

"THE INDEPENDENT BANK AND CAPITALISM"

An Address
Delivered By

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NATIONAL CONVENTION

DETROIT, MICHIGAN

It is a distinct pleasure for me once more to visit with you about a subject upon which I have very fixed ideas. Those fixed ideas did not come as a result of something I read in the textbooks, but they came from my experience in government, and my experience in business in a small town in America.

So, in what I have to say to you here today, I want to say it, and relate it to capitalism and the capitalistic system.

I think, if you will look around the world today in a dispassionate sort of way, you are bound to come to the inevitable conclusion that throughout the world there is a tendency toward some kind of socialistic government.

Probably the most effective defense against that type of organization are organizations such as your own that foster the small, independent business enterprises of this country.

I do not want to undertake to define capitalism particularly in a hard and fast way, but I think it is correct to say that a capitalistic system is one that relies upon free, competitive, private enterprise. Of course, there is no such thing as absolute freedom, for we must have a reasonable amount of public regulation in the public interest. The Encyclopedia Britannica lists three criteria by which capitalism may be characterized. One relates to private ownership of land, mines, industry, etc., and the second relates to "production by private initiative for private profit."

But, third, it adds, and I think this is very interesting, "The institution of bank credit is so essential to the functioning of the capitalistic system that, though not strictly implied in the definition, it should be added to the other two criteria."

While neither capitalism nor any other economic order is in itself moral or immoral, I deeply believe that those who live under and profit by the capitalistic system must be vigilant to see that it operates under and adheres to those high moral standards which

form the cornerstone of public faith and confidence.

No people in the world have progressed so rapidly and so far as those of us who have been privileged to live under the American capitalistic system. I do not believe that we could have achieved this unrivaled standard of living had we followed a dog-eat-dog philosophy, or one of sheer greed and materialism. And I like to believe, and I do believe, that I have seen in my lifetime a steadily broadening sense of moral responsibility on the part of the thoughtful leaders in business, industry, agriculture and labor. It is inconceivable to me that any other "ism" could take deep root in this country at the present time.

It is interesting to recall that the Virginia and Plymouth colonies lacked capital, artisans, and the profit motive. The Dictionary of American History recounts that "The Pilgrims did not bring a horse, cow or plow, . . . When the meager supplies soon gave out, there was a period of 'starving' because there was little incentive in either colony for the individual to work hard to build up a surplus, since the settlers were expected to put all their produce into a common fund from which all would be supported and out of which the companies financing the expeditions would receive repayment and profit, a system bordering on communism so far as the settlers were concerned. John Smith remarked, 'When our people were fed out of the common store and laboured jointly together . . . the most honest among them would hardly take so much true paines in a week, as now for themselves they will do in a day . . .'" It was only when the settlers gained greater freedom of enterprise, and were permitted to accumulate private property, that the colonies grew and prospered.

It has long been my conviction that capitalism will best be safeguarded by the degree to which all who live under it share in its benefits and feel identified directly with it. For that reason I have always advocated measures that would encourage and preserve

the independent farmer as well as the independent bank. In a land where the individual has an opportunity, if he so desires, to go into business for himself or to share in the ownership of an enterprise, there may be some who are simple or deluded enough to espouse communist doctrine, but they will surely be the rare exceptions.

As I see it, capitalism is a dynamic progressive process; it is not a static economic order. It is not something we can take for granted. Essential safeguards in the public interest, the preservation of competition, the avoidance of monopolies, for example, depend upon wisely conceived and man administered laws. I deplore the comment which I have so often heard that politics is a sort of game of a low order in which no holds are barred and no rules of decency apply.

In a country where government rests upon the consent of the governed, if politics becomes corrupt the fault lies with decent citizens who have failed to live up to their responsibilities of good citizenship. Good citizens must take an active and intelligent interest in political processes—I am not talking about partisanship—if our institutions are to be preserved and constantly improved. Remember that laws and regulations are hammered out on the anvil of Practical Politics in a Democracy. Heaven forbid that it should ever be otherwise.

