

## OUR MUTUAL CONCERNS

I WELCOME THIS OPPORTUNITY TO MEET WITH YOU TO LEARN MORE ABOUT YOUR PROBLEMS AND OPERATIONS. AS A NEWCOMER, I HAVE NO READY-MADE SOLUTIONS TO OUR COMMON PROBLEMS, BUT HOPE THAT THIS WILL BE THE BEGINNING OF NUMEROUS EXCHANGES ON AREAS OF MUTUAL CONCERN.

WHILE OUR APPROACHES AND PERSPECTIVE WILL UNDOUBTEDLY DIFFER, I HOPE THAT OUR LONG-RUN INTERESTS ARE IDENTICAL.

*Wm. Wells J.*

IN OUR RESPECTIVE ROLES AS BANKERS AND PUBLIC OFFICIALS INEVITABLY CURRENT DEVELOPMENTS CAPTURE THE MAJOR PORTION OF OUR ATTENTION AND TIME IN TERMS OF DECISION MAKING. IT IS ALSO FROM THE FIRE FIGHTING FRONT THAT WE PAUSE ONLY OCCASIONALLY TO ENGAGE IN LONG-RANGE PLANNING -- IN AN ATTEMPT TO ALLEVIATE TODAY'S PROBLEMS AND ANTICIPATE TOMORROW'S CHALLENGES. ONLY IN RARE INSTANCES DO WE FIND SOME UNCOMMITTED MOMENTS TO INDULGE IN SPECULATION, SELF-ANALYSIS, EXTROSPECTION AND EVEN PREDICTION. A SCOTCH POET PHRASED IT WELL: "WAD SOME POWER THE GIFTIE GIE US TO SEE OURSELS AS OTHERS SEE US." WE ALL HAVE IMAGES OF OURSELVES AND OF OUR INSTITUTIONS THAT INFLUENCE OUR ACTIONS AND, OF COURSE, WE BELIEVE WE ARE MOST OBJECTIVE IN OUR VIEWS. HOWEVER, SINCE WE CANNOT REALLY BE "OUTSIDE OURSELVES", WE SHOULD GIVE REASONABLE CONSIDERATION TO OUTSIDE OPINIONS. IF WE LOOK

AT OUR ACTIVITIES THROUGH THE EYES OF OTHERS, WE MAY GAIN SOME CLUE OF CHANGES THAT WE MUST FACE, EAGERLY OR RELUCTANTLY, AND POSSIBLY ANTICIPATE THE CHANGES THAT WILL BE IMPOSED UPON US AS SOCIETY ADJUSTS ITS INSTITUTIONS TO FIT ITS REQUIREMENTS AND PRIORITIES.

A SUGGESTION OF AN ALTERATION IN ESTABLISHED AND FAMILIAR PATTERNS OFTEN BRINGS FORTH FORECASTS OF GLOOM AND DISASTER, BUT LET US RECOGNIZE TWO FACTS.

FIRST: WE WILL ALL FINISH OUR CAREERS IN A DIFFERENT WORLD THAN EITHER THE ONE IN WHICH WE STARTED OR THE ONE IN WHICH WE ARE NOW OPERATING. TRULY EXCITING, CHALLENGING, DRAMATIC CHANGES IN ALL ASPECTS OF OUR LIVES ARE JUST AROUND THE CORNER--MANY OF THESE ARE THOSE WE WILL MAKE AND INITIATE.

SECOND: THE WORST OF WHAT HAS BEEN PREDICTED FOR US COLLECTIVELY WILL NOT TAKE PLACE AND THE BEST IS BEYOND THE RANGE OF OUR MOST FERTILE IMAGINATION. WE MAY FACE INDIVIDUAL CATASTROPHE BUT OUR RESPECTIVE ROLES ARE LIKELY TO EXPAND PERHAPS DRAMATICALLY IN THE PERIOD AHEAD, BUT NEITHER YOUR INDUSTRY NOR THE CENTRAL BANK WILL HAVE A CATAclysmic FAILURE. WE HAVE DEMONSTRATED REPEATEDLY A RESILIENT CAPACITY TO INNOVATE AND TO FORESTALL PREDICTED DISASTER AND I HAVE GREAT CONFIDENCE IN OUR RETENTION OF THESE SKILLS. WHAT ARE THE CHALLENGES WE FACE -- I'D LIKE TO FIRST RAISE A FEW QUESTIONS -- WHOSE ANSWERS WE WILL BE SEEKING IN OUR WORKING TOGETHER IN THE COMING MONTHS.



