

FOR RELEASE ON DELIVERY

MUTUAL PROBLEMS

Remarks by Ray M. Gidney

President of Federal Reserve Bank of Cleveland

before the

Forty-First Annual Convention

of the

New Mexico Bankers Association

Carlsbad, New Mexico

April 19, 1952

MUTUAL PROBLEMS

It is a great treat for me to be invited to attend your conference and an honor to be asked to speak to you. As a Californian, transplanted some 38 years ago to the eastern part of the country, coming to New Mexico is very much like coming home. Most of my early trips from and to California took me across New Mexico either on the line of the Santa Fé or the Southern Pacific. My very earliest was in 1890 when I went with my mother on a trip to her former home in Aroostook County, Maine, the potato growing country, traveling east on the Southern Pacific and returning on the Santa Fé. In 1911, I was privileged to be the guest of the Santa Fé with the University of California Glee and Mandolin Clubs which traveled over the line and gave concerts at division points. We gave concerts in Gallup, Albuquerque, San Marcial, Las Vegas, and Raton. It is a very happy memory and I have always had most pleasant impressions of your most interesting State.

I was pleased to receive an invitation to come to Carlsbad to attend your convention, and I needed very little urging. Of course, I conferred with my friends and colleagues, Randle Gilbert and Gavin Leedy, and they encouraged me to come.

My son, Dean, is sales manager for the U. S. Potash Company which has its mines in Carlsbad, and my son, John, is connected with the accounting firm which audits the company. The company president is my classmate, Horace Albright. Our farmers in the Fourth Federal Reserve District buy just about as much potash from the U. S. Potash Company as the company is willing to sell them and the company representative in our territory is my good friend Col. Charles Littlejohn. So I have long had the desire to visit Carlsbad and am delighted to have included in my visit the opportunity to participate

in your convention. I have enjoyed it very much.

I have taken as title of my talk "Mutual Problems." I believe we have many problems that are common to our respective regions notwithstanding the great dissimilarities which may be noted in their characteristics.

The problems I have in mind discussing may be called erosion problems. A dictionary definition of erode is to eat into; to wear away; to disintegrate, hence comes erosion.

The first common problem which I have in mind is soil erosion. I believe that in your State, as in our district, bankers have great interest in this matter and can use their influence to bring about practices which will protect against this great destroyer. A few years back, I had the great privilege of joining the Soil Conservation Train which was arranged under the leadership of C. M. Malone, vice chairman of The Second National Bank of Houston, which visited a number of important agricultural centers in Texas. I learned more from that trip than any similar expenditure of time that I have ever made. One thing I observed was that their problem was even more difficult than the problem in our region, and I was impressed by the way Clarence Malone and other Texans were working to arouse interest in soil conservation. As you will recall my friend and Ohio neighbor, Louis Bromfield, was asked to take charge of a project near Wichita Falls where he would attempt to remake a farm much as he did his celebrated Malabar farm at Lucas, Ohio, and I am told the project has been successful.

We, in the Federal Reserve Bank of Cleveland, have enjoyed working with bankers in the four states which are partly or wholly in our district to draw attention to soil conservation and we think good results have followed this

cooperation. We were keenly interested in the conference recently held in Cleveland by the National Association of Soil Conservation Districts. There were 1150 registered at the conference, and it had a total attendance of about 1800. Mr. W. A. Williams, Jr., of Santa Fe and Tesuque, a director of the association, was present and was elected area vice president. Others in attendance from New Mexico were W. A. Painter from Alamogordo, Cyril Luker from Albuquerque, Joe B. Christy and Lee O. Brothers from Farmington, and J. Oliver Stock from Waterflow. We have 83 soil conservation districts in Ohio and I understand that you have 59 in New Mexico. A very important reason for the success of the movement in Ohio is the excellent cooperation which exists between The College of Agriculture, The Agricultural Extension Service, The Agricultural Experiment Station, The Soil Conservation Service, these soil conservation districts and, of course, bankers and farmers.

