

FROM:  
THE AMERICAN BANKERS ASSOCIATION  
THE NEWS BUREAU  
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A TIME FOR ANALYSIS

Address of M. Monroe Kimbrel, Vice President of The American Bankers Association, before the Annual Convention of the West Virginia Bankers Association, The Greenbrier, White Sulphur Springs, Saturday Morning, July 21, 1962. Mr. Kimbrel is chairman of the board of the First National Bank, Thomson, Georgia.

During the 1920's a professor of economics at a well known graduate school told a group of future economists that they should avoid the field of banking and finance. He said the field would be sterile. He pointed out to his students that since the Federal Reserve System had been established, the nation's financial structure was complete and there would not be any other fundamental changes.

The professor, of course, was guilty of harboring a very shortsighted view. However, throughout history the professor has had much company; and it is not hard to figure out why. Basically, it is a matter of human nature--people do not like to change something that seems to be working satisfactorily for something that might be better. It is the old idea of not rocking the boat.

Changes in our banking system have followed this pattern. When things were moving along well, nobody wanted to rock the boat. Suggestions to make any fundamental changes in the system were not given serious consideration. But whenever a crisis developed, the complacency was shattered and quick remedies were sought. The history of changes in banking laws is pretty much a history of financial crises in this country.

There have not been any fundamental changes in our financial structure since the 1930's. Some have been proposed; but without the pressure of need, they were not adopted.

(More)

However, I don't want to make the same mistake the professor made. In fact, if I were talking to future economists today, I would advise them to enter the field of banking and finance because I think the next few years will be extremely stimulating.

In short, I believe we are going to see some fundamental changes in our banking system. However, I don't think the changes will be brought on by a crisis. I think the pattern has changed slightly. It seems to me that the changes will be made because of a growing sense of frustration about our economy.

During the past few years we as a nation have been showing an ever increasing concern about many of our economic problems. We have not been successful in correcting our balance of payments deficits although the latest word is that the Administration hopes to have the basic deficit corrected by 1963. While running these deficits we have seen our gold supply reduced to the lowest level since 1939.

We have not been able to conquer our unemployment problems. Even in periods of business expansion we have had underutilized human resources.

We have seen one federal budget after another end up in the red. The budget has been balanced in only six of the last 31 years.

The farm problem is still costing the nation's taxpayers billions of dollars, and relief is not in sight.

Many Americans are unhappy with our rate of economic growth. We have not been growing as fast as other nations of the Free World. If we do not increase economic growth, how will we be able to provide jobs for additional people who will be entering the labor force in the years ahead?

With the development of the Common Market, our goods are running into stiff competition in world markets. Then too, our present recovery seems to be topping out at a point far below expectations.

(More)

All of these factors, plus the continuing tensions resulting from the cold war, combine to give us a feeling of frustration.

This sense of frustration is manifesting itself in many areas. We as a nation are no longer willing to accept ideas simply on the basis that they worked in the past. We are starting to question, analyze, and reevaluate many of our methods and philosophies.

For example, our tax structure as rebuilt during World War II is now being attacked from every conceivable angle. These attacks are not new. Proposals to cut and revise taxes have been offered almost annually for the past decade. But what is new is this: today such proposals are not being brushed aside as they have been in the past. They are being studied, considered, and discussed.

I personally feel that this new approach--questioning before a crisis develops--is good. It should prevent decisions that are too hasty, decisions in the heat of a crisis.

As you know, at the present time many aspects of our financial structure are being closely scrutinized.

One year ago last month the Commission on Money and Credit submitted its report--a report that was three years in the making. The work of the commission was the first full-scale study of the nation's financial structure since the Aldrich Commission, which was appointed in 1908. The report of the Aldrich Commission was the basis for establishing the Federal Reserve System in 1914. The Commission on Money and Credit made 87 recommendations.

More recently, President Kennedy has appointed three committees to study laws, regulations, and practices of the nation's financial system.

The three committees are: (1) a committee headed by Walter Heller, chairman of the Council of Economic Advisers, which is studying the operations

(More)

of financial institutions; (2) a committee headed by Secretary of the Treasury Douglas Dillon, which is considering the operations of federal credit programs; and (3) a committee under Labor Secretary Arthur Goldberg, which is looking into the operations of corporate pension funds and other private retirement and welfare programs.

The committees are to consider, but not limit themselves to, the recommendations of the Commission on Money and Credit. The reports of the three committees are due in November so they can be of use to the Administration in drawing up a legislative program for the next session of Congress.

The committee which will be of most importance to bankers is the Committee on Financial Institutions. This group is considering many broad areas such as the organization and structure of the Federal Reserve System; regulation of interest rates; the desirability of broadened investment authority for various financial institutions; the scope of federal deposit and insurance programs; branch banking; and possible consolidation of federal supervision, examination, and chartering agencies.

There is also a fourth committee now looking into broad areas of banking. This is the 24-man advisory committee named by James J. Saxon, Comptroller of the Currency. The purpose of this committee is to conduct a "comprehensive study of the functionings of the national banking system." Mr. Saxon said the inquiry will be centered on those laws and practices and procedures which no longer serve, and indeed many obstruct, banks in meeting the economy's needs today and in the future.

This committee will consider Regulation Q--including reserves required against savings deposits--lending, investment, and borrowing powers, state taxation of national banks, revenue bond underwriting, branching powers, basic

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lending limits and mandatory membership in the Federal Reserve System. The Saxon committee, like the other three, is not limited to any specific topics of consideration.

The committee is to make recommendations later this year. According to Mr. Saxon, those which require legislative action will be ready for Congress next year. It is understood that technical and procedural matters will be consolidated into one bill. Proposals of a fundamental nature and proposals which may be controversial would be presented separately.

As you can see, the Commission on Money and Credit has acted as a real catalytic agent in the field of finance. In addition to giving recommendations which these committees are studying, the commission has stimulated many financial institutions to undergo some self-analysis.

Many groups, including the A.B.A., prepared monographs on particular aspects of the money and banking system. Many experts prepared papers on specific areas of money and banking. These monographs and papers were the basis for considerations by the commission.

Next month Prentice Hall will publish 8 of the monographs and later will publish 10 additional volumes which will include the various papers that were prepared.

As another result of the commission's work, some states have undertaken studies of their own financial structures.

I did not mean to take quite so much time in listing the various factors in the nation's financial system that are being examined. However, I think it is of tremendous importance that we realize the scope and depth of the studies now under way. I am sure that in the next few years we will see some fundamental changes in the financial system.

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Just what these changes will include I don't know. But of one thing we can be certain: bankers cannot afford to sit on the sidelines while these changes are being considered. Nor can we permit ourselves to be cast in the role of second guessers, criticizing actions after the fact.

During this period of penetrating probing, bankers have a great responsibility. We must first of all do a little soul searching. We know what the recommendations of the commission were. We can study them in detail. We should look into every area under consideration by the various groups studying the financial structure. We must take a sound and reasoned approach. Our judgments must be based on facts and present-day circumstances; we cannot base our views on emotions or on past practice.

As I mentioned earlier, there will be a whole body of literature on the nation's money and banking system. We should take advantage of the studies of others to make sure we are considering all viewpoints.

The A.B.A. has formally offered to assist the three presidential committees in whatever way possible. We have also requested that at the appropriate time we be permitted to testify and present the Association's views on some of the subjects being considered.

As you know, many of the questions being considered are rather complex. For example, take the proposal of J. J. Robertson, member of the Board of Governors of the Federal Reserve System. He has suggested that the function of the Federal Reserve be limited to that of administering monetary policy. He proposes that all supervisory and administrative functions pertaining to banking be consolidated under a separate agency.

Such proposals have far-reaching implications. Some have argued that it would be overconcentration of authority and that it would mark the end of the dual banking system. Others argue that it would eliminate a lot of overlapping and duplication of effort and in effect strengthen the dual system.

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I don't intend to endorse or reject this or other proposals on the general structure of supervisory agencies, but I do want to urge you to look into these proposals and, once you have formed an opinion, I hope you will not shy away from debate. The only way for such questions and proposals to be satisfactorily resolved is for all those interested in a sound and viable financial structure--bankers, economists, bank supervisors, and government officials--to enter into objective discussions of the basic issues.

The A.B.A.'s Washington office, you may be sure, will be following closely the various studies going on. Our research department will be developing background information on the areas being scrutinized. But the opinions of the individual bankers of the nation are absolutely essential. If the A.B.A. is to represent its members and present the views of its members, the obvious starting point is for the members to study the issues and form opinions. Then these opinions must be expressed so the A.B.A. can determine what the nation's banks want. Once a position is established, we plan to make our views known. This is true in all areas of legislative and administrative action that have a direct bearing on our economy, not just matters directly related to banking. For example, after extensive study by the Economic Policy and Advisory and International Committees, the A.B.A. supported the trade expansion act. This is not directly connected to banking, but few would say that it does not have a direct effect on our economy. If we in banking want to give more than lip service to the idea that what is good for the nation's economy is good for banking, we are going to have to make our views known more often on economic matters. If we do not, we will have to live with legislative or administrative decisions that we may not like. We dare not lose by default.

This matter of speaking up on legislative areas was brought home to most bankers by Congressional activity on the tax bill during the past few years.

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We learned that for bankers to establish a common objective was not the major element in obtaining tax uniformity. We found that the workings of the legislative process are slow and complicated and that we had much work to do to make sure that our position was made known to members of Congress and government officials.

I think bankers and the banking industry benefited greatly from this experience. It now seems to be an accepted fact that we will have tax uniformity legislation. It may not come this year but I feel confident that we will see it before too long. Representatives of the thrift institutions have resigned themselves to a new tax formula.

The principle of tax uniformity has been pretty well established. The big question to be settled is the amount of taxes mutual thrift institutions should pay. It was also gratifying to see that the Senate Finance Committee substituted a reporting system for the burdensome withholding provision. Although the reporting system as tentatively proposed by the committee will be costly, it is still to be preferred over the withholding system.

Those who have worked hard for tax uniformity have learned quite a bit about the complications that can arise over legislation. This experience will be very important in the years ahead. For the many recommendations and proposals that come out of the studies now being conducted will all have to go through the same procedures. We will have to establish positions. This, although difficult, will be the easiest part of our job. We must then proceed to make the views of banking known to every member of Congress. As we found in the tax uniformity case, it is not enough to write one letter to a Congressman or make one phone call. Interest in legislative matters must become a continuing concern of everyone in banking. We must maintain continuous communications with our elected and appointed officials. We must understand their problems and interests as well as our own. The Washington office of the A.B.A. will, of course, continue to make information available to government officials and members of Congress, but unless bankers take an active interest at the grass-roots level, we cannot expect to be very effective.

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In closing, I want to again emphasize that we might be seeing some fundamental changes in the nation's financial structure in the near future. If we are to participate in the decisions that will affect our industry, we must start now to analyze these issues under discussion in an objective manner. Then we must do everything we possibly can to make sure that any changes made are changes that will improve the efficiency of our national economy.

For once, we are seeing the prospect of change without a crisis. We should welcome the opportunities inherent in such a process and make the most of them.

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