WE ARE ALL ACUTELY AWARE OF THE CHANGES THAT HAVE OCCURRED IN THE BANKING INDUSTRY IN OHIO IN THE SIXTIES: THE RAPID GROWTH IN MERGERS AND BANK HOLDING COMPANIES, THE SHARP FLUCTUATIONS IN CREDIT DEMANDS AND INTEREST RATES, THE DEVELOPMENTS OF NEW LIABILITY FORMS AND OTHER METHODS OF TENERATING FUNDS -- THE RESORT TO CD's, EURODOLLARS AND SUBORDINATED DEBENTURES -- THE MECHANIZATION OF OUR PAPER HANDLING PROBLEM, TO NAME A FEW. AS THE CREDIT NEEDS OF THE ECONOMY GREW, BANKS SOUGHT NEW SOURCES OF FUNDS AND/OR NEW ORGANIZATIONAL FORMATS TO HOLD ON TO THEIR SHARE OF AVAILABLE FUNDS. IN SPITE OF CURRENT MARKET CONDITIONS THE FUTURE PROMISES NO SATIATION OF CREDIT DEMANDS. ARE THERE INDICATIONS OF OTHER FUTURE DEVELOPMENTS THAT WILL AFFECT FINANCIAL INSTITUTIONS AND HENCE FINANCIAL SERVICES PROVIDED BY THE BANKING COMMUNITY? RECENT LEGISLATION, COMMISSION STUDIES, AND PENDING LEGISLATIVE REPORTS GIVE SOME INDICATION OF THE WINDS OF CHANGE SWIRLING AROUND THE BANKING INDUSTRY.

FOR EXAMPLE, IT IS POSSIBLE THAT THE MAJOR IMPACT OF THE BANK HOLDING COMPANY ACT AMENDMENTS OF 1970 IS STILL TO COME. THE AMENDMENTS' MOST HERALDED EFFECT TO DATE WAS TO BRING THE ONE BANK HOLDING COMPANY UNDER THE CONTROL OF THE ACT AND THEREFORE THE FEDERAL RESERVE SYSTEM. ON THE OTHER HAND, THE 1970 AMENDMENTS BROADENED THE SCOPE OF ACTIVITIES PERMITTED FOR ALL BANK HOLDING COMPANIES. HENCEFORTH, THE FEDERAL RESERVE SYSTEM IS TO DETERMINE WHAT NONBANKING ACTIVITIES ARE CLOSELY RELATED OR INCIDENT TO

BANKING AND IN THE PUBLIC INTEREST SO THAT HOLDING COMPANIES MAY PARTICIPATE IN THOSE ACTIVITIES. IT'S RATHER APPARENT THAT ANSWERS TO THE QUESTIONS OF "WHAT ACTIVITIES ARE CLOSELY RELATED" WILL ELICIT HEATED RESPONSE FROM VARIOUS SECTORS OF OUR SOCIETY AND ALTER THE NATURE OF THE ACTIVITIES OF YOUR INSTITUTIONS.

THEN, IN DECEMBER 1971, THE PRESIDENTIAL COMMISSION TO STUDY FINANCIAL INSTITUTIONS MADE A NUMBER OF RECOMMENDATIONS THAT WILL CERTAINLY AFFECT FINANCIAL INSTITUTIONS IN THE FUTURE REGARDLESS OF THE LEGISLATIVE OUTCOME. YOU WILL HEAR MORE ABOUT THE SPECIFICS OF THIS REPORT FROM SEVERAL PARTICIPANTS IN THE STUDY LATER IN THE PROGRAM. IN GENERAL, THE HUNT COMMISSION RECOMMENDATIONS HAVE BEEN BASED ON A VARIETY OF OBSERVABLE TRENDS IN THE FINANCIAL AREA, TOGETHER WITH A COMMITMENT TO A MARKET ORIENTATION FOR OUR SOCIETY. IN SHORT, THEY SEEK TO INTENSIFY THE COMPETITIVE ENVIRONMENT OF FINANCIAL INSTITUTIONS BY PROPOSING METHODS BY WHICH COMMERCIAL BANKS, SAVINGS AND LOAN ASSOCIATIONS, MUTUAL SAVINGS BANKS AND CREDIT UNIONS COULD BETTER SERVE THE BROAD SPECTRUM OF CONSUMER NEEDS. WHETHER THE SPECIFIC RECOMMENDATIONS ARE ADOPTED OR NOT, IT SEEMS CLEAR THAT ALL INSTITUTIONS WILL FIND THEMSELVES OPERATING IN A MORE COMPETITIVE ENVIRONMENT AND UNDER NEW OPERATING CONDITIONS--E.G., NEW TAX TREATMENT, NEW CONCEPTS OF WHAT IS A BRANCH, BROADER GEOGRAPHICAL HORIZON.



THE ELIMINATION OF INTEREST RATE CEILINGS -- A BROADER RANGE OF ACTIVITIES. THE DIRECTIONS OF CHANGE INDICATED BY THE HUNT COMMISSION REPORT CERTAINLY CONFIRM THE TREND INDICATED BY DEVELOPMENTS UNDER THE BANK HOLDING COMPANY ACT AMENDMENT OF 1970 AND ADD SIGNIFICANCE TO THE DEVELOPMENT OF POLICIES UNDER THIS ACT.