Waters S. Davis of League City, Texas, is president of The National Association. The National Vice President, Clay Stackhouse of Wakeman, Ohio, is very well known to us, because of our work together in Ohio projects. I was greatly impressed with the keenness of the individual members whom I met during the convention, and with the vigor shown by the organization. It will be a potent influence in improving soil used throughout the United States. Bankers will do well to keep in close touch with the men who serve as supervisors of soil conservation districts, for these men are likely to prosper through the application of improved methods to their farming operations and be among your best customers. To illustrate why they will be good customers, I can repeat what one of the California men told me of the results of applying improved methods to the handling of his plum orchard. He compared his results

with those of a cousin who clung to older methods. He said, "On last year's crop, my cousin got plums of which 20% were graded choice and he grossed \$300 an acre; my plums ran 75% choice and I grossed \$1,300 an acre." I could tell you stories of our district almost as startling.

I understand that the soil conservation district supervisors are cooperating with the Yale University conservation program by sending out a questionnaire which will be presented to individual bankers by individual district supervisors with questions about the extent to which bankers require conservation practices for farmers and land owners as a condition of extending loan accommodation; to what extent they consult with supervisors and technicians of soil conservation districts about technical and conservation problems on a farm before granting a loan. I think it will be worth your while to cooperate with the soil conservation district supervisors when they come to you with this questionnaire. Some of the inspiration for this particular effort to get the farmers and the conservation district supervisors closer to each other has undoubtedly come from a great man who is heading the Yale Conservation Program, and who has exerted a great influence for conservation. He is Dr. Paul B. Sears. I knew and worked with him when he was at Oberlin before going to Yale. Still earlier he had ten years of teaching and field work in Oklahoma and you may remember him as the author of the book "Deserts on the March," published in 1935, and followed by several other books. We share the belief that the banker is in a position to exert a tremendous influence in the betterment of his community. As an illustration of his viewpoint, I should like to read to you an extract from a talk he made in 1950, at Oberlin, in which he pointed out need of resisting the tendency which we have in this country for aggressive and highly trained individuals

to be drawn to the large centers of population by a kind of economic suction. We might call this another kind of erosion. Speaking of his observations in Oklahoma and the need for leadership in small communities, Dr. Sears said:

"In such places as these, an authentic leader, with some sense of his own responsibility, can see the community respond to his efforts as a field grows green under the hands of a skilled gardener. And what is true of Oklahoma is true, less dramatically, of a vast number of local communities throughout the country.

"I am not talking about vague philanthropies or misty uplift. I have in mind the benefits which are an honest by-product of the efforts whereby men and women earn their daily bread when those efforts are made luminous by vision and training. I am thinking of what I have seen happen when a public school teacher puts living ideas into the heads and good books into the hands of youngsters caught in a sluggish and seemingly hopeless environment. I have even seen teachers whose enterprise enlisted the community to assemble with nails, tools, and boards to repair a ramshackle school instead of waiting passively for a bond issue or for taxes which are never sufficient.

"I have in mind the occasional enlightened banker who knows that his role is to create wealth instead of spreading his net for it. Such a banker, not content merely to loan money and collect interest, exerts himself to improve agricultural practice and stimulate better economic conditions among his clients. The influence of such a man literally radiates out from his counting-house. It is visible to the eye in the form of green, rich pastures, good livestock, and families changed in a generation from hopelessness to solvency." In such cases "One may see prosperous areas, set like oases in the drab countryside. Inevitably one finds at the center of each a leader with vision."

I believe that we bankers can do much to encourage good soil use in our States, to protect this most important of natural resources, and to give assurance that our rapidly growing population will continue to have enough to eat and to wear. We should try to take the role so eloquently described by Paul Sears.

Next, I want to discuss briefly, the need for protecting another great

national asset against another type of erosion. I refer to the dangers which are present in these times that the great system of higher education so well developed during the first half of this century may be hampered by the difficulty of getting adequate income to meet operating needs. Perhaps this problem is more critical with the so-called privately endowed than with the great tax supported institutions. We need the facilities of both types.

