OCTOBER 1960

BUSINESS REVIEW

The Public's Portfolio

Down on the Farm

FEDERAL RESERVE BANK OF PHILADELPHIA

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Consumers and business have stored vast amounts of wealth in financial claims — wealth which promises security and material well-being. But over the last decade and a half, substantial risk has been added to promise in . . .

THE PUBLIC'S PORTFOLIO

The American public is a good deal wealthier today than it used to be—some have even said affluent. Incomes have moved up rapidly in the postwar period as economic activity has expanded. Along with rising incomes have come rising savings in the form of deposits, stocks, bonds, and other financial assets. Financial claims of consumers and business amount to almost two and one-half times as much now as they did back in 1946. They have been growing at an average rate of over 7 per cent a year—in fact, faster in recent years than national income.

Not only has the *level* of financial claims changed in the postwar period but the *composition* of financial claims as well. At the end of World War II consumers held relatively large amounts of bank deposits, savings shares, and Government bonds; they now hold relatively large amounts of stock. In 1946, businesses held relatively large amounts of currency, demand deposits, and Government securities; they now hold relatively large amounts of "receivables."

The kind of assets the public holds is one of the important factors determining the degree of

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economic prosperity. For example, if consumers are drenched in liquidity—if they hold large amounts of assets that can be quickly converted into cash without loss, while their needs for liquid assets are moderate—they have the ability to raise their spending to very high levels. Illiquidity works in reverse and tends to discourage high levels of spending.

The composition of the public's portfolio holds still another meaning. It tells on whom the public is depending. To the extent the public holds bank deposits and Government securities, it has placed its faith in the integrity of the financial system and the Federal Government. To the extent the public holds corporate stock, trade and consumer receivables, it has put its trust in no one but itself—that is, in the continued prosperity of consumers and business; for the savings of any one member of the public, then, depends on the prosperity of other members of the public.

This kind of interdependence is found throughout the free enterprise system. It is, perhaps, the key feature. The quality consumers look for in the products they buy depends on businessmen who are striving for a profit. The profits businessmen look for depend, in large measure, on consumers striving to raise their standards of living. The strivings of consumers and businessmen are the motive power and interdependence is the connecting rod. Together they drive the free enterprise system.

But interdependence also tends to make the economy vulnerable to economic storms. If, for example, a severe stock market decline discouraged consumers from spending on automobiles, refrigerators, television sets, and other goods, the earnings of businesses that sell these products would fall and the values of the stock they've issued would be placed in jeopardy—perhaps continue to fall. In addition, the I.O.U.'s these businesses have given to obtain credit might also be put in danger. Capital spending would suffer and this would reduce consumer incomes, and perhaps spending, even further. We know too well how cause and effect cumulate and reverberate in a free enterprise system.

The stimulating impact of high liquidity and the critical effects of interdependence in financial markets are not mere fanciful theories. The effects have been demonstrated in the past—and particularly in two years that will long be remembered: 1929 and 1946.

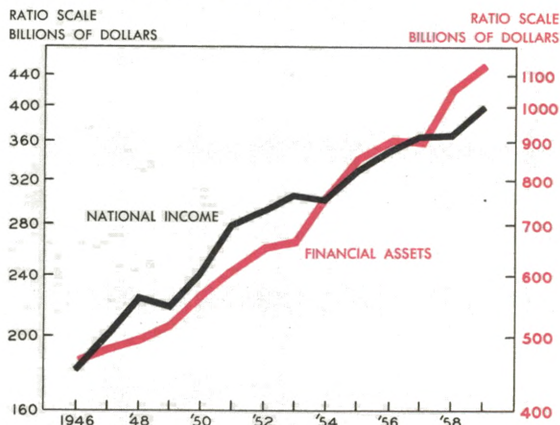
"Only yesterday"

The years have something in common. In both, the experts were wrong.

Prior to the crash in 1929 most observers felt that the business cycle had been smoothed out; that the country could look forward to long-term prosperity. But the analysts hadn't counted on

FINANCIAL CLAIMS RISE WITH INCOME

As the income of consumers and business rose in the postwar period, so did their holdings of financial claims. In recent years, financial assets have increased even faster than income.



Note: Trade credit held by noncorporate nonfinancial businesses is not included in total business assets.
Source: Federal Reserve Board *Flow of Funds.* Department of Commerce

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the delicate balance involved in the shaky pyramid of wealth and optimism that made the American economy so buoyant. First an economic decline—and then a change of sentiment broke like a hurricane on the sensitive interdependent mechanism. Too late it became apparent that markets could fall as well as rise and that risk assets entail risk. A decline was turned into a crisis—and a crisis into a "great depression."