PARALLELING THESE DEVELOPMENTS ARE THE STIRRINGS WITHIN STATE LEGISLATURES ABOUT THE STRUCTURE OF BANKING AND OTHER FINANCIAL INSTITUTIONS WITHIN THEIR BORDERS. FOR EXAMPLE, OHIO AND KENTUCKY HAVE RECENTLY INITIATED MAJOR STUDIES IN THIS AREA. WHILE THE SPECIFICS OF THEIR FINDINGS AND RECOMMENDATIONS ARE UNKNOWN, IT SEEMS RATHER CLEAR THAT THE WINDS OF CHANGE ARE BLOWING IN DIRECTIONS THAT I HAVE INDICATED ABOVE.

AS I TRAVEL ABOUT THE DISTRICT, I'VE ASKED SEVERAL OF YOU WHAT YOUR OPERATIONS WOULD BE LIKE IF THERE WERE NO REGULATORY RESTRAINTS OF ANY TYPE UPON YOUR ACTIVITIES. THE THOUGHT OF THIS HAS BEEN SO FOREIGN TO YOUR EXPERIENCE AND YOU HAVE BEEN SO BUSY COPING (RATHER SUCCESSFULLY I MIGHT ADD) WITH THE PROBLEMS OF THE SIXTIES THAT YOU HAVEN'T HAD MUCH TIME TO DREAM THE BIG DREAM. BUT WITH THE WINDS OF CHANGE BLOWING SIMULTANEOUSLY IN SO MANY PLACES LET ME URGE YOU TO SET YOUR SAILS, TRIM YOUR SAILS, ACQUIRE NEW CLOTH, SCRAPE OFF THE BARNACLES, OR DO WHATEVER ELSE IS REQUIRED

TO TAKE ADVANTAGE OF THESE DEVELOPMENTS SO THAT YOUR SAILING IN THE 70s CAN BE A MOST PLEASANT EXPERIENCE.

ALL OF THESE ACTIONS, THE BANK HOLDING COMPANY ACT AMENDMENTS, THE HUNT COMMISSION REPORT, AND THE STATE STUDIES HAVE A COMMON GOAL; THAT IS TO ASSURE THAT THE FINANCIAL INSTITUTIONS SERVE THE PUBLIC INTEREST BETTER BY IMPROVING THE PROVISION OF SERVICES AND THE ALLOCATION OF RESOURCES TO SOCIETY. THESE STIRRINGS ARE NOT EXERCISES, UNDERTAKEN TO MERELY GIVE YOU PROBLEMS (WHICH THEY WILL), BUT THEY WILL GIVE YOU MANY UNIQUE OPPORTUNITIES AS WELL.

BECAUSE OF THE RAPIDLY CHANGING ENVIRONMENT AND TO MAKE MANY CRUCIAL MANAGEMENT DECISIONS REGARDING NEW AREAS OF OPERATION, NEW OPERATING PROCEDURES, TECHNIQUES AND APPROACHES, YOU WILL BE CONFRONTED WITH SOME OLD AND FAMILIAR PROBLEMS SUCH AS POTENTIAL CONFLICTS OF INTEREST, NOT ONLY IN FACT, BUT EQUALLY, IN APPEARANCE. THE ANSWERS OR SOLUTIONS ARE BY NO MEANS OBVIOUS.

FOR EXAMPLE, A MAJOR AREA OF PARTICULAR INTEREST CURRENTLY IS THAT FOUND EXISTING BETWEEN TRUST DEPARTMENTS AND THE COMMERCIAL SIDE OF BANKING. FREQUENTLY, A LENDING OFFICER IN ANALYZING THE CREDIT ASPECTS OF A CUSTOMER WILL GATHER INFORMATION AND FORM OPINIONS CONCERNING THE FINANCIAL WELL BEING OF THE CUSTOMER. OF COURSE, WHY ELSE WOULD HE BE ANALYZING THE COMPANY? THE INFORMATION THAT HE HAS



GATHERED COULD BE OF SIGNIFICANT INTEREST TO THE TRUST DEPARTMENT WHICH MAY HAVE, OR BE CONTEMPLATING, TAKING AN INVESTMENT INTEREST IN THE SAME COMPANY. THE OPPOSITE IS ALSO TRUE. THE INVESTMENT OF TRUST FUNDS MUST BE FREE OF THE SUSPICION THAT IN SOME MANNER THEY WERE UTILIZED TO AID THE FURTHER DEVELOPMENT OF COMMERCIAL BUSINESS FOR THE BANK. CLEARLY THE BANK MUST SEEK TO PROTECT ITSELF FROM BEING CHARGED FROM USING INSIDER INFORMATION, AND YET AT THE SAME TIME ANSWER TO ITS RESPONSIBILITY AS A FIDUCIARY OF THE TRUST FUND. WITH THE MURKY STATUS OF BOTH THE "INSIDER" AND THE "FIDUCIARY RESPONSIBILITY" AREAS, IT MAY SIMPLY BE A CASE OF DAMNED IF YOU DO AND DAMNED IF YOU DON'T. SOME COMMERCIAL BANKS HAVE ESTABLISHED PROCEDURES TO BUILD A SO-CALLED "WALL OF CONFIDENTIALITY" BETWEEN THEIR COMMERCIAL LENDING DEPARTMENT AND TRUST INVESTMENT FUNCTION, BUT WILL THIS BE SUFFICIENT? FAILURE TO FULFILL FIDUCIARY RESPONSIBILITIES HAS SUCH GRAVE CONSEQUENCES THAT THE RELATIONSHIP OF TRUST ACTIVITIES AND COMMERCIAL LENDING MAY PRESENT A NEARLY UNSOLVABLE PROBLEM.