I recently spoke at the closing dinner of the celebration of the 125th anniversary of Western Reserve University on the subject "Corporate Support for Colleges and Universities." I made the point that the growth of our great educational system has been both a cause and a result of the development of our economic system to its present highly efficient status. Now a very large part of the flow of corporate and individual income, which enabled individuals to make generous gifts to educational institutions, is being diverted from its former course by the great increase in the portion taken by taxation, especially by income and excess profits taxes.

There is growing recognition that the welfare of the corporations themselves and of their stockholders will best be served if the corporations will take account of changed conditions and channel a part of corporate earnings to educational institutions. I have thought that there is an analogy to what has happened to the flow of streams of water in the semi-arid parts of our country. In the early days, landowners along the course of the streams used water as they needed it and the English doctrine of riparian rights applied. Later it became obvious that a different method of allotting the use of the water was necessary to the full development of our water resources and the doctrine of beneficial use replaced that of riparian rights. Then came the

erection of big dams along the streams with distribution of water according to priority of use. The barriers along the streams of income are much like the great dams along our water courses, and I believe that to the extent permitted by the applicable provision of the income tax law, corporations may well direct a part of their income flow to contributions for educational, charitable, and other public purposes.

Here also I believe the banker can be very influential in helping businessmen to recognize the need of maintaining and continuing the development by assuring the continuous flow of adequate funds to our institutions of higher education, whether tax supported or otherwise.

There is still another form of erosion, with which we are all deeply concerned, the erosion of the value of the American dollar. As bankers this is right in our field. It is a big subject and has received much attention recently because of the hearings being conducted by the congressional joint committee on the economic report, through the subcommittee headed by Honorable Wright Patman of Texas. A remarkable amount of authoritative information and opinion has been brought together by the committee in the replies to its questionnaire and also by the material developed in the course of its hearings. A reading of this material will well repay the banker and businessman. I hope that it will be placed in the library of every bank in the United States and made available to directors, officers, and employees, and to bank customers who may wish to review it. It is probably the most comprehensive and informative collection of material on the Federal Reserve System and reserve banking thus far published.

You will recall that the Federal Reserve System has endeavored to control

inflationary tendencies which have been strikingly manifest since the great increase in the volume of credit occurred during World War II. While Federal Reserve credit policy alone cannot be expected to control inflation if other forces get out of hand, sound credit and monetary policies can have a great and at times even a decisive influence. There has been a very marked tendency in European countries to return to orthodox methods of monetary and credit control with drastic measures such as advances of central bank discount rates with apparent good results and gains in economic stability. I believe that the steps taken a little over a year ago in this country to restore flexibility of interest rates has had generally good results. It is good that so much informative material on Reserve banking policies has been placed in ready available form by the Patman Subcommittee and I hope you, as bankers, will use it and bring it to the attention of others.

Time does not permit me to review extensively the mass of material or the opinions expressed but I should like to read to you a summary of Reserve banking philosophy presented by Chairman Martin of the Board of Governors and to which I subscribe fully.

1. "Flexible credit and monetary policy, together with flexible debt management policy and an adequate fiscal program, is essential to economic stability.
2. "The established relationship of the Federal Reserve Board of Governors to other branches of the Government is consistent with and adequate for the function which the Reserve system performs.
3. "The status of the Board as an independent establishment of the Government is sound on the basis of accepted principles of Democratic Governmental organization, regardless of any theoretical question as to the branch of the Government in which it falls.

