

WHAT DO WE HAVE IN COMMON?

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by

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Most of us who live in other parts of the country jump at the chance to visit San Francisco. If the truth were known, that was one of the things I considered when I decided to accept the invitation to take part in the Western Independent Bankers' Association's seminar. High on the list of attractions was the chance to meet many of my old friends. In addition to this, however, was the attraction that the West Coast--and especially San Francisco--always has for people from all over the country.

But as the time for the seminar came nearer, I began to have some qualms about my meeting with you. The very name, Western Independent Bankers Association, gave me cause for sober reflection. Obviously, I am not a Westerner. Somehow or other, the influence of my early environment of South Georgia clings to me, and I know that none of you are under the impression that I was born and reared in the Far West. I began to worry that you Western bankers would think that a Southerner could have no understanding of your problems. Is there anywhere more contrast than exists between the Far West and the Deep South?

In the second place, I began to wonder if the Western bankers might think that a central banker, which I am by virtue of my association with the Federal Reserve Bank of Atlanta, could have no understanding of what it was like to be an independent banker. Wouldn't the central banker, they might well ask, always be looking at things from the wrong direction?

Many of my misgivings went away, however, as I began to look at the South and the West from a little different point of view. It is, of course, true that both Westerners and Southerners have many distinctive characteristics, but I think that the characteristics that they have in common far outweigh the differences. Both the South and the West enjoy a worldwide reputation for hospitality. The reputation for being hospitable to our friends is something that we share in common. That assured me of the warm and understanding welcome I have actually experienced.

But from another angle I can see that we have a lot of things in common. The Western states and the Southern part of the United States are the two regions having the fastest rate of economic growth. As rapidly growing regions, we share many problems. For one thing, we never seem to have enough money to finance our capital expansion and have to import capital funds from other areas. Both the South and the West are young, economically speaking, since rapid economic growth has been concentrated in relatively recent periods. As citizens of these two great regions, the West and the South, we have had to change our ideas and ways of doing things constantly in order to survive. Both Southerners and Westerners have had to get used to new ideas. It seems to me, therefore, that, to a great extent, Westerners and Southerners have the same point of view.

I could dismiss the second misgiving--that you might question how well a central banker could understand the problems of an independent banker--by pointing to what you already know: I was a small-town banker in Georgia for several years, and I challenge you to find any more problems than those we faced from day to day in that area. In my present position, I would not take anything for my experience as a small-town banker in preparing me to understand the problems of an independent banker. I must admit, however, that having had a little experience with the problems

faced by a central banker I have come to realize more and more that independent bankers have no monopoly on problems. But what is more important, I think, is that I have come to realize that many of the problems the independent bankers have are also the problems of a central banker and that the problems of a central banker are the same problems faced by the entire banking system, whether independent bankers or large-scale operators.

Today, therefore, I am going to spend what time I have on searching for an answer to the question, "What do we have in common?" I am going to do this because I sincerely believe that, unless people in this great nation of ours, including bankers, can unite together in solving common problems, our nation cannot possibly achieve its great potential.

If I were to ask each one of you what is your bank's greatest problem, I am sure you would give a lot of different answers. Perhaps you might tell me that it is getting a competent staff and retaining it. Maybe you would point to the difficulties in arranging for management succession. Perhaps you might say it is fighting the competition of huge banking organizations. Someone would undoubtedly say it is setting up a schedule of service charges; another, bank closing hours; another, auditing procedures; and still others, how best to keep up with the rapid growth in computerization. But I think that, if we could lump all these things together, we would come up with one great big problem: how to run a sound, profitable, and growing bank.

Well do I know from experience that there are things a banker can do within his own shop that will help meet this problem of running a sound, profitable, and growing bank. You can do a lot of things directly to improve your bank's efficiency and to compete effectively by offering services to the public. What you do in this respect will be reflected in your earnings and dividends statements and your

balance sheets. But there are a lot of things that are going to determine the degree to which you can run a sound, profitable, and growing bank that an individual banker cannot control directly. At times, these forces may be far more important in shaping his bank's future than the whole total sum of his operating policies.

Have you ever been in a situation like this? You almost hate to go to the bank each morning because you know that so many persons are going to ask for loans that you are going to have to turn some of them down. Some of them will be extremely valuable customers that you simply cannot afford to turn down. Consequently, you will strain your bank's resources in order to grant the loans they seem to legitimately need. You suddenly become worried about your commitments; some that have been on your books for years are being activated. You first try to meet the demand by letting some of your short-term securities run off and drawing down your correspondent balances. Your large correspondents don't like this and, as a matter of fact, are trying to get you to increase your balances. You run out of short-term securities and have to liquidate some of your longer term securities. As you do so, since interest rates are probably rising, you suffer losses. You look for funds by trying to attract time deposits by raising the rates you pay. As you do so, you begin to wonder whether or not you are really getting anywhere, since with the higher rates you pay you are finding it harder to earn a profit. Day by day you see your liquidity ratio declining. You may end up the year with a little higher profit but maybe not. But you have some doubt about whether your bank has become any sounder.

Finally, I am sure that you have had the experience of, just as you had made the adjustments required to meet the ever-expanding loan demand, the expansion suddenly stopped. Then your customers came in, and, instead of demanding higher loans, began to explain why they were going to have difficulty in meeting payments

when they were due. You may have found that your time deposits could be retained and built up at lower rates of interest. But you couldn't really find too much to do with the funds that would yield you a profitable return.

I know that many of you have been through this sort of experience. This was when our economy was overheated and ultimately reacted to it. Most of you would not like to go through this experience again, and this is one of the things we have in common. One of the primary functions of the Federal Reserve System is to conduct its policies to promote, so far as possible through monetary means, sustainable economic growth. This means, of course, avoiding situations where the economy becomes overheated or suffers from a recession.