IT IS NO LESS TRUE THAT IF, IN THE FUTURE, BANKING ORGANIZATIONS EXPAND THEIR ACTIVITIES INTO AREAS BEYOND "TRADITIONAL" COMMERCIAL BANKING, THE OPPORTUNITIES OF VIOLATING REGULATION AND LEGISLATION, OR THE APPEARANCE THEREOF, ARE MULTIPLIED. FOR INSTANCE, A BANK HOLDING COMPANY MAY HAVE SUBSIDIARIES

WITH THE ABILITY TO SATISFY SEVERAL NEEDS OF A CUSTOMER SUCH AS AN INSURANCE AGENCY, A LEASING COMPANY OR A DATA PROCESSING SERVICE. IF THE CUSTOMER BELIEVES THAT HE WILL RECEIVE MORE FAVORABLE TREATMENT AS A BANK CUSTOMER IF HE USES THESE OTHER SERVICES, HIS ACTIONS MAY GIVE THE APPEARANCE OF A TIE-IN TO OTHER SERVICES EVEN THOUGH IT MAY BE TRULY VOLUNTARY. TO MINIMIZE THESE POTENTIAL PROBLEMS, IT WOULD BE WELL TO CONSIDER THEM CAREFULLY IN YOUR EARLY PLANNING.

BUT THE WINDS OF CHANGE AFFECTING OUR OPERATIONS ARE BY NO MEANS CONFINED TO THOSE FACTORS I'VE JUST MENTIONED. ONCE AGAIN, LET ME EMPHASIZE THAT A VERY NEAR-SIGHTED INDIVIDUAL LOSES A GREAT DEAL OF CREDITABILITY BY CLAIMING GREAT FORESIGHT INTO THE FUTURE -- YET OUR EXPERIENCES OVER THE PAST TWO DECADES OR MORE POINT UP THE DIRECTION OF MOVEMENT IN A NUMBER OF AREAS THAT WILL POSE VERY REAL PROBLEMS OVER THE NEXT DECADE. SOME HIGHLY PROBABLY DEVELOPMENTS, IF MY WEATHER FINGER HAS ANY DEGREE OF SENSITIVITY ARE:

1. WAGES WILL CONTINUE TO RISE.
2. THE RATE OF TECHNOLOGICAL CHANGE WILL ACCELERATE.
3. THE SERVICE SECTOR OF GNP (INCLUDING FINANCE AND BANKING) WILL GROW MORE RAPIDLY THAN THE TOTAL.
4. INCOME AND POLITICAL POWER WILL BECOME MORE WIDELY DISTRIBUTED THROUGH THE POPULATION.
5. SPECIAL INTEREST GROUPS - WOMEN'S LIB, CONSUMER PROTECTION, VARIOUS MINORITY CATEGORIES, POVERTY -- WILL BECOME EVEN MORE VISIBLE AND EFFECTIVE.



6. THE ROLE OF GOVERNMENT IN OUR SOCIETY WILL NOT DIMINISH.
7. INTERNATIONAL DEVELOPMENTS WILL PLAY A MORE IMPORTANT ROLE IN OUR ACTIVITIES - BOTH DIRECTLY AND INDIRECTLY.

AND I COULD GO ON. BUT WHAT SIGNIFICANCE MAY THESE TRENDS HAVE ON OUR ACTIVITIES?

IN THE FIRST PLACE, IT IS CLEAR THAT BANKING IS A LABOR INTENSIVE INDUSTRY. AS WAGES AND SALARY COSTS RISE AND AS THE DEMAND FOR SERVICES INCREASE, YOU WILL ACCELERATE YOUR EFFORT TO HARNESS THE POWER OF TECHNOLOGY TO INCREASE PRODUCTIVITY AND HOLD UNIT COST DOWN. HOWEVER, THE ADOPTION OF NEW TECHNOLOGY MEANS, BY DEFINITION, DOING THINGS DIFFERENTLY THAN THE WAY THINGS ARE DONE TODAY. AND, AS WE ALL KNOW, CHANGE ITSELF CREATES PERSONNEL AND INSTITUTIONAL STRESS. NONETHELESS, THE RECORD OF BANKING INDICATES AN ADAPATABILITY THAT BODES WELL FOR THE FUTURE. FOR INSTANCE, BANKING HAS BECOME ONE OF THE PRINCIPAL USERS OF COMPUTERS -- A DEVICE THAT IS SUBSTANTIALLY CHANGING THE WAY WE DO BUSINESS. THE ADOPTION OF MICR AND THE EXPERIMENTS IN USING AN AUTOMATIC 24-HOUR TELLER ARE OTHER EXAMPLES OF BANKING'S OPENNESS TO NEW TECHNOLOGY AND NEW APPROACHES. THUS, IT APPEARS THAT ALTHOUGH RISING LABOR COST, CHANGING TECHNOLOGY, AND GROWTH IN THE DEMAND FOR BANKING SERVICES PRESENT PROBLEMS FOR BANKS, THEY ARE NOT INSURMOUNTABLE.