4. "Changes in money market conditions and in interest rates reflect the interplay of basic forces of supply and demand for short and long term credit. Supply is made up of new individual and corporate savings, accumulated cash balances offered for investment, repayments on past loans, and credit expansion by the commercial banking system. Demands from business enterprises, farmers, consumers, state, local, and foreign Governments, and the Federal Government from the major components of credit demand.
5. "Credit and monetary policy operates primarily through its effects on the availability and supply of credit; it cuts out of the market or brings into it fringe credit demands.
6. "In this process, credit and monetary policy affects, but does not determine, interest rates in the market. Interest rates are prices which perform vital economic functions and they should be responsive to basic supply and demand conditions. In a rich, high savings economy with well integrated financial markets, significant changes in the availability of credit, and hence in the volume of spending, need be accompanied by only small changes in the cost of money.
7. "On balance, the system, through its support of Government security prices, accentuated postwar inflationary pressures.
8. "In early postwar years, the system favored and defended a support program as a part of transitional adjustment and sought other means of restraining inflationary credit expansion. This policy took account of the need for time to develop a debt management program that would lodge a greater proportion of the public debt permanently in the hands of nonbank investors. As time passed and the system's support policy led to increasing monetization of the public debt, the Federal Reserve became more and more concerned about the contribution of its operations to inflationary pressures.
9. "More flexible credit and monetary policies, applied through the discount and open market mechanism within the framework of an orderly Government Securities Market, have demonstrated their effectiveness since they were undertaken in March of 1951.
10. "In addition to measures affecting credit generally, flexible credit and monetary policy includes the use, on occasion, of selective credit regulations--relating to stock market, consumer, and real estate credit--as well as of voluntary measures.
11. "Credit and monetary policy cannot be fully effective without public understanding and support. The system strives to keep the public fully informed on all credit and monetary developments."

Two expressions of brief opinions on this subject at a recent meeting of the National Industrial Conference Board, seem worthy as sidelights on the views expressed by Chairman Martin:

"The American People possess an instinctive understanding of the need of sound central banking, even though they know nothing about techniques, according to E. A. Goldenweiser, formerly Economic Adviser to the Board of Governors of the Federal Reserve System. There is a general feeling that the Federal Reserve is fighting to protect the buying power of money, Dr. Goldenweiser believes. He is sure that popular opposition to steps necessary to protect the dollar is not so great as the dislike of direct price controls.

"Per Jacobsson, Economic Advisor, Bank for International Settlements, upon hearing Dr. Goldenweiser's views, remarked: 'That is really the impression we also have on the continent of Europe -- that the public wants to have good currency, and if they are really aroused to the dangers of inflation they will come to the support of the monetary authorities; that they are much less afraid of a rise in interest rates than some politicians think.' "

I have spoken of three erosions, erosion of soil, erosion of educational opportunities, and the erosion of the value of money. There are many other erosions which we might consider if time would permit. One which probably has troubled you as it has troubled me is the widely noted breakdown of moral and ethical standards in many fields. Charles M. White, President of Republic Steel Corporation in a recent address before the Pittsburgh Traffic Club, spoke of "Our National Soul Erosion Problem." A quick description of what he had in mind is found in his opening paragraphs. -

"In the 50 years that have measured the life of this Club, we in this country have spent untold millions of dollars on the recognized national problem of erosion of our soil. Such conservation of our physical resources is most desirable.

"But, to paraphrase the Bible, what does it profit a nation to husband its material assets if it loses its soul? I am sure there is such a thing as erosion of the soul. And today moral erosion of the soul is a pressing national problem for thoughtful American citizens. It is threatening the integrity of Government which is a fundamental of our whole free way of life."

I do not intend this as a political utterance but rather as an expression of the uneasiness which many of us feel and the hope for improvement which is shared by men and women of every party and of every part of the country.

To sum up what I have been trying to express to you, I believe that as bankers we should work for the protection of soil against erosion by encouraging good soil use: we should help to see to it that educational institutions continue to have support adequate to enable them to do their most important job of educating our young people and providing the trained personnel necessary to keep our great economic machine functioning and making progress: we should work together to protect the value of our dollar: and last but not least, we should stand up to our responsibilities to build up the defenses of the soul against erosive tendencies so often and so widely manifest in our land.