FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
12 East 36 St., New York 16, N. Y.

RELEASED FOR A.M.'s
SATURDAY, MAY 26, 1962

ECONOMIC GROWTH AND BANKING

Address of M. Monroe Kimbrel, Vice President of The American Bankers Association, before the Banquet Session of the Annual Convention of the North Dakota Bankers Association, Plainsman Hotel, Williston, North Dakota, Friday Evening, May 25, 1962. Mr. Kimbrel is chairman of the board of the First National Bank of Thomson, Georgia.

The subject of economic growth is one of the most talked-about and one of the most controversial issues of the day. Economists have approached it from every conceivable angle. Yet, I selected this subject for discussion this evening because economic growth and the growth of banking are mutually inclusive. That is, as the song goes, you can't have one without the other. So when we talk about economic growth, we are also considering the growth of banking.

I wish that I could start off this discussion with a note of extreme optimism. But if I did, I would not be speaking frankly. There are several reasons why economic growth will not be easy for this nation in the near future.

Let's first take a look at population figures. During the 1930's the birth rate was very low. The result was that the number of people entering the labor force right after World War II through, say, 1955 and 1956 was very low.

But in this same period--1945-55--the birth rate went up sharply. What this meant was that there was a big increase in the number of mouths to feed but not a big increase in the number of hands to produce.

During the coming years, the birth rate should remain stable relative to total population while the number of people entering the labor force increases. The baby boom that followed the war will soon become a labor boom. If you want an idea of what the impact will be, look at what has happened to the school bulges as these babies progressed from cradles to crayons to cramming to commencement.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In other words, the labor shortage that we experienced through most of the decade following the war has now vanished, and we are faced with unemployment problems.

The second factor that we should consider is demand. During the 30's and through the war years, a tremendous demand for all categories of goods and services was building up. The forces of this pent-up demand were let loose after the war, and business boomed. Another big element in the demand picture was the fact that the war-torn countries of Europe were not producing. This meant these countries were importing extraordinarily large quantities of goods from us. Then too, other nations of the world were buying items from the United States that they formerly bought from European countries.

Demand on the domestic scene was gradually reduced. American factories and shops ran a fairly full schedule during most of the postwar years. At the same time, the Marshall Plan was being implemented to put Europe back on its feet. Consequently, European countries began to meet their own domestic demand and in recent years have started to meet demands of other nations. The growth of the Common Market indicates that this trend will continue.

While we were meeting pressing demand both at home and in foreign markets, we were building our production capacity. As the demand has slowly eased, we are faced with the problem of finding new ways to use this capacity.

My projections would not be complete if we omitted two other factors--(1) the number of people who will be seeking new jobs because of automation, and (2) the number of farmers who will be joining the labor force as a result of increased efficiency in farm production.

I will concede that these are rather passing glances at the prospects for economic growth. And my projections and assumptions based on present trends may turn out to be way off the mark. However, I hope I have succeeded in establishing the seriousness of the challenge we face. Those who are willing to be completely

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

objective about this challenge realize we as a nation will have to exert our collective energies in the right directions to increase our growth rate or even to maintain it at its present level.

You may be asked, as I have been recently, why economic growth is so important. The answer to this in essence is fairly simple. We as individuals and as a nation want more and more of the better things of life. Moreover, there are going to be many more Americans seeking the better things. By 1970 our population will be 214-million, according to recent estimates. In other words, if we want a higher standard of living for a growing America, we must have economic growth.

In addition to these two classical reasons, there is an idealistic reason. We are now engaged in economic warfare with international communism. In order to preserve our system and demonstrate to the underdeveloped nations of the world that democracy is the most productive form of government, we must be able to continue to show progress and a rising standard of living. Economic growth is the only answer.

We, of course, should bear in mind that the United States does not have any patent on the idea that economic growth is the basis for a nation's growth. Every country in the world is seeking economic growth. The big difference lies in the way nations attempt to grow.