BANKING'S RECORD IN MEETING THESE KINDS OF PROBLEMS IS LAUDABLE.

WE WILL BE FACED WITH OTHER TYPES OF PROBLEMS, TOO. THERE WILL CONTINUE TO BE AN INSISTENCE (HOWEVER MISDIRECTED) THAT BUSINESS OUGHT TO FOCUS ON "PEOPLE--NOT PROFITS," THE OBVIOUS IMPLICATION BEING THAT SERVICE TO THE COMMUNITY IS INCOMPATIBLE WITH PROFITS. FORTUNATELY, FOR BUSINESS AND FOR SOCIETY, THERE IS NO CONTRADICTION BETWEEN SOCIETY'S GOALS AND THOSE OF BUSINESS. AFTER ALL, UNLESS A FIRM IS PROVIDING A SERVICE THAT SOCIETY DESIRES, IT HAS NO CHANCE OF ACHIEVING PROFITABILITY. (SOME HAVE ARGUED, FURTHER THOUGH, THAT A FIRM OUGHT TO DELIBERATELY SACRIFICE PROFITS IN ORDER TO "HELP SOCIETY." I HAVE NO SUCH ARGUMENTS FOR YOU HERE. INSTEAD, I ASSERT THAT THE RESPONSIBILITY OF MANAGEMENT IS TO THE STOCKHOLDERS AND THAT MANAGEMENT HAS NO RIGHT TO SACRIFICE THE INTERESTS OF A FIRM'S OWNERS TO NON-OWNERS.) I CANNOT PROMISE THAT SOCIETY WILL NOT REDEFINE THE TERMS OF YOUR EXISTENCE OR IMPOSE A NEW COMPETITIVE ENVIRONMENT IN WHICH YOU MUST FUNCTION. I AM ONLY SAYING THAT WITHIN THOSE CONSTRAINTS YOUR RESPONSIBILITY REMAINS THE SAME.

HOWEVER, DANGERS ARISE WHEN MANAGEMENT SETS OUT TO MAXIMIZE PROFITS OVER TOO SHORT A TIME PERIOD. THAT DANGER IS ESPECIALLY ACUTE WHERE A FIRM TAKES A SHORT-RUN VIEW IN THE MIDST OF RAPID SOCIAL CHANGE SUCH AS THAT WHICH WE ANTICIPATE IN THE INTERMEDIATE-TERM FUTURE. WHILE BANK MANAGEMENT MUST NOT FORGET ITS OBLIGATION TO ITS STOCKHOLDERS, IT FAILS



TO DISCHARGE THAT RESPONSIBILITY WHEN--WITH TOO SHORT A PERSPECTIVE--IT UNDERESTIMATES THE LONG-TERM IMPACT OF COMMUNITY GOODWILL ON THE BANK'S EARNINGS. IT ALSO FAILS IN THAT RESPONSIBILITY WHEN--WITH TOO SHORT A PERSPECTIVE--IT DOES NOT RECOGNIZE THAT SOCIAL AND ECONOMIC CHANGES CONTINUE, ITS POTENTIAL CLIENTELE CHANGES. THERE IS NO CONFLICT BETWEEN OUR RESPONSIBILITY TO OUR SHAREHOLDERS AND OUR DESIRE TO SERVE SOCIETY, PROVIDED WE TAKE A LONG-TERM VIEW.

NOW LET US LOOK AT WHAT THIS BRAVE NEW WORLD HOLDS FOR THE FEDERAL RESERVE SYSTEM. LIKE ANY WELL-MANAGED ECONOMIC UNIT, AS PART OF ITS PLANNING ACTIVITIES, THE SYSTEM IS CONSTANTLY REEXAMINING ITS OBJECTIVES AND GOALS TO ASCERTAIN HOW ITS FUNCTIONS CAN BEST CONTRIBUTE TO THE ACHIEVEMENT OF SOCIETY'S GOALS. IT IS APPARENT THAT WE TOO HAVE PROBLEMS. WE ARE ALSO LABOR INTENSIVE, AND MUST COPE WITH RAPIDLY CHANGING TECHNOLOGY, SOCIAL AND ECONOMIC ENVIRONMENT AND WE MUST ADAPT AND ADJUST OUR ACTIVITIES TO HELP ACHIEVE A HEALTHY AND PROGRESSIVE FINANCIAL ENVIRONMENT.

BECAUSE OF THE EVER INCREASING VOLUME OF WORK WE ARE HANDLING AND THE INCREASING COST OF LABOR, WE, TOO, MUST ADOPT NEW TECHNOLOGIES TO HELP US OPERATE MORE EFFICIENTLY.

SOME SOOTHSAYERS HAVE SAID THAT SOCIETY WILL DROWN IN A SEA OF PAPER AND THERE ARE DAYS WHEN I'M TEMPTED TO SEND OUT AN S.O.S BUT THEY UNDERESTIMATE THE NEW TECHNOLOGY AND MAN'S ADAPTIVENESS.

IN THE AREA OF CHECK COLLECTION, FOR INSTANCE, WE ARE RAPIDLY MOVING FORWARD IN ESTABLISHING REGIONAL CHECK PROCESSING AND COLLECTION CENTERS THAT MAY ASSIST IN HOLDING DOWN THE COST OF CHECK COLLECTION BY REDUCING SUBSTANTIALLY THE NUMBER OF TIMES THE ITEMS ARE HANDLED AND AT THE SAME TIME SUBSTANTIALLY SPEED UP THE COLLECTION PROCESS. BUT THIS IS ONLY AN INTERIM STEP; THESE CENTERS ARE VIEWED AS THE FUTURE CORE OF AN ELECTRONIC SYSTEM THAT WILL LEAD US TO A CHECKLESS, OR AT LEAST A "LESS CHECK", PAYMENTS MECHANISM. MANY OF YOU ARE AWARE OF OUR PROGRESS IN ESTABLISHING AN RCPC - AS THESE CHECK COLLECTION CENTERS ARE CALLED -- IN COLUMBUS. WE HOPE THAT THIS WILL BECOME A REALITY IN 1972 AND OUR PLANNING IS WELL ADVANCED FOR MAKING SIMILAR SERVICES AVAILABLE TO ALL PARTS OF THE STATE WITHIN A REASONABLY SHORT PERIOD OF TIME. SIMILAR DEVELOPMENTS ARE OCCURRING IN OTHER FEDERAL RESERVE DISTRICTS.

OUR VARIOUS SERVICE ACTIVITIES, SUCH AS SUPPLYING YOU WITH CURRENCY AND COIN, ARE BEING REEXAMINED AND REVISED WHERE NECESSARY AND OUR MANY SERVICES FOR THE TREASURY DEPARTMENT ARE BEING SUBJECTED TO SIMILAR EXAMINATION AND CHANGE.

HOPEFULLY, THESE CHANGES IN OUR ACTIVITIES WILL CONTRIBUTE TO A MORE EFFICIENT FUNCTIONING FINANCIAL SYSTEM FROM A SOCIETAL VIEWPOINT. WE ARE COGNIZANT, HOWEVER,



THAT THESE WILL REQUIRE ADJUSTMENTS IN YOUR ACTIVITIES TO A GREATER OR LESSER DEGREE. IN ADDITION, WE ARE AWARE THAT MANY OF OUR RULES AND REGULATIONS MAY NOT BE APPROPRIATE IN A RAPIDLY CHANGING ENVIRONMENT.

SOME THOUGHT IS BEING GIVEN TO A NUMBER OF THESE, E.G., THE PROBLEM OF RESERVE REQUIREMENTS, INTEREST RATE REGULATION, ETC. THE SYSTEM HAS THE POWER UNDER PRESENT LEGISLATION TO INTRODUCE SIGNIFICANT AND NEW APPROACHES OR TO MAKE SUBSTANTIAL CHANGES IN PRESENT ACTIVITIES. OTHER CHANGES WOULD REQUIRE LEGISLATIVE ACTION AND THE COOPERATION OF OTHER AGENCIES. IT WOULD BE A BIT PRESUMPTUOUS TO TRY TO SPELL OUT ALL ALTERNATIVES. BUT I SIMPLY WANT TO INDICATE THAT THE WINDS OF CHANGE ARE JUST AS ACTIVE WITHIN THE SYSTEM AS OUTSIDE. THE QUESTIONS OF EQUITY ARE VERY MUCH BEFORE US AS WE TRY TO EXAMINE CAREFULLY THE PRESENT FINANCIAL STRUCTURE AND THE MANY CHANGES WHICH MAY OCCUR IN THE MONTHS, YES, MONTHS AHEAD. WE WILL NEED YOUR HELP, COMMENTS AND CRITICISMS AS WE ENDEAVOR TO FIND SOLUTIONS THAT WILL IMPROVE THE FUNCTIONING OF OUR FINANCIAL SYSTEM. SOME OF THE SIDE EFFECTS MAY BE QUITE UNEXPECTED OR QUITE DIFFERENT FROM THOSE THAT WE ANTICIPATE.