In 1946, on the other hand, pessimism was the overriding economic emotion. Government expenditures were falling and millions of soldiers were returning to the labor force. We were just a few short years from the depressed 1930's; and many firmly believed another depression was inevitable.

The United States Office of War Mobilization and Reconversion had officially confirmed the sentiment. In its "less favorable" projection, it had forecast over 6 million people unemployed by the end of 1945, over 8 million in 1946 and 9 million in the first half of 1947. The "more favorable" projection foresaw about 7½ million unemployed in 1946 with some improvement in 1947.

Of course things didn't turn out that way. There was a short period of readjustment to be sure, but no depression. The economy rocked on its launching pad for a few brief moments and then roared off into outer space. Expansion, prosperity, and boom became the descriptive words of the day—and inflation became the problem.

In 1929 the risk, and the interdependence involved in risk assets, had been overlooked. In 1946, the safety and liquidity of the public's portfolio were overlooked, as was another important fact—the American people were starved for automobiles, radios, and all the other goods and services they couldn't get during the war. In 1929 the economy was vulnerable. In 1946 liquidity and an intense desire for goods and services provided the thrust that propelled the economy upward.

Today, consumers and businesses possess a far different kind of portfolio than they had at the end of World War II. On the basis of past experience, we can expect their new portfolio to play an important role in determining the kind of economy we have in the 'sixties.

The postwar setting

Consumers and businesses came out of World War II with a new-found wealth. At the end of 1946 their financial assets were valued at more than $460 billion. Consumers owned most of these assets—about $370 billion. Business held over $90 billion.

Almost half the claims held by consumers were currency, bank deposits, savings shares, and Federal obligations, all highly liquid assets. Life insurance and pension fund claims accounted for another 16 per cent of the consumers' holdings. While not necessarily liquid, these claims typically do not involve much risk. Including the liquid assets, consumers held about $237 billion of highly safe financial claims.

The chief risk asset in the consumer's portfolio in 1946 was corporate stock. It accounted for about 28 per cent of their total holdings and was valued at a little over $100 billion. Small amounts of bonds and mortgages filled out the consumer's portfolio.

In the business sector, high liquidity and low risk were also the rules. Currency, bank deposits, and Federal Government obligations accounted for almost 60 per cent of the business portfolio. Trade credit represented about 30 per cent, with small amounts of consumer credit

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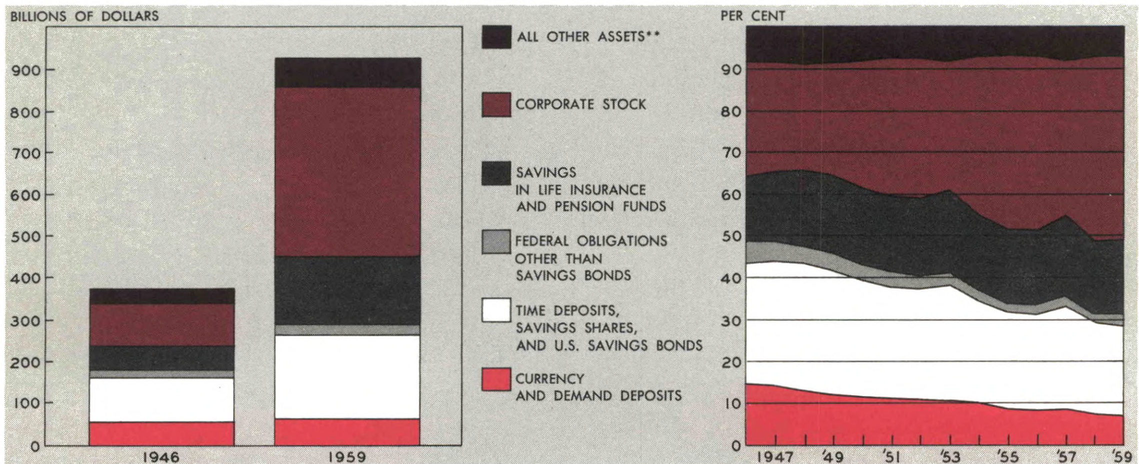
THE CONSUMERS' CHANGING PORTFOLIO—CORPORATE STOCK GROWS IN IMPORTANCE

Between 1946 and 1959 the financial assets held by consumers more than doubled. All classes of assets increased in dollar amount, but corporate stock at market value increased the greatest amount in dollar and percentage terms as well. As a result, corporate stock became increasingly important in the consumers' portfolio, and by the end of 1959 it represented about 45 per cent of total claims. Time deposits, savings shares, and bonds also increased by a very large dollar amount, but in 1959 they represented a somewhat smaller proportion of the consumers' portfolio than they did in 1946.*



* Includes nonprofit organizations
** Includes state and local government obligations, corporate and foreign bonds, mortgages, and security credit
Source: Federal Reserve Board *Flow of Funds*

and foreign investments making up the rest.