Russia, and other communist nations, are trying to grow through a controlled economy. Since growth, under any system, requires that a portion of income be directed from current consumption to capital investment, the Russians leave nothing to chance. The government owns all property and allocates the nation's wealth. It can channel capital into any area that needs bolstering. In the short run it may appear that they are moving ahead of us in some particular endeavor. This is true; however, experience shows that other sectors of their economy soon falter and they must again shift emphasis. This is why we strive for balanced economic growth.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(More)

Some governments have tried to prod growth by inflation. A worker earning $10 per week would continue to receive $10 per week. but it would have the purchasing power of only $8. The government would use the money it extracted from the people to promote growth. Condoning a little bit of inflation is like condoning a little bit of cancer. They both get out of control before you know it. However, inflated currencies eventually face the acid test when it comes time to balance international accounts. We discard this system because it is not sustainable.

For a nation that does not have a propensity to save there is another system--taxation. Under this system the government assumes the responsibility of using the money in a productive manner. We reject this system because it is not healthy and it fails to recognize individual liberties.

Our declared national goal is economic growth that is balanced, sustainable, and healthy. We believe the only way to achieve this goal is through a system of voluntary savings and private investment. The results we achieved with this system are hard to ignore. We have built the greatest industrial nation the world has ever known through the simple system of voluntary savings.

You may have had a chance to glance through the recent study by Simon Kuznets of the National Bureau of Economic Research. He analyzed capital formation in the country during the 85-year period from 1869 to 1955. Throughout the period--discounting cyclical swings--total capital formation was fairly constant at 20 per cent of our gross product, the value of our goods and services.

However, the cost of upkeep and replacements has increased considerably during the 85-year period. Between 1945-55 we were spending more of the capital to maintain optimum efficiency than we were to buy new equipment. It is like walking on a treadmill. You have to walk at a certain speed to maintain your position. If you want to advance, you have to walk faster.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

It is now costing us a lot of money to keep this highly industrialized nation going--let alone growing. Growth will require more savings.

The present Administration is attempting to ease the impact of high costs of maintaining our present productive capacity or adding to it.

The new revised depreciation schedule for capital equipment--Treasury Bulletin F--will allow faster write-offs for depreciation. This should make it easier for our industries to replace equipment when it becomes inefficient or obsolete.

The investment incentive provision in the tax bill, which we are all so familiar with, is designed to encourage investment in additional capacity and more efficient equipment.

Both of these proposals are aimed at improving the nation's capacity to produce.

But, as we noted earlier, it is impossible to grow unless demand keeps up with capacity.

Now that the Common Market countries are meeting more of their own demand and competing with us in world markets, we must do everything possible that will permit us to continue to compete.

The President's trade program was prompted by the realization that we might be shut off from European markets. The trade program may now allow us to increase our exports to the six Common Market nations, but it may permit us to maintain exports at our present level. I am sure that this aspect of the trade program is well understood by you who are so close to the wheat situation.

All three of these measures--investment incentive, depreciation schedules, and the trade program--seek to help us to remain competitive. As you know, competition in world markets--and for that matter here at home--is getting more intense.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

We have passed the point where increased production costs can be passed on to consumers. This means, as some economists have observed, that anything that tends to raise the cost of goods or services in the near future will more likely be deflationary rather than inflationary. In brief, increased costs will further aggravate the profit squeeze that many industries are facing now.

Another very important reason why we must remain competitive is that we have been experiencing huge deficits in our international balance of payments accounts. Increasing prices would make the situation worse. This could lead to a loss of confidence in the dollar and a gold drain. Since the dollar is used as a reserve currency by many nations, a loss of confidence in the dollar would have repercussions throughout the free world.

Many of you are probably wondering why I have talked so long about growth in general without even referring to how banks fit into the growth scheme. I think the answer is obvious. I think every factor that I have mentioned is directly or indirectly related to banking and the growth of banking.

Capital formation is essential for the nation's growth. By promoting and rewarding thrift we are encouraging savings which will be used in productive ways.