FOR EXAMPLE, I'VE BEEN QUITE INTERESTED IN SOME OF THE EXPERIMENTS BEING CONDUCTED BY COMMERCIAL BANKS SUCH AS THE ONE IN UPPER ARLINGTON. MANY OF YOU ARE FAR MORE FAMILIAR TH

I WITH THIS PROJECT AND I WAS REMINDED IN MY LITTLE FIELD RESEARCH EFFORT THAT THE MERCHANTS WERE VERY MUCH AWARE THAT THIS WAS A TOOL FOR THEIR OTHER ACTIVITIES NOT THE PRIMARY PURPOSE OF THEIR ENDEAVORS. THIS NOT ONLY SUGGESTS THAT OUR PAYMENTS MECHANISM IN THE FUTURE MAY BE QUITE DIFFERENT FROM THAT WE KNOW TODAY -- BUT IT MAY ALSO SUGGEST THAT THE BASIS OF PAYMENT TO BANKS FOR FINANCIAL SERVICES TO CONSUMERS, BUSINESS FIRMS, AND EVEN OTHER BANKS, MAY BE DRASTICALLY CHANGED -- TERMS OF TRADE IN THE INDUSTRY MAY BE ALTERED -- NEW COMMUNICATION PROBLEMS AND THE NEED FOR THE FED TO RETHINK A NUMBER OF ITS POLICIES AND PROCEDURES. I'M SIMPLY INDICATING THAT THE CONSEQUENCES OF SOME OF THE CHANGES INDICATED ABOVE MAY BE QUITE DIFFERENT FROM THOSE WE EXPECT.

THE FEDERAL RESERVE CAN EXPECT TO BE REMINDED SHARPLY BY OTHERS OF THE NUMEROUS SOCIETAL PROBLEMS. WE ARE RESTRICTED BY LAW WITH RESPECT TO OUR RESPONSE BUT WE WILL TRY TO RESPOND POSITIVELY TO THE EXTENT OF OUR ABILITY. FOR EXAMPLE, WE CAN FOCUS OUR RESEARCH STRENGTH ON SOME OF THE ISSUES THAT I HAVE OUTLINED SO FAR AND HOPEFULLY GAIN A BETTER UNDERSTANDING OF THE ECONOMIC PROBLEMS OF THE DISTRICT, DEVELOP INNOVATIVE SOLUTIONS TO OTHER PROBLEMS THROUGH OUR OWN PERSONNEL POLICIES AND DECISIONS, RECOGNIZE AND RESOLVE THE POLLUTION PROBLEM WE MAY HAVE FOSTERED THROUGH OUR BURNING OF CURRENCY, ETC.



WE ARE FACED WITH NEW REGULATORY ISSUES OCCASIONED BY CHANGES IN THE STRUCTURE AND OPERATIONS OF OUR BANKING INSTITUTIONS. IF THE HUNT COMMISSION'S RECOMMENDATIONS, WITH RESPECT TO THE REGULATION OF THE BANKING STRUCTURE, WERE ADOPTED, OUR ACTIVITIES IN THIS REGULATORY FUNCTION WOULD BE ELIMINATED. THESE WINDS OF CHANGE WOULD BLOW US OUT OF THE WATER. THE PRESENT OVERLAP OF REGULATORY AUTHORITY IS AN OLD STORY TO YOU AND I CERTAINLY AM IN NO POSITION TO DEFEND THE STATUS QUO AS IDEAL. PERHAPS MY REACTION IS SIMPLY THE VERY HUMAN ONE WHEN CONFRONTED BY THE NECESSITY FOR CHANGE. BUT WITHIN THE FEDERAL RESERVE SYSTEM SOME OF US HAVE REAL CONCERN ABOUT LOSING THE INFORMATION THAT RESULTS FROM THE DIRECT AND INTIMATE CONTACT WITH BANKS THAT WE REALIZE THROUGH THE EXAMINATION PROCESS. THE PRESENT CONTACT WITH BANKING OFFICERS IS A VALUED SOURCE OF INFORMATION.

FOR, DESPITE CHANGING OPERATIONS, INCREASED SERVICE FUNCTION, AND AN INCREASED OR A DECREASED REGULATORY FUNCTION--THE SYSTEM MUST COPE WITH ITS RAISON D'ETRE, ITS MONETARY POLICY FUNCTION. IN THE BROADEST SENSE, WHAT WILL BE SOCIETY'S GOALS IN THE YEARS AHEAD? THESE GOALS DETERMINE THE POLICY FUNCTION THE FEDERAL RESERVE SYSTEM IS EXPECTED TO PERFORM. WILL THE BASIC ISSUES OF THE FUTURE ENVIRONMENT RESEMBLE OUR CURRENT CONCERNS: A

