Athens Talk

BANKING TODAY

Address of M. Monroe Kimbrel, Chairman of the Board, First National Bank, Thomson, Georgia, at the Center for Continuing Education, University of Georgia, Athens, Georgia, Friday, March 3, 1961

My appearance on this evening's program involves both an honor and a predicament.

The honor is one that any Georgian would derive from taking part in a program under the joint auspices of the University of Georgia and the Georgia Bankers Association.

The predicament is somewhat similar to that of a friend of mine whose six-year-old daughter recently asked him: "Daddy, which should you do--tell the truth or keep a promise?" Our program chairman posed a question almost as simple and almost as puzzling when he suggested I talk on the topic, "Banking Today."

Winston Churchill once described Soviet Russia as a riddle wrapped in a mystery inside an enigma. While banking's atmosphere is not that cloudy, neither is it transparent. Banking today is a complex, fast-moving business. It calls for industry, imagination, curiosity, self-discipline, and a healthy respect for the unknown. It provides, in return, more of opportunity and challenge and down-to-earth satisfaction than does any other business pursuit.

We have crossed the threshold of a new era in banking. This is due in part to the general thrust of change and progress that currently marks all human endeavor. But it is also due to a growing recognition by bankers and the public alike of the importance of the economy and of banking's role in keeping it sound.

Money is a tool--a means to the end of productive and useful living. The quality of our money and the way we manage it, for the nation as well as for the family, will go a long way toward determining our claim on liberty and our pursuit of happiness.

Henry Wallich in his book, "The Cost of Freedom," describes one of the basic truths of this new banking era when he writes: "We value a free economy mainly for its service to freedom, political as well as economic, and only secondarily for its productive prowess, impressive as that has been."

The Cold War continues to be the dominant fact of our national life. While we pray that it will not be waged by force of arms, we know that it is being waged, vigorously and grimly, on a worldwide economic front of which our own country is a key sector. Sound economic growth, under these circumstances, is not only a key to prosperity, not only a desirable goal of free enterprise, but also a condition of national survival.

People understand this far better than some economic prophets are wont to admit. Recent events have brought the problems of inflation, credit, and fiscal policies into the mainstream of public concern. Issues like the balance of payments deficit and gold outflow may not displace fashions and the weather as topics for small talk, but they are claiming attention they never had before.

In each of these subjects the banker has a direct interest and feels a direct responsibility. Whatever the size of his bank or the nature of his local economy, his interests and responsibilities will broaden in the years ahead.

It may surprise you to know that bankers regard education as one of their most important resources for meeting these broadening responsibilities.

On-the-job training is no longer the only way to learn about the banking business. Valuable courses for the banker who wishes to know more are now widely available. The increasing complexity of the banking operation has virtually dictated the creation of formal centers of bank training. The student is there so that he and his bank may retain the capacity to make progress in a business that is highly competitive and intolerant of incompetence.

The American Bankers Association affords this opportunity on the national level through the American Institute of Banking, The Stonier Graduate School of Banking, and The National Trust School. In addition, there are many regional and state educational facilities for bankers and each year an increasing number of conferences and clinics. The objective of all is the same: to improve the banker's understanding of his business and to energize the thinking and vision he needs to anticipate tomorrow's opportunities and problems.

Why so much emphasis on education? The answer goes beyond a desire to keep up with competition and master new banking techniques. It was expressed this way recently by Gabriel Hauge, chairman of the finance committee of the Manufacturers Trust Company in New York: "In the last analysis, growth depends on the demand for betterment, and the supply of inventions; not on things, but on ideas. Other considerations are texts for the times. But the power of ideas endures. No correlation has ever been demonstrated between the rate of interest, the stability of prices, the level of employment on the one hand, and the productivity of inventive minds on the other."

Bankers for many years were considered to be "sot in their ways." Bankers today are determined not to be "sot" in their attitudes and ideas.

I view this as a good and necessary omen both for the public and for those in banking. In spite of the tremendous expansion of consumer bank services since World War II, the outlook is for continued rapid increase in consumer demand. The gain in the national population during the next ten years promises to at least equal the gain of the past ten years--some 28-million. Our standard of living will continue to rise. By 1970 total consumer markets in the United States are likely to be 35 to 40 per cent larger than they are today. People will expect bigger and better financial services. If we don't provide them, someone else will.

The recent growth of competing financial institutions is another factor adding spice to the environment of banking today. In the span of your lifetime, for example, savings and loan associations have grown from a small business classification to that of a full-fledged big business. They are in direct and vigorous competition with commercial banks for the savings dollar.

We welcome the competition. We believe that our banking system has the capacity and bankers have the will to continue to serve as the foundation of our economic community. By the same token, we know that to do this we must constantly seek to raise our standards of performance and renew our claim on the public confidence.

Bankers in recent years have become acutely conscious of the important role government plays in the environment in which banking functions. Good government relations at the local, state, and national levels are necessary for effective bank performance.

Our responsibility in this area is tied both to the public interest and to the preservation of sound banking principles. Bankers for the most part have done an outstanding job of supporting and participating in civic progress in their own communities. As a group, however, we have been slow to assert ourselves at the state and federal levels.

The legislatures in our state capitals and in Washington have the responsibility for establishing the laws under which banks operate. Legislators make these decisions in the light of the information and knowledge available to them. It is the banker's job to help them decide well.

Chiefly at the urging of the banking industry, the Congress two years ago gave the Federal Reserve Board authority to lower the minimum reserves required to be held by member banks. The Board has used that authority with good effect as it shifted in recent months from a monetary policy of restraint to one of ease.

At the risk of oversimplifying the matter, our experience indicates that legislative achievement depends upon three essentials: a good case, a vigorous presentation, and a world of patience. The reserve requirements modification, for example, came four years after the American Bankers Association first advocated it. We are now in the fourth year of an effort to have the Federal income tax law revised so that competing financial institutions will be taxed on a comparable basis--and there is no certainty as yet that Congress is sufficiently aware of this need to act on it.

The issue here is one of fair play. Under existing law, commercial banks pay Federal income taxes amounting to nearly 40 per cent of their net income while savings and loan associations pay practically no Federal income taxes. The differential, we believe, is unnecessary and unjustified. Commercial banks do not ask to be excused from paying taxes. We are simply asking the Congress to treat our competitors as we--and other corporations--are treated.

Competition, legislation, automation--these are a few of the problems confronting bank management today. There are other, larger questions outside the limits of daily bank operations to which all of us should give serious thought.

Everyone sings the praises of sound currency. Even during the campaigning of last fall we heard no sober voice raised in behalf of further devaluation of the dollar. The difficulty is that not everyone agrees on what consitutes a sound currency or what justifies the risk of making it less sound. Indeed, there are those who persist in telling us that a sound currency is somehow incompatible with the achievement of our national goals.

Let us hope that we will learn to confine our foolishness to areas of public policy that are not so basic to the nation's strength. Certain truths of money and its use do not change and cannot prudently be ignored. Among them are these:

Money and credit do not manage themselves. A healthy currency is necessary for a vigorous economy. Government, to survive, must set limits to expansion of the money supply and to rising price levels.

The proper management of the volume of money and credit can contribute greatly to economic growth while at the same time guarding against either inflation or depression. Congress assigned this responsibility to the Federal Reserve System, and the System has discharged it well. Bankers accept and support the discipline of the Fed with respect to the credit supply because the alternative is fiscal chaos.

One test of democracy is whether the people choose to do for themselves what ought to be done in the general interest. It is partly because we have defaulted on this choice that our Big Government continues to get bigger and to reach farther into our State and community life. Recent developments on the international front indicate that from now on we can look for additional pressure to discipline ourselves from that source.

The post-World War II era in which we were prosperous and the other free nations poor — we the helper and they the helped — has ended. The friends we raised up are on their feet now. They have strong economies and currency of their own, they seek markets for their goods, and they press their advantage of lower labor and production costs. In short, we are no longer king on the international monetary hill.

This shift in our relative position has helped involve us in the gold problem you've heard so much about. In all but one of the past 11 years we have spent more dollars abroad than we have received from abroad. This balance of payments deficit means that other nations hold surplus dollars — claims against the U. S. Treasury — which they can ask to have redeemed in gold. In the past three years a number of foreign countries did convert surplus dollar holdings into gold, with the result that our gold stock is substantially reduced.

While the problem appears to be less acute now than a few months ago, its final solution will not be easy. Nor can it be solved by the government alone. For example, one important step is to increase our sale of goods and services abroad; but this will require that management and labor subordinate their own interests to raise productivity without raising costs.

These are some of the important issues of our time. They merit the concern and examination of not just a few people in Washington but of all the people. I hope that you students of business and finance will continue to give them your attention here and after you leave here.

As bankers and, I trust, future bankers, we might all subscribe with profit to a view expressed in the Harvard Business Review earlier this year:

"What we Americans do, finally, depends on the willingness of our citizens to lift their eyes from their own narrow concerns. . . .In helping this country to accept Mr. Khrushchev's challenge, and in creating over the next decade a situation where peace rather than world domination is the only realistic option available to Moscow, the American businessman has a decisive role to play, both as a citizen and as a community leader."

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