreign demand for dollars. The "dollar shortage" was close to being accepted as a permanent feature of the postwar world.

But the situation soon changed. Economic recovery in the major industrial countries overseas became a reality. International reserves in these countries were built up to satisfactory levels, and the need for dollars fell off. At the same time, producers in the developed countries re-entered world markets in force, and U. S. producers began to encounter strong and effective competition. Not only was foreign productive capacity able to satisfy domestic requirements, but it was turning out enough to sell in overseas markets--including markets in the United States. During this period, furthermore, U. S. prices were rising faster than prices in our leading competitor nations. Rapid economic growth abroad, the formation of the European Common Market, and imbalance between the demand for capital and the supply of domestic saving abroad and inadequate facilities to mobilize capital, moreover, encouraged large capital flows from the United States. Thus, a deterioration in our competitive position and sizable capital exports combined with our military assistance and foreign aid programs to maintain our payments deficits at high levels.

After 1958, these deficits were increasingly associated with evidences of a lessening in the demand for dollars overseas. There was cause for concern as foreign liquid claims on the United States rose almost without interruption and our gold stock declined. Our international liquidity position was being weakened--and, with it, international confidence in the continued strength of the dollar. This situation did not come about overnight--although from a historical point of view the time span during which these changes occurred was relatively brief.

If the deterioration in our balance of payments accounts had been our only concern, the problem might not have been hard to solve. But it was not that simple. Unlike the classic situation where a payments deficit is attributable to domestic inflationary pressures, the U. S. economy was simultaneously experiencing a substantial underemployment of manpower resources and excess plant capacity. A different set of remedies was obviously called for--remedies that would restore payments balance without dampening domestic economic activity or remedies that would increase the utilization of idle plant and labor without worsening our payments position. The problem was tackled from all angles. Generalized measures were used in conjunction with selective measures designed to deal with special situations. I am sure you are familiar with the various steps that were adopted--some of which touched you more directly than others. Major reliance was placed on a judicious mix of fiscal and monetary policy. Proof of its effectiveness can be found in the duration, strength, and balanced nature of the current economic expansion. Our balance of payments deficit has been somewhat more difficult to correct, but it has been subjected to various forces emanating both from home and abroad.

The current business expansion since 1961 has brought about some major changes in the economy that have had a particularly strong impact on financial institutions and has carried in its wake some important problems. We might cite a few figures here to illustrate some of the changes. In the course of the expansion, Gross National Product has risen by more than one-third, as has industrial production. Employment has grown by 5.5 million, and the number of jobless has fallen from 6.9 to 4.3 percent of the labor force. Personal disposable income has climbed sharply, as have corporate profits. Utilization of plant capacity is now close to 90 percent, compared to 78 percent at the beginning of the upswing. Prices have remained generally stable, and productivity has increased more rapidly than wages. These are among the major gains. On the debit side are the persistence of a sizable balance of payments deficit, continued high rates of unemployment among certain categories of jobseekers, and the existence of pockets of poverty in certain areas--both rural and urban. Residential construction is sluggish and may pose some problem for savings banks. But the record of the past several years in general has been good.

Of more particular interest to you have been the sharp rise in savings flows to financial institutions, intensified competition for savings and for investment outlets, and changes in the over-all pattern of interest rates. The economic policies designed to deal simultaneously with our payments deficit and with domestic economic expansion resulted in actions by the monetary and fiscal authorities to minimize downward pressures on short-term interest rates and to hold down long-term rates to levels that would stimulate long-term investment. The stability of long-term rates in the current upswing has been supported also by the large volume of savings generated by the expanding economy. As a consequence, the savings bank industry has been confronted with higher costs for its funds which have not been matched by correspondingly higher yields on its investments. The higher cost of personnel and other operating expenses has further reduced net earnings.

Some of the specific problems you are facing as a result of these developments are:

(1) increased competition from commercial banks, savings and loan associations, and other financial institutions for the savings dollar;

(2) increased competition from these same institutions for mortgages and for other investments;

(3) pressures to expand your operations into areas of growth through branching or other means;

(4) pressures to broaden your lending and investment powers;

(5) the need to provide for adequate liquidity of your institution without undue sacrifice of earnings; and

(6) the constant need to tailor your policies to the changing character and quality of your assets and the nature of your liabilities.

These are but a few of the many important problems that I know you are facing today. In many instances, they will be continuing problems in the sense that the present level of competition--in both the savings and investment fields-is no doubt here to stay. Even when our international payments are brought back into balance in the near future, we will have to remain continually alert to the impact of payments developments on the domestic economy and of domestic developments on our payments position. And in the present circumstances where the economy is operating close to capacity levels, adjustments will have to be finer and calculations possibly more precise.

We are conscious of your industry's needs and of your problems. As I mentioned earlier, I think we are approaching the crossroads--if we are not already there. This is the time to ask yourself searching questions about longer run objectives, about basic issues. This is the time to pause and take stock of where you have been, where you are going, and how you are going to get there. This is the time to ask yourself whether your goals are realistic, whether they are attainable, whether they are mutually consistent, and whether they carry on your long and proud tradition of serving the public and your depositors well and faithfully. I am sure that you continually keep these considerations before you.

Over the past year, your industry has been successful in obtaining many of your immediate goals--the raising of ceilings on maximum deposit size, the right to participate in land development projects under FHA-insured programs, liberalization of loan limits on conventional mortgage loans and other types of loans, some broadening in investment powers, some relaxation of liquidity requirements, and the authority in several states to issue capital debentures. A number of these liberalizing measures and broader powers have been won in your state's legislative session this year. A number of proposals in which you were vitally interested were not enacted. A number of proposals in other states also failed of enactment. After careful reconsideration, you can decide whether they are worthy of re-submission or whether other proposals should be pushed. You should also be sure that you are making the fullest use of your present powers.

We at the FDIC do not pretend to know all the answers to these and many other questions of deep concern to you. We are trying to find the answers--as we know you are. But we will also soon be in a position where we can help you to find some of the answers. We are not planning to act as "big brothers" or to share in managerial duties. But we would like to provide you with some management tools that we are developing in the course of our own operations. These operations are being geared to provide us with more and better information on all banks--to assist us in carrying out our responsibilities more effectively and efficiently. This is our obligation to the banking system and to the general public; it is our highest obligation.

What are these management tools? They are tools that we are developing from computerization. Not too long ago we signed the final contract for sophisticated computer hardware that will permit us to work with the mass of banking data that is available to us at the Corporation before it becomes outdated by the passage of time. The computer will enable us--for the first time--to put the data into usable form. We have already conducted a number of preliminary and pioneering studies which have produced significant and interesting results. This is a breakthrough for us--one that should provide benefits also for you. The full implications of these early studies have not been fully assessed--but the studies show promise of significant future dividends for bank supervision and for the financial institutions being supervised.

For savings banks, for example, we will be able to develop data on market penetration and market concentration and on costs. We can set up comparison studies of individual bank experience against all banks of the same type or the same size or in the same geographical area. Or comparisons of your bank's experience in relation to all savings banks or other financial institutions. This information can provide the basis for an efficiently mounted and effectively directed campaign for new depositors or new borrowers, for useful cost analyses, and for evaluation of alternative investment opportunities--to name just some of the major uses that could be made of the data. There are many other possibilities.

An up-to-date management team today wants--and needs--to know how much his money costs and how much the process of investing costs. No longer is the stated dividend rate on deposits or the quoted rates of mortgage loans sufficient. In these days of more intense competition, a well-informed management must know the cost of alternative forms of investment of funds entrusted to his care--in order to maximize both returns and safety.

I find even this brief listing exciting. I hope that I have succeeded in communicating some of this excitement and some of my enthusiasm to you because I think the application of computer techniques along these lines opens up new and promising vistas for savings banks. It has great potential. It will provide you with a firmer basis for decision-making. It makes our task easier as well as more stimulating. We will keep you informed of developments in this area.

The savings bank industry--and, most notably, the savings banks in New York, has shown itself to be imaginative, progressive, and responsible. You have proved yourselves to be flexible and adaptable over your long history. Such a record is no small accomplishment.

I have been most privileged to be able to talk to you today about the environment in which we now find ourselves and the problems which we share. I hope we will continue to work closely together as we move forward together.