But doesn't this also help banks to grow? You know as well as I do that the growth in demand deposits has not kept pace with the increased demand for loans. Corporate treasurers now sharpen their pencils and figure out the lowest possible balance they need to maintain in order to service their accounts. During the past 10 years, demand deposits have increased by only 22 per cent. During the same time, savings and time deposits have gone up 121 per cent. Let's be realistic. If we want to grow, the growth will have to come in a large measure from increased savings.

With increased deposits we find ourselves again right in the middle of the whole growth problem. We can contribute to economic growth by making sure that we

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

are channeling these funds into productive areas of our economy. I think on this score banks have a pretty good record.

At the end of the first quarter, the nation's commercial banks had total loans of $126-billion. They also had an additional $90-billion invested in the American economy in the form of securities.

About 36 per cent of total loans are direct loans to business. Another 24 per cent are real estate loans. But we also play a very important role in the other side of the capacity-demand picture. Banks are the leading lenders to consumers. Commercial banks have over $27-billion outstanding in consumer loans. That is 23 per cent of total loans.

We can contribute to economic growth by being as consistent as we possibly can in our credit policies. If we are too free with credit during periods of expansion, we may be encouraging overcapacity. If we restrict our consumer loans during periods of business contraction, we are decreasing the demand factor and may help to lengthen the slowdown in business.

Bankers can help the growth process by making sure that we adapt to changing credit needs. We should anticipate credit demands so we are not put in a position of being a roadblock to growth.

Goods and services are now in adequate supply relative to demand. Our volume of loanable funds also appears to be adequate to meet credit demands. The days when business--including banks--could make a large and easy profit are behind us.

The element of competition--the basic element in a free enterprise economy--will be stronger in the next few years than it has been for some time. I think this will be good for banking. It will test our skills, knowledge, imagination, and determination. It will be a blessing in disguise if it forces us to trim operating costs and devise new and more economical ways to serve our communities.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Competition invariably brings out the best in men and in institutions. When competition forces one bank to move to a higher level of excellence, the new level becomes the standard for all banks. This has been the story of progress throughout the history of this country. I don't see why it should change now.

In closing I would like to make two points. The first one is this: The United States must and can have economic growth in the years ahead. This is true in spite of some of the difficulties that I mentioned at the outset. However, it will not be easy. It will take resolute determination on the part of all segments of our economy.

We in banking can make our greatest contribution to economic growth by doing everything we can to make sure that our banking system is sound and growing. For if we can continue to supply the banking services needed today, and provide them at a profit, our banks will grow and we will be in a position to meet the needs of a growing economy. Banking's interest and the public's interest will both be served.

The second point I want to emphasize is that bankers are in a unique position to interpret the factors and forces that influence economic growth.

The manufacturer is usually concerned with his own business. The same is true of service industries. But bankers are in the middle of our economic mechanisms--capital formation, consumer demand, credit needs. Since we are in this position, it is incumbent upon us to explain the fundamentals of economic growth to our customers and the communities we serve.

When inflationary pressures start to mount, we should explain the impact these pressures will have on our economic growth. We should make sure our customers are aware of the competitive nature of the Common Market and how our trade with these countries affects our international balance of payments.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

At this particular juncture we should stress the importance of balancing the federal budget. As you know, the psychological uplift provided by a balanced budget would be one of the best things that could happen to stop the outflow of gold. If central banks and individuals of foreign countries are convinced that we are willing to subject ourselves to the fiscal discipline which we prescribed for them after the war, they will not worry about the value of the dollar. Consequently, they will be willing to hold short-term dollar claims instead of converting them to gold.

We should also point out the dangers of a high and growing federal budget regardless of whether or not it is in balance. Simon Kuznets, in the same study that we referred to earlier, pointed out the danger of rising federal spending. The biggest problem is that federal spending is heavily concentrated in consumption and nonproductive investments. Thus money taken out of productive channels by taxes is used in ways that do not add to productive capacity. Therefore, federal spending, for the most part, impedes rather than fosters economic growth.

If we bankers are successful in these two ventures--providing a sound and growing banking system and explaining fundamentals of economic growth to the public--we will be making an invaluable contribution to the nation's economic growth.

#

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis