FROM
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BANKING'S ROLE IN ECONOMIC GROWTH

Address of M. Monroe Kimbrel, President, The American Bankers Association, at a Banking Centennial Luncheon, Olympic Hotel, Seattle, Washington, Thursday, June 27, 1963. Mr. Kimbrel is chairman of the board, First National Bank, Thomson, Ga.

Milestones, such as the Centennial of the dual banking system which we are observing this year, provide an excellent opportunity to review the progress that has been made over the years. And, it is only appropriate that in doing so, we should honor some of the pioneers who made this progress possible.

I do not say this lightly. In fact, John Knox, former Comptroller of the Currency, in a book about the early history of banking in the United States, was particularly complimentary of the high caliber of bank management in this area during the latter part of the 19th century. He went on to point out that Seattle bankers were quite proud of the fact that in spite of a destructive fire, there were no suspensions or bank failures in this city during the national panic of 1893.

As you know, the dual system of state and federally chartered banks came into being 100 years ago. It resulted from the National Currency Act which Abraham Lincoln signed into law Feb. 25, 1863. The Act gave the nation a brand new currency and created a system of national banks to distribute the currency. The new national banks took their place beside the already existing state banks, thus creating what we bankers call the dual system.

Although the act was passed about a quarter of a century before Washington entered the Union, your predecessors lost little time in establishing the dual

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concept of banking. In fact, in 1899--the 10th year of your statehood-- the number of state banks and the number of national banks were just about the same. There were 28 state banks and 31 national banks in operation here.

The dual banking system was not perfect when it was created, nor is it perfect today. Through the years it has been improved by such steps as the establishment of the Federal Reserve System in 1913 and the creation of deposit insurance in the 1930's. Moreover, I am sure that many more changes will be necessary to keep banking attuned to the times.

But I think any objective study would show that today's banking system is both strong and viable. Unlike some earlier days in banking's history, in recent years there have been few bank failures. In fact, during 1962 not one insured commercial bank in the country had to close its doors.

Recently Representative Wright Patman of Texas, who is chairman of the House Banking and Currency Committee, commenting on the absence of bank failures, said, "...We should have more bank failures." He went on to point out, "Where there is risk taking there are inevitably some failures." He added, "We must wonder whether they are actually doing the job they are supposed to do."

It seems to me that it is rather extreme to measure banking's success by the number of bank failures. Moreover, if banks were being overcautious and not meeting the legitimate demands for credit, the criticism might be justified. But the facts don't seem to bear this out. For example, last year, in addition to the absence of bank failures, we should also note that bank loans and discounts expanded by $15.4 billion-- the largest annual dollar increase in our history. There was no shortage of loanable funds. And, as far as risk taking is concerned, it seems pertinent to mention that the amount of funds being set aside to cover losses on loans has been showing a steady rise over the past five years. Since 1946 bank loans have increased by 377 per cent while deposits rose by 72 percent.

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Losses are to be expected in the banking business. That is why reserves are set up. A bank must be able to absorb normal losses without going out of business.

A bank failure is a sad event for the entire community. A few years ago the Home National Bank of Ellenville, New York had to close its doors because of excessive risktaking. The newspaper reports of the bank failure were rather gloomy. Here are a few excerpts:

"A...bank shortage...erupted today into a major economic disaster. Payrolls are late, instalment buying is impossible, checks are temporarily worthless."

"For many of the 4,500 residents of the resort village deep in a valley of the Catskills, the holiday season was marked by fear of economic distress--and in some cases, ruin....Merchants reported sales down one-third, one-half, even three-quarters below last year...Few people in Ellenville this year had cash for anything but daily necessities. What occurred there early this month doesn't happen very often any more. But when it does, as Ellenville found out, it can cause chaos."

"The people of Ellenville were demoralized and frightened."

"... an air of tradgedy hovered over the entire community."

Because of deposit insurance, the distress, for the most part, was short-lived. However, I think it well for us to know the extent to which a bank failure can disrupt the normal operations of an entire community. When we do this, it isn't likely that we will regret the decline of bank failures.

Stability is essential if banking is to make its maximum contribution to the nation's growth. Yet, stability alone will not suffice. For stability, when considered to the exclusion of other factors, often leads to complacency--a characteristic which would be inimical to a truly functioning banking system.

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The banking industry is accustomed to criticism. You may recall that the banking system was roundly criticized in the last century whenever it showed too much interest in stability. The early settlers moving west were not too interested in stability. They wanted credit to finance their ventures. The railroads were not built by men who wanted stability above everything else. They, too, wanted credit to support their efforts. Our natural resources were also developed by men who showed an adventuresome spirit.