I have said to the Independent Bankers before, as most of you know, and I reiterate it now, you will preserve your independence only if you carry your case to the people. You will lose if you deserve to lose, but I profoundly believe you will win if you deserve to win. And I do not have to tell you again that I think you deserve to win.

It was with the basic thought of trying to protect independent banking that the Federal Reserve Board of Governors embarked on its long, tedious, and expensive case against Transamerica. The theory of the Board's case was quite simple. Over a period of forty-four years the Transamerica group had expanded from a single banking office

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in San Francisco to a total of 642 banking offices in the five-State area of California, Oregon, Washington, Nevada, and Arizona. These 642 banking offices comprised more than forty per cent of all of the banking offices in this five-State area. The Board thought that this was "tending" towards monopoly. In fact, they thought that if this case did not come under the Clayton Act, it would be difficult to imagine one that would.

After a hearing, which lasted about three years, the Board issued an order requiring Transamerica to divest itself of the stock of forty-seven banks which it owned. Transamerica took the case to court. When the proceedings were originally instituted by the Board of Governors, Transamerica owned a little more than twenty-two per cent of the stock of the Bank of America. However, by the time the case was argued in court, the two Gianninis, father and son, had died, and Transamerica had sold all of its stock interest in the Bank of America and contended that there was no longer any connection between the two institutions;—a view that I did not share. The court agreed with the Board that the purpose of the Clayton Act was to "nip monopoly in the bud." The court also agreed that the Board had proved that the Transamerica banking group had grown enormously both in absolute size and in percentage of the total of commercial banking in the area.

I want to read to you a paragraph from the court's decision. The court said:

"... We agree that this quantitative analysis discloses a tremendous concentration of banking capital, and thereby of economic power, in the hands of the Transamerica group which may be unwise and against sound public policy. It may be in the public interest to curb the growth of this banking colossus by appropriate legislative or administrative action. This, however, is not for us to decide. Our only question is whether the theory upon which the Board based its decision meets the legal

tests which are required under Section 7 of the Clayton Act to determine whether Transamerica's bank stock acquisitions tend to create a monopoly of commercial banking. We are compelled to agree with Transamerica that it does not do so."

In essence, the opinion of the court meant that under this particular Act there was nothing further that we could do. Under the opinion of the Court of Appeals, the Board, in order to prove a case, would have to show that the time Transamerica acquired a bank, that bank was in competition with a bank already owned by Transamerica, and that the competition between the two was lessened as a result of the acquisition. While it might seem obvious that there would be a lessening of competition in such a case, the court said that there must be tangible proof.

This might involve going back ten, fifteen or twenty years, to the date of acquisition of many of these banks, and getting the opinions of local businessmen and bankers. As a practical matter, such a proceedings would be virtually endless as well as fruitless. The Transamerica case was the first effort to invoke the Clayton Act, and it is fair to say, I think, that the Board felt it would be remiss if it failed to test this legislation. The result has proved that the Clayton Act does not provide a means for checking the growth of a "banking colossus" (to use the court's words), or of preventing "a tremendous concentration of banking capital" (again using the court's words).

You will have to look elsewhere and seek other legislation to safeguard your interests—and your independence.

I am quite familiar, as I know you are, with the arguments for branch and chain banking. I think the most ardent advocates of branch banking will agree that the holding company device is an ingenious way of circumventing branch banking laws. Be that as it may, I know at least that some of my good friends who believe strongly in branch

banking would admit that there probably would have been no resort to the holding company device but for the loopholes in branch banking legislation. I am not undertaking to say that all branch banking or all holding company banking should be done away with, but I do want to put in my plea once more for the preservation of the independent unit bank and banker.

Local banks are an excellent example of capitalism, as I define it, because here you have a group of local people who associate their talents and their money in order to provide many kinds of service, without which no community can really develop. They are the merchants of credit. Because of their accurate knowledge of local conditions and their intense interest in their community, throughout the life of this country they have made it possible for young people reaching maturity to get credit and develop businesses that will in later years make them important leaders in the community, providing, of course, they have operated their businesses efficiently. In this way new leaders are developed, and in due course of time the old people pass on and the younger ones take over the administration of the business affairs of the community in which they live.

The business affairs of any community flow through the doors of its banks. It is very important to have managers whose roots are deep in the soil of the territory they serve. Transient managers, who come and go, do not have the same feeling for a community as does a person who was born and bred there, whose resources have been invested in the enterprises of that community.

In former years I spent quite a lot of time in Canada. Businessmen there, especially the small ones who did not have access to the large capital markets, universally told me that our system was better for them. I feel certain this is true because I have observed both kinds from the inside. A farmer may be a good risk or a poor one, depending upon his knowledge of his business, his health, his equipment, his soil. Local people know the

answers to such questions. The same intimate knowledge of local conditions applies to every other line of business in the community.

Here in Detroit you manufacture some very important products which are sold all over the world. Yet I venture to say these products are sold almost entirely by local companies or individuals. At least, whenever I have engaged in a debate for the proper trade-in allowance on my old car, it has been with local people. They know just how good my old car is, and unfortunately what local people will pay for it.

I believe my needs for credit should be passed on by local people. The framers of the Federal Reserve felt the same way. When the Federal Reserve System was established, Congress was very conscious of the size of the country and the great diversity of its business interests. These interests are affected by climate—cotton and fruit growing in the South, corn growing in the Middle West, etc. They are affected by the location of raw materials and manufacturing facilities. Congress very wisely decided to decentralize the System by establishing twelve regional Federal Reserve Banks. Later on, twenty-four branches were added making a total of thirty offices in the U. S.

Why was this done? Simply because Congress wanted to make certain that when a bank needed to rediscount its paper, people familiar with local conditions would decide whether or not the rediscount should be granted.

A regional Federal Reserve Bank or branch can provide money to local banks by rediscounting their paper whenever this would be in the public interest. I mention this because I want to emphasize the fact that Congress was careful to set up rules and regulations that would take local conditions into account in the granting of credit. In other words, as I interpret all their actions, Congress wanted to keep the granting of credit as close as possible to the people. This in itself is an endorsement of the principle of the unit bank-

ing we enjoy in this country. A large branch banking system, whether of the straight branch type or the holding company type,—they both serve exactly the same purpose and must be considered the same kind of institution—cannot have the intense loyalty and interest in a local community that you will find in the local banks, where by the very nature of things the managers and directors are part of the economic life of the community.

I want to say just a word here, if I may, about monetary policy as followed by the Board at this particular time. Ever since business started to slide off, and a little before it actually became visible on the horizon, the Board started to pursue what is known as an easy money policy. The Board of Governors of the Federal Reserve Banks, forming the Federal Reserve System, have the power to create money. It is impossible to have a run on a Federal Reserve Bank. It is their responsibility to see that there is sufficient money available at all times for the legitimate needs of agriculture, industry and commerce, to prevent undue expansion of credit in a period that might lead to inflation, and to be particularly certain to see that money is not so tight that it would deter investment in a period of readjustment such as we are going through at the present time.

Our policy has been described as a policy of active gains. That is not a precise definition, and it could not be. It may change next spring or some other time. But for the foreseeable future, the Federal Reserve System will see to it that there is sufficient money available for those who have legitimate needs for credit.

There are several ways in which the Federal Reserve System can increase or decrease the volume of money. The local banks, the Federal Reserve Banks, can rediscount bankers' paper. Under special conditions, war or something like that, they can do it further, too,—which increases your supply of money. They can go into the market and purchase government securities, which introduces new

money into the market. If they sold government securities, it would reduce the supply of money. They can reduce reserve requirements of member banks. If they are reduced one per cent straight across the board, that puts into circulation \$1,300,000,000 the next morning. If they increase it by that same percentage, the money supply would decrease by that amount the next morning. But, for the foreseeable future, there is going to be plenty of money available for all of the needs of the people, provided you as commercial bankers are willing to accept their notes. We do not make loans ourselves, except under wartime circumstances.

I want to say just a word, if I may, about the independent farmer and the independent banker, because, I think, when you add in a few professional people and the few smaller businesses, you remain about all that is left of the system that I grew up under as a very young man, and for which I have a very, very tender feeling. America became great when we had these independent people in business themselves, risking their time and capital in an effort to assume their position in life. And, I hope that an organization such as you are a part of today will continue to furnish that opportunity to the young people of America. It is so important.

You know, we have watched, I have particularly, I suppose—the plight of the farmer in Russia. I have had pretty close contact with them through a lot of European people that I know quite well. They had liquidated the land-owning class over there. Maybe as I am a land-owner, I am not particularly friendly to them, and for that purpose I expect that I would be one of the first that they would catch, and they would catch a lot of you, too. They have taken away from them the opportunity to own lands themselves. They have taken away from them the opportunity to produce for their own personal profit. Of course, that is the very essence of the capitalistic system. But, it is interesting to note that as of today, with their population tremendously increased, their livestock popu-

lation, according then to their own figures, is less than when these gents came into power. They have not been able to convince the farmer that this communism is a good thing for him. They have killed them off by the millions. But, up comes a new generation, with the same love of the land in their hearts that was in the hearts of our ancestors when they came to this country.

I think it is unusual and unique that we live in a country, the only country where you have a surplus of agricultural commodities on a large scale. We have never used those commodities in our dealings with foreign people as much as we could or should. If you will turn your memory back just a little ways, you will remember that when they distributed free food along the borderline between West Germany and Communist East Germany, the people from East Germany came over there at the actual risk of their lives, mothers and fathers, to get a little handful of food for their children. And the communist prevented it. And, why did they prevent it?

Simply because they could not duplicate that operation. They could not give those people the necessities of life. Therefore, they made it impossible for those people to form a comparison between capitalism and communism.

Now, America has become the world's greatest power, and with it comes all the responsibility of leadership. It has been my contention in the past, and is today, and I speak from quite a little experience in Washington, that one of the great tragedies of this country today, the thing that is going to give us more trouble in the years ahead than any other mistake we have made—and we have made a lot of them—is the constant increase in the size of these business institutions in this country, and the decline of the small independent business man. The small independent business man understands human nature, and he understands people because he has to deal with them every hour of his business day. He is equipped to know how people

act, and how to deal with them. I believe very, very firmly, and very, very sincerely, that when you take away from the small business man of this country the opportunity to go into business for themselves, you have robbed them of one of the basic virtues of our country. Our country was not founded that way. They were little fellows, they were poor; they were your ancestors, they were mine. They came here, and why did they work so hard?

Of course, they had a lot to work with in a country like this. But they did it because it offered them the opportunity that existed nowhere else in the world at that time, to do something for themselves, and to be the masters of their own destiny and their own time. And, it created America. It is the same spirit that made Great Britain great, in the years before the industrial revolution.

Turn back the pages of history just a little further, and you will see that Rome became great, when the farmers and the little business entrepreneurs throughout the land were active in government and in business. And as they slowly passed out of the picture and crowded into the great cities, they created the circuses in order to keep an interest. But, Rome passed on down the road into history. And I believe that unless we in America preserve a large segment of the business of this country for those little fellows who want to go into business, I, too, believe that our sun will start coasting down on the shady side of the mountain.

And I repeat, it is a great pleasure and a privilege for me to more or less close my career in government and return to private life, as I am, by speaking to a group of people who, in my humble judgment, are going to hold in their hands a very large share of the destiny of my country in the future. I hope you have courage, and I hope you are not easily discouraged; I hope you go forward along the lines you have started.

I wish you luck, and Godspeed.

I thank you.

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