

FROM:
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THE AGE OF COMPETITION

Address of M. Monroe Kimbrel, Vice President of
The American Bankers Association, before the Annual
Convention of the Oregon Bankers Association,
Gearhart Hotel, Gearhart, Monday Morning, June 4, 1962.
Mr. Kimbrel is chairman of the board, First National
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We are moving into a new era. Some folks call it the electronic age; others prefer to call it the space age. I wouldn't want to downgrade the impact or importance of these two elements; but to my way of thinking, a better name for the new era we face would be the age of competition.

In everything we read we keep running into the word competition. To a large extent the power struggle going on between the Free World and international communism can be explained in terms of economic competition. The question is: can our system of free enterprise provide more for the people of the undeveloped nations than the communist system can? We are firmly convinced that it can, and we are trying to do everything possible to prove it.

This struggle, of course, is going to be with us for a long time. It cannot be decided as quickly or as conclusively as a shooting war. But there are signs from time to time that should be encouraging to us and should give us added incentive in pursuing our objectives.

For example, the Berlin wall is a standing testimonial to the failure of the communist system which was operating side by side with the dynamic free enterprise system of West Berlin and West Germany. East Germans who saw both systems in action didn't have to be told which one was better. Nor did they waste time telling others which one they selected--they simply left.

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The Chinese who have fled Red China don't have to give a long explanation of what they think of the communist system. It is obvious that they could no longer bear to live under it. They left their homes and families to take a chance on anything the Free World had to offer.

Are there any areas where people in a noncommunist country are fleeing to communism?

The Russians are having trouble producing adequate food. I imagine they would be quite willing to swap their troubles for our troubles of overproduction.

In terms of economic competition on a world basis we have been making marked progress.

We, however, have not been alone in this economic conflict. The resurgence of the productive capacity of Europe has been a big factor in helping the Free World move ahead. The dynamic economy of Japan has also played an important role.

We recognized the need for a strong European economy right after the war and we helped them get back on their feet with the Marshall Plan.

But in the process of strengthening the economy of Europe as a deterrent to the spread of communism, we also helped to develop some strong competitors in world markets.

When their production was at a standstill, the countries of Europe had no choice but to import from us. Other countries, which before the war used European-made goods, also had to turn to us. Consequently, we were able to go into world markets with the single concern of producing enough goods fast enough to meet the demand. We didn't have to worry about international competition because we didn't have any.

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Along about 1956 we began to realize that the nations of Europe were in a position not only to fill many of their own needs, but also to compete vigorously in markets around the world. As international competition grew more intense, our balance-of-payment deficits and the accompanying gold outflow became a source of increasing concern both at home and abroad.

It is no secret that the emergence of the Common Market poses a real threat to the American economy. We must continue to have access to European markets. We must be free to bargain for tariff concessions. Otherwise, our exports to Europe, our balance of payments position, and our international, political, and economic leadership will be subject to erosion. The free trade bill now in Congress will not guarantee us increased exports--it will guarantee us a right to compete. We must still do everything possible to increase our exports.

Several efforts are being made in this direction. The Commerce Department is offering many services to companies interested in finding markets. The Department is also publicizing the need for exports through its "E" for exports awards. The Administration is seeking investment incentive legislation that will stimulate expenditure for more efficient equipment. Depreciation schedules are now being revised so that businessmen can write off equipment faster and thereby take advantage of newer and more efficient equipment and machines.

These efforts are designed to make us more competitive in Free World markets.

On the domestic scene competition is also becoming more intense by the day. After the war we had a backlog of demand that had been built up during the depression and during the war. This demand factor was gradually subsiding at the same time the demand from other countries was diminishing, so the decrease came from two angles.

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Then too, the increasing capacity of European countries permitted them to compete more effectively in our domestic markets. This made competition even stiffer.

For example, today steel producers in this country are competing with each other, with steel substitutes such as aluminum, and with foreign-made steel. Some people even say the steel industry also is competing with the government.

The same intense competition is faced by almost all American businesses.

To be quite frank, the return of competition after close to two decades is really nothing more than a return to a normal pattern. We as a nation could not expect to go on taking it easy and feeling secure in the knowledge that we would prosper.

As far as I am concerned I think the return of intense competition is a good thing for this country. Free competition helped us develop the highest standard of living the world has ever known. Why should we not welcome it now?

During the past four years more intense competition has served as a major deterrent to inflation and therefore has assisted in the maintenance of stability in the purchasing power of the dollar. This benefits all of us. If we know we are going to get the full value for our dollar and that inflation will not erode our savings we should be inclined to save more. As you know, this is a basic requisite if we are to have balanced, healthy, and sustainable economic growth.

Adjusting to more vigorous competition will not be easy. Many companies are starting to feel the profit squeeze. They are being forced to cut fat from their operations. This will lead to more efficient operations and will benefit us all in the long run.

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Those who discipline themselves to the new market conditions will be successful; those who do not will suffer.

I hope government policy recognizes the intensity of the competition and does not hamper business in meeting the new conditions.

One particular area that concerns me is the use of antitrust laws to harass business. Now I believe antitrust laws must be enforced if we want to maintain fair competition. But I do not think that antitrust powers should be used loosely or as a threat. Many antitrust actions have been initiated with considerable cost of business time and money only to be thrown out by a grand jury.

Certainly a danger that must be avoided is the identification of bigness itself with monopoly. A basic law of a truly competitive system is that the more efficient operations will be rewarded with bigger shares of a market.

It seems to me that instead of questioning the propriety of an organization increasing its position in a given field, and questioning the size of an organization simply because it is larger than others, a new approach might be taken.

Instead of businesses complaining so much about the size of competitors, they might be better off using the time and energy to improve their own efficiency.

It's similar to the situation that developed in the American League in the 1920's. Some club owners were saying that the Yankees should be broken up because they were much better than the other teams. Connie Mack said that was a bad idea. He said it would be better to improve the other seven clubs.

The government could also add to the country's economic growth by increasing its own efficiency as it has asked business to do. It was interesting to note that President Kennedy, at his press conference a few weeks ago, asked businessmen for their views on the new problems facing the nation. He said

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he didn't want to hear about the old ones. The very day the President was making this statement, a former businessman was making an old--but more pertinent than ever--statement. The individual was Secretary of Commerce Luther Hodges, who was telling the House Civil Service Commission that the Government could save all kinds of money by firing unneeded federal employees. He said that 10 per cent of the people in his own department held jobs started 40 years ago which just aren't needed now. He was not theorizing. During 1961 he reduced the number of people on the Commerce Department payroll by close to 3,000. He didn't suggest paying them more for doing less. He didn't suggest reducing their hours at the same pay so he could spread the work around. He said if they are not needed they should not be on the payroll.

I hope his advice does not go unnoticed by others in Washington.

I didn't mean to take so much time describing the competitive forces that exist throughout the world today. But I do think that it is important that we in banking recognize the fact that the increasing competition in banking is, in many respects, simply a reflection of the increased competition that permeates the entire world economy.

I, for one, feel that this is a challenge we should welcome. As bankers strive to reduce operating costs and develop new ways to serve the public, the more imaginative and more skillful bankers will reach new levels of excellence. Doing this they will be setting new standards for all bankers to shoot for. This is how the banking industry has progressed in the past. It is the only way that we will progress in the future.

Competition is not something new for banks. In doing some reading on this subject, I went back to the literature of the thirties and I was surprised to find so many articles and speeches devoted to the subject of competition. Bankers through the years have been vigorously opposing competition from the government and unfair competition from taxfree lenders.

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I do not say that this is wrong. We should continue our efforts to get the government out of the lending business in areas where it is not absolutely essential. We should continue to attack competition that is subsidized by tax shelters.

But what I do want to emphasize is this. If we spend too much time protesting about what others should do, or what the government should do, we might be diluting our energies and our efforts. Our primary goals should never be mixed with secondary considerations.

Our prime responsibility is to meet the legitimate credit needs of the nation. We must be able to adapt when the needs change. We must be able to meet the needs in an efficient manner so we can operate at a profit and be in a position to serve the needs of a growing economy in the future.

We have all talked a lot about free enterprise and the merits of competition. Now we are going to have to learn all over again how to live with it.

The profit squeeze that is affecting most American businesses is also affecting banks. Our operating costs, including the cost of money, have been creeping up over the past 15 years. Few bankers were alarmed because business was booming and profits were coming in. Now we are all going to have to start working with sharper pencils.

I wish that I could stand up here and read off a list of steps that you could take that would guarantee you a profit. But I can't. Nor can anyone guarantee any of us a profit. We must earn a profit.

But there are a few areas where we can concentrate our efforts to meet competition more effectively. The first area, and the most important one, is the area of bank personnel. There is nothing like competition to bring out the best in people. In fact, psychologists have claimed that competition will do more to develop an individual's personality than any other factor.

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When the problems get a little bigger and the work load gets a little heavier, class will always show. It's something like the way a crew works.

The crew that can increase its stroke when it is challenged is the crew that can win the race.

Increased competition could be a blessing in disguise if it enables us to recognize the potential of our people. Once we have done this, we should make sure that we are giving them every possible opportunity to develop that potential. This means on-the-job training. It means special graduate schools for the younger bankers. It means increased responsibility for the promising people all the way down the line.

With the advent of automation many of the dull routine jobs will be eliminated. The performance level of all bank employees will have to be raised. That is why banking education is one of the most important problems facing the banking industry today.

We need people who can master the technical skills required for today's complicated business transactions. Bank management must start to base prices on actual cost, not on theoretical factors. For example, the change in Regulation Q brought home to many bankers the fact that they really didn't know how much savings cost them. We also need men who, on top of the skills, possess the imagination that will be necessary to devise new credit programs to meet new demands. We need men who can examine complicated operations and find ways to make them more efficient.

We need men with vision who can look beyond the confines of their own specialties and see new ways that banks can serve their customers.

This, of course, is easier said than done. But if we in banking can be prepared to meet changes as they occur, we will be in a position to develop new business and prevent competition from making further inroads into the banking business.

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If we do not meet these needs, others will. And if we are not willing to meet credit needs, we should not complain about competition. It boils down to compete or capitulate.

In closing, I want to point out that bankers have been living with competition for a long time. In fact, The Wall Street Journal, in an article discussing the antitrust action against bank mergers because they would reduce competition, said that if banks are going to reduce competition they are going to have to merge with a lot of nonbank institutions.

Since we have become accustomed to competition, we are in a better position than many businesses to meet the challenges of the age of competition which lie ahead. I know bankers will meet these challenges as they have in the past.

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