But when the banking industry went to the extreme in meeting these demands, it was again subject to criticism. During the 1920's, many small banks had to close their doors, and subsequent examinations showed that the banks were too liberal in meeting the farmers' demands for credit.

Banking must always stake a claim on the middle ground between the desire for stability and the demand for credit. Usually the extremes are not difficult to identify, but the moderate middle is at times evasive. It is evasive because of the nation's propensity for change. And, banking must keep pace with the times. It must keep pace with the needs of business and the needs of individuals. It must keep pace with the needs for economic growth on the local, state and national level.

The banking industry's interest in economic growth is a very fundamental interest. It might be described more accurately as an enlightened self-interest. It is difficult to find growing and prospering communities which do not have growing and prospering banks. Nor is it likely you will find dynamic banks in communities with sluggish growth patterns. In short, banking progress and economic growth are inseparable. They can develop together or they can mark time together.

In recent years, bankers have been showing an ever-increasing interest in this nation's economic growth. As some of you may recall, The American Bankers Association opened this Centennial observance with a Symposium on Economic Growth, which was held in Washington, D.C., on the anniversary date of the signing of the

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National Currency Act. The audience included leaders from business, government, education, labor unions and banking. It was held in response to President Kennedy's request for a dialogue on what the public and private sectors can do to improve our growth rate. The President participated in the program.

These discussions did not-- nor were they intended to--lead to any clear-cut formulas for growth. But they did serve to bring into sharper focus the public debate about economic growth. This was no small accomplishment.

But we have gone much further than simply participating in general discussions of economic growth. We have gone before committees of Congress to support measures which would spur our economic performance. A year or so ago, when the Trade Expansion Act was proposed, the banking industry studied it and was among the first groups to speak out in favor of it. We, of course, don't do much exporting. But it is obvious that the trend is toward freer international trade, and if the United States cannot participate in the increased flow of goods and services, it is going to see a slowing in the domestic economy. I understand that 17,000 jobs right here in Seattle are directly or indirectly related to international trade. Needless to say, a slowdown would also affect the banking business.

Last year when the investment incentive plan and the new depreciation schedules were being debated, many businessmen opposed them. And, I believe the results have been encouraging. The recent McGraw-Hill survey of plans for capital spending on plant and equipment showed that businessmen attributed over 40 per cent of planned increases in spending to the investment incentive provision in the tax law and the new depreciation schedule.

The banking industry, through its national association, has also been deeply involved in the current dabate over tax reductions. We have long advocated tax reduction as a means for stimulating long-term economic growth. In our testimony before the House Ways and Means Committee we stated that (and I quote) "Dollar for

dollar, the major and most lasting contribution to growth stemming from tax-rate reform lies in the area of the corporate income tax. Such a cut, rather than helping to line the pockets of the rich, will help restore the incomes and the dignity of the unemployed, as well as raise the incomes of the currently employed, by providing more jobs and better pay for existing jobs." We recommended that the committee consider increasing the cut in corporate income taxes, preferably to as low as 42 per cent,but at least to 45 per cent.

However, we also believe that any tax cut, in addition to being properly structured, must be implemented within the bounds of fiscal prudence. That is, we believe the level of Federal spending should be held constant during the three-year transition to lower rates. Reducing revenues and increasing expenditures could result in an unmanageable debt that could undermine the whole international financial mechanism. And, as you know, our balance-of-payments situation has not been showing any improvement in recent years. Our international liquidity continues to deteriorate. An unmanageable budget deficit could further strain confidence in the dollar. Such a development could lead to world-wide repercussions.

Since this is so, we believe that unless ways are found to hold spending at this year's level--about $94.5 billion--a tax cut should be rejected at this time.

We will be interested in seeing the bill that energes from the Ways and Means Committee. If the bill does not include provisions to stimulate investment and provide incentives for growth, we will have to take another look. After all, the risks are part of any tax cut. If the long-term benefits are also included, the risk is worth it. But the risks without the benefits would be too high a price to pay.

In closing, let me make one further point. The primary purpose of banks is to keep money and credit coursing through the economy. To this end, they provide a wide range of services for corporations and individuals. As our honored guests here today would testify, these services have undergone many improvements through the years. The demand for almost all of these services increases as the pace of economic activity quickens. So it should go without saying that bankers are deeply interested in your progress. And as I pointed out earlier, this interest goes beyond simply meeting your financial needs. It extends to public policies which influence the nation's economic growth. In this way, we feel we are truly living up to our Centennial theme--Progress Through Service. Thank you.

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