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MODERN BANKING

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The bank of today is vastly different from that of 1900. Then, banking services were offered only to a select few wealthy businesses and individuals who were willing to carry deposit balances of acceptable size.

In the last sixty years, banking broke away from its restricted past and launched out upon a new era of broadened services. Having learned from hard experience that their bread-and-butter livelihood depends on attracting to their care the largest possible pool of deposits, banks now compete to obtain the business of all comers, whether of large or small financial means. In retrospect, the changes that have taken place in banking can be traced back to parallel developments in the fields of manufacturing and distribution that recognized the need for fostering a consumer purchasing power deep and broad enough to absorb our vastly expanded national output by way of transferring the proven economies of mass production and distribution into the hands of final purchasers for the financial advantage of all concerned. The shopping center, the supermarket, and the chain store mercantile system have been the visible accompaniments of a merchandising necessity for promoting personal consumption which, in the long run, determines the overall rate of economic activity.

The response of banking to the new merchandising patterns that were engineered by industry and commerce was to promote the

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usefulness of banking services to every segment of the public. In combination, by bringing the consumer closer to the sources of production, mass catering to consumer interests by industry, commerce and banking tended to eliminate the "middleman" concept of merchandising, and with respect to banking new methods of financing were required. In rising to the occasion, commercial banks have become the largest suppliers of the kinds of consumer credit that serve to carry the output of our factories onto the shelves of our merchants and, finally, into personal consumption.

By adopting merchandising methods that are slanted in the direction of consumer financing, banks have followed the example of their mass production and distribution oriented industrial and commercial customers and have forged the final link in a chain of financing extending from the manufacturer to the consumer. Banks have built on the reciprocal benefits and mutual advantages of providing all inclusive financial services by, wherever practicable, locating banking offices in close proximity to the points of consumer contacts with merchants. The existence of large branch banking systems, bank holding companies, and chain banking organizations gives striking evidence of the movement in banking to reach out into the field of consumer activities from centrally located administrative headquarters.

By virtue of these evolutionary developments in banking practices, banking has been in a position to place at the consumer's

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disposal and for his benefit the economies that are incident to widely dispersed operations over a broad market. In fact, this country's bountiful and high standard of living can undoubtedly be attributed in some measure to the fruits of large scale industrial, commercial and banking undertakings. Even so, however, our standard of living has not been attained without costs that also arise in part out of large scale operations. These costs are more sociological than material in character, and are aspects of the concentrations of economic and financial resources that have gone along with, and in a sense made possible, the modern methods of production and distribution that have added so much to the creature comforts and conveniences of the American consumer.

But the time is at hand when a matching of material gains against somewhat elusive social losses and costs must be made periodically in order to determine the point at which the public interest must be taken into account on one side or the other of the human equation that is at stake. For example, is a wider consumer market choice of attractively priced merchandise and the greater financial security that can be associated with large scale enterprise balanced by a lesser voice in management, restriction to fewer employment opportunities in chosen localities, and possibly less freedom of movement?

As regards the bearing that such questions have on commercial banking, a comparison must be made between the advantages

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and disadvantages of large scale banking and banking conducted through smaller-unit type banks. Unquestionably, extensive banking operations directed from a headquarters center and functioning through a multiple group of "service station" type offices out to a distant perimeter is consistent with the mass merchandising practices of commerce and industry, and is a merchandising adjunct for supplying those consumer wants that require financial services for their accomplishment. Banking offices located in shopping centers, whose tenants are representatives of many of the nation's best known business houses, illustrate the merchandising connection between banking, commerce, and industry.

However, despite the economies and advantages of size, some of the sociological problems inherent in far-flung manufacturing and distributing enterprises are also found in large scale banking undertakings. To the banker reared in the belief that he and his customer stand in the same intimate relationship as the doctor and his patient and the lawyer and his client, there is an acknowledged fault residing in the unavoidably impersonal factors that are characteristic of the mechanics of multiple banking operations and which dilute somewhat these personal relationships because of the difficulty of presenting the personified image of a large corporation through the medium of its various offices in ways that will successfully mirror bank management's concern for the welfare and convenience of depositors. Banking's most important job is to keep

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customer relationships on a plane that will cultivate and preserve the close counseling kind of connections that are part and parcel of banking tradition. Smaller-unit type banking contends with less difficulty of this sort as the advantage of smaller size automatically throws the key banker into closer contact with his customers.

However, both large and small banks face problems of opposite kinds that must be solved in the general public interest. On the one hand, expanding control by large scale banking organizations over great financial resources, if not guarded against and, where necessary, prevented, can center in them a dominant and monopolistic market power that is contrary to the public interest. But this is not a new problem, for banking by its very nature is oligopolistic and, therefore, was found long ago to be vested with a public interest and accordingly made subject to exacting public supervision and regulation over the kind and extent of activities engaged in. In keeping with this concept, both entries into and withdrawals from the field of banking, and current banking operations, are passed upon continuously by accredited supervisory authorities trained to evaluate under what circumstances the public interest requires the restraint or encouragement of banking activities.

Size is also a matter that claims the attention of bank supervisory authorities with respect to those smaller banks who face the problem of their capacity to develop a deposit volume

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large enough to yield a loan and investment income sufficient to cover their operating costs and at the same time return a reasonable dividend to their shareholders. If the earning margin set between the upper millstone of the maximum rates of interest obtainable on loans and investments and the nether millstone of rising operating costs and the burden of increased interest rates paid on time and savings deposits narrows to the point that thrifty and safe banking is threatened, a solution to the problem lies in the merger or consolidation of small banks into larger banks of a size that can command the employment of sufficient financial resources to insure their full community usefulness.

In any event, the exact size of a bank does not enter into what is the banker's fundamental responsibility of first and foremost providing a safe repository for the funds entrusted to his bank's care. His every policy action must be taken with an eye on the resulting effects produced on his bank's ability to discharge the duties of its trusteeship. Continuous disposition of the bank's available resources in ways that are consistent with the demand character of its liabilities and obligation to pay off depositors seeking to withdraw their funds is of paramount importance to his policy decisions. An arrangement of a bank's investments and loans that will in effect fulfill these conditions will also be a protective guarantee of the bank's deposits because they will have been invested in U. S. Government, State, local, and corporate securities,

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and in loans to business organizations and to individuals, that had been selected for the quality of depositor protection afforded as well as for their contribution to the community's economic growth and social well-being.

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