Have you ever experienced the situation where, every time you ordered new supplies, the salesman quoted higher prices? Have you ever been in the situation when, in order to replace an employee who left, you first offered a salary comparable to his and you found that anyone you tried to hire to replace him laughed at you when you offered the salary you had been paying? You ultimately ended up paying a salary to the person replacing the employee who resigned that was not only higher than that of the person who left but also higher than those of some of the experienced persons already on your staff. Have you ever been in the situation where your loan customers wanted to increase their borrowings because prices of goods going into the inventories they must carry were always going up? Have you ever tried to plan for a new building only to find that, when the bids came in, they were about 50 percent higher than you expected?

If you have been in the banking field even a short time, you have had these kinds of experiences. They have been during a period of an unstable dollar. I don't think you enjoyed them.

Here again is something you have in common with the Federal Reserve System, which has the important function of trying to conduct its policies to promote stability in the value of our dollar.

I am sure that at least a few of you also have had the experience of having a customer come in and tell you he simply cannot meet his loan payments at the moment. He has exported some goods, and he now cannot collect or he is going to collect less than he expected to because the currency of the country to which he exported the goods has been devalued. Or he may have the money in a foreign country but cannot get it out because of exchange controls. There are many sorts of difficulties that are tied up with the failure of the international monetary system to operate freely. If you have found them, you have been reaping the results of an unbalanced international monetary situation, one of the things that the Federal Reserve System's policy attempts to alleviate.

It seems perfectly obvious to me that unsustainable growth, recession, unstable prices, and difficulties in the international financial area are often of as much importance to a bank's future as many of the internal policies you may institute or the competitive situation in which you find yourselves.

Perhaps some of you are saying to yourselves: "Well, that's fine. I recognize and will admit that unsustainable economic growth, inflation, and a deterioration in the international financial structure can and do have important repercussions on my bank's future. But there are some things I can do and some things I can't. Doing anything to promote stable economic growth, fight inflation, or correct the United States balance-of-payments position falls in the class of things I can do nothing about."

I will be the first to admit that any banker alone cannot do very much. But I believe that he can make his contribution, and here again you have something in

common with the Federal Reserve System. We in the Federal Reserve are the first to recognize that monetary policy by itself cannot create sustainable economic growth, stable prices, and a long-run balance in our international payments.

We are now very near or already in a period that--unless something is done--we are going to suffer the consequences of unsustainable economic growth, rising prices, and a deterioration in our balance-of-payments position. You know the details. The economy is giving every evidence of becoming overheated. More demands are being generated than our economy can supply without rising prices. Inflation was not a serious problem in the first half of 1967, since demand at that time could be met without strain. Beginning in mid-1967, however, industrial commodity prices began to rise and have continued to do so ever since. In February, prices of industrial commodities increased at an annual rate of between 4 and 5 percent. The consumer price index has continued to increase; and, should prices continue to rise at around the 3½-percent annual rate that has prevailed recently, the psychological climate of a true inflationary period could develop.

The latest news on the balance-of-payments front gives us little comfort. The trade surplus for January was disappointing, although some of the drain on United States funds is being alleviated by American bankers' borrowing from their foreign branches. This is probably only a temporary situation. The outflow of gold was about \$62 million in January; and in February the gold stock fell \$100 million. Conditions remain unsettled throughout the world.

Explaining completely how this nation got itself into this position is just too much to do here. We all recognize that conditions today are not entirely the fault of Americans. Some of them result from events in other parts of the world and from policies adopted by other governments over which we Americans have little or no control. Having said that, however, we have to admit that there are a lot of things we Americans did or did not do that account for our present difficulties.

For one thing, we have failed to admit that we cannot do everything or have everything at the same time and that, when we try to do that, we are going to get into trouble. Last year's rise in interest rates is a prime example.

During 1967, the saving rate was high. Until late in 1967, the Federal Reserve System added liberally to member bank reserves. Nevertheless, as all of you know, interest rates rose rapidly. The demand for funds rose far more rapidly than the supply of capital investment funds. You also know the reason why. Corporations and state and local governments both expanded their new security offerings. (The total for the two was \$24.6 billion in 1967; \$17.6 billion in 1966.) On top of this, the Federal government borrowed heavily to meet maturing obligations and to finance the growing deficit resulting in part from heavy defense expenditures that, measured on a cash basis, totaled \$7.3 billion in calendar 1967.

That debt financing of this magnitude would be required in 1967 was fairly well evident early in the year. It was also evident that, unless steps were taken to reduce the Federal deficit, the kind of interest rate developments that actually happened would occur. Why, then, was fiscal policy not changed?

Perhaps it was because the problem was not well understood or, if understood, it was believed it was someone else's problem. I submit to you today that getting our financial house in order and taking the needed disciplinary actions is a problem shared by all Americans. It is not the sole problem of the Treasury, of Congress, or of the Federal Reserve. It is the common American problem of assuring a sustainable economic growth and protecting the integrity of the dollar both at home and abroad. But, of all Americans, bankers have a special responsibility.

The only advantage of pointing out our past deficiencies is the help it gives to avoiding mistakes in the future. You as bankers can do a great deal in helping

to shape and support the kinds of policies that will help us weather the stormy days ahead. If you recognize that the nation's financial problems are your problem, you will provide the kind of support that is so needed by your Congressmen and those who must make the day-to-day decisions. By explaining to your fellow citizens the need for monetary and fiscal discipline, bankers collectively can do far more than any Federal Reserve official in securing public support. If you do this, you will not only be shaping your bank's future but you will also be shaping the future of all Americans.