TRADEOFF BETWEEN UNEMPLOYMENT AND PRICE STABILITY, BETWEEN DOMESTIC AND INTERNATIONAL GOALS, AND STABILIZATION IN TERMS OF MINIMIZING DEVIATIONS FROM SOME NORM. OR WILL THE EMPHASIS SHIFT TO REDISTRIBUTION AND ALLOCATION OF RESOURCES? AT PRESENT, THERE SEEMS TO BE WIDESPREAD AGREEMENT ON THE NECESSITY TO ACHIEVE THE ECONOMIC GOALS SPELLED OUT IN THE EMPLOYMENT ACT OF 1946: FULL EMPLOYMENT WITH PRICE STABILITY, GROWTH AND PRODUCTION, AND BALANCE OF PAYMENTS EQUILIBRIUM. THERE IS CONSIDERABLY LESS AGREEMENT ON OUR ABILITY TO CONTRIBUTE TO ALL OF THESE SIMULTANEOUSLY. WE, TOO, HAVE LIMITED TOOLS, LIMITED KNOWLEDGE, AND SOCIETAL CONSTRAINTS. FOR EXAMPLE, DOES THE CENTRAL BANK'S RESPONSIBILITY TO MAINTAIN ORDERLY FINANCIAL MARKETS CONFLICT WITH THE STABILIZATION GOALS OF THE FULL EMPLOYMENT ACT? IF WE WERE TO OPERATE IN A SYSTEM THAT ENCOMPASSES ALL DEPOSITORY INSTITUTIONS UNDER A SINGLE SET OF REGULATIONS, WILL WE DISCOVER THAT POLICY TARGETS ARE MORE CLOSELY ASSOCIATED WITH POLICY GOALS; THAT SHORT-TERM AND LONG-TERM GOALS ARE LESS FREQUENTLY AT ODDS? OBVIOUSLY, WE NEED TO "SEE OURSELVES AS OTHERS SEE US," TO KNOW WHAT IS EXPECTED OF US, TO ANALYZE IF WHAT WE CAN ACCOMPLISH MATCHES THOSE EXPECTATIONS.

THERE ARE UNDOUBTEDLY OTHER FACTORS THAT COULD BE MENTIONED THIS AFTERNOON BUT CERTAINLY NO MORE ARE NEEDED TO STRESS MY POINT. AS YOU LOOK AT YOUR INDUSTRY, YOU CAN SEE CHANGE. HOWEVER, IF YOU CONSIDER THE OPINION OF OTHERS WHO HAVE LOOKED AT COMMERCIAL BANKING AS A PART OF OUR NETWORK OF FINANCIAL INSTITUTIONS, THE POSSIBLE CHANGES THEY FORESEE WERE STAGGERING.

PERHAPS, AFTER ALL THE QUESTIONS I'VE INTRODUCED, I CAN CLOSE WITH A FEW CERTAINTIES. I CAN STATE THAT THE PACE OF OUR DECISION MAKING WILL NOT SLOW -- OUR CHOICES WILL NOT NARROW -- WE WILL NOT BE REQUIRED TO MANAGE LESS. YOU WILL NEED TO MARSHALL ALL AVAILABLE TALENTS, USE THE BEST TECHNOLOGY, IMPROVE YOUR PROFITABILITY ANALYSIS, AND RECOGNIZE AND ADAPT TO THE IRREVERSIBLE TRENDS IN YOUR FUTURE. THE FEDERAL RESERVE SYSTEM MUST BE EQUALLY OPEN AND FLEXIBLE. WE MUST BOTH PLAN FOR CHANGE EVEN IF WE CANNOT PRECISELY DETERMINE TODAY THE SPECIFIC ACTIONS THE FUTURE WILL DEMAND. I AM SUGGESTING ONLY THAT THIS PLANNING WILL BE ENHANCED BY A STUDY OF ALL POINTS OF VIEW -- THOSE OF OUR SUPPORTERS AS WELL AS OUR CRITICS FOR THEY ARE LIKELY TO HAVE AS MUCH INFLUENCE ON OUR FUTURE (AS ECONOMIC UNITS) AS OUR OWN DECISIONS REGARDING THE INTERNAL FACTORS WE NOW CONTROL. IT IS A DEMANDING AND EXCITING ROLE TO BE PART OF THE FINANCIAL COMMUNITY AT THIS TIME.



BUT SPEAKING ON BEHALF OF MY COLLEAGUES IN THE FEDERAL RESERVE BANK OF CLEVELAND, I WANT TO ASSURE YOU OF AN OPEN-LINE -- WE NEED TO HEAR FROM YOU -- TO UNDERSTAND YOUR PROBLEMS AND THOSE OF YOUR COMMUNITIES. YOU, IN TURN, NEED TO UNDERSTAND OUR PROBLEMS AND OUR PERSPECTIVE. WE MAY NOT AGREE ON ALL POINTS BUT HOPEFULLY BY WORKING TOGETHER WITH MUTUAL RESPECT AND UNDERSTANDING WE CAN FIND BETTER SOLUTIONS FOR THE PROBLEMS WE FACE AND THUS EVOLVE A BETTER FINANCIAL STRUCTURE. WITH YOUR HELP I'LL AT LEAST HAVE MORE CONFIDENCE IN MY PRESCRIPTIONS -- I ONLY HOPE THAT IN TURN AND IN TIME YOU MAY SHARE THIS FEELING -- I WANT TO AVOID THE LOCKED OPEN PROBLEM -- IF POSSIBLE.