The increased financial wealth of the public in 1946 was confirmed by its relatively low debts. At the end of the year, consumer debt was only a little over $30 billion; and business debt was actually smaller in amount than the financial assets owned by business.

Short-term debt of consumers and business—frequently used as a measure of the need to hold liquid assets—was correspondingly low. In 1946 the liquid assets held by consumers were 12 times greater than their short-term liabilities; and the liquid assets held by business more than matched its short-term debt.

It is no wonder that consumers and business felt free to spend, borrow, and build at such unprecedented rates. The postwar period started with a whimper, but the whimper soon turned into a bang. Before long most of the experts were agreed that it would be necessary to do something about the excess liquidity created by the war in order to control inflation.

The march from money

Over the postwar period something was done to liquidity—it was substantially reduced. The war had created an abnormal situation. Shortages of goods and services and rising incomes had given the American people the opportunity to build up their liquid balances. Once the war was over,

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reductions were desirable and to be expected. They were part and parcel of going back to free enterprise.

Federal Reserve policy played a role in the return to more normal conditions. The re-establishment of flexible interest rates after 1951 removed an entire array of assets—Federal Government marketable securities—from the perfectly liquid category. Periodic restrictions on the growth of the money supply during periods of rapid expansion also served to restrain, when necessary, increases in liquidity.

But, over the postwar period, liquidity was not simply "squeezed out" of the economy. Illiquidity was also "pumped in." Relatively non-liquid assets increased more rapidly than liquid assets, and so did short-term debts. The private economy was growing again, and the claims issued by the private economy were becoming more important in the public's portfolio.

Since 1946, the expanding value of corporate stock has represented the most important increase in the financial wealth of consumers. Consumer ownership of stock has just about quadrupled in value. Moreover, at the end of 1959, corporate stock at market value accounted for almost 45 per cent of all consumer financial assets.

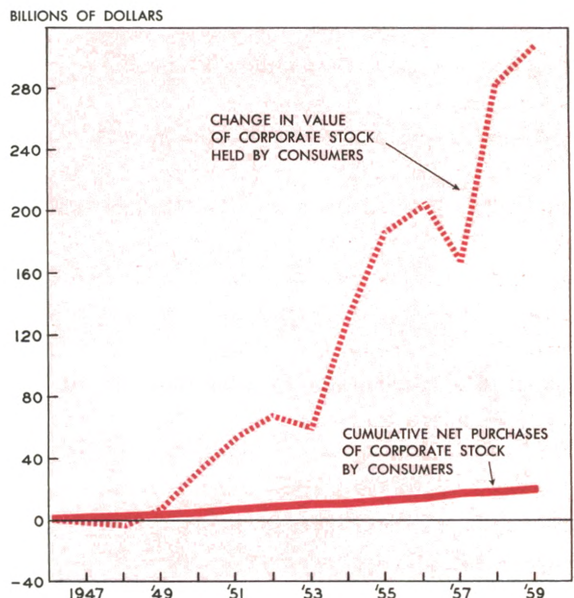
Interestingly enough consumers did not progressively increase their net purchases of stock over the period. They typically spent between $1 billion and $2 billion a year; and the proportion of their incomes they devoted to stock purchases also fluctuated within a very narrow range. Their total net purchases from 1946 to 1959 amounted to about $18 billion.

But the stock market boomed; and the value of stock consumers held skyrocketed. The increase in the market value of consumer holdings of stock over the period was in excess of $300 billion. In addition, growing numbers of individuals seem to have taken part in boom. The New York Stock Exchange tells us that in 1959 about 12½ million people owned stock—about double the number owning stock 7 years before.

With stock assuming a dominant position in the consumer's portfolio, other assets became relatively less important. Consumer holdings of cash accounted for about 15 per cent of the consumer's total assets in 1946; they accounted for only 7 per cent in 1959. Holdings of marketable Governments fell in relative importance from 5 to 3 per cent. Holdings of savings bonds fell in relative importance from 12 to 5 per cent. In dollar terms the total of these assets increased.

A SMALL AMOUNT PURCHASED BUT THE STOCK MARKET BOOMED

Between 1946 and 1959 the net purchases of stock by consumers totaled only about $18 billion. But the stock market boom of the 1950's increased the value of the stock held by consumers by more than $300 billion.



Source: Federal Reserve Board *Flow of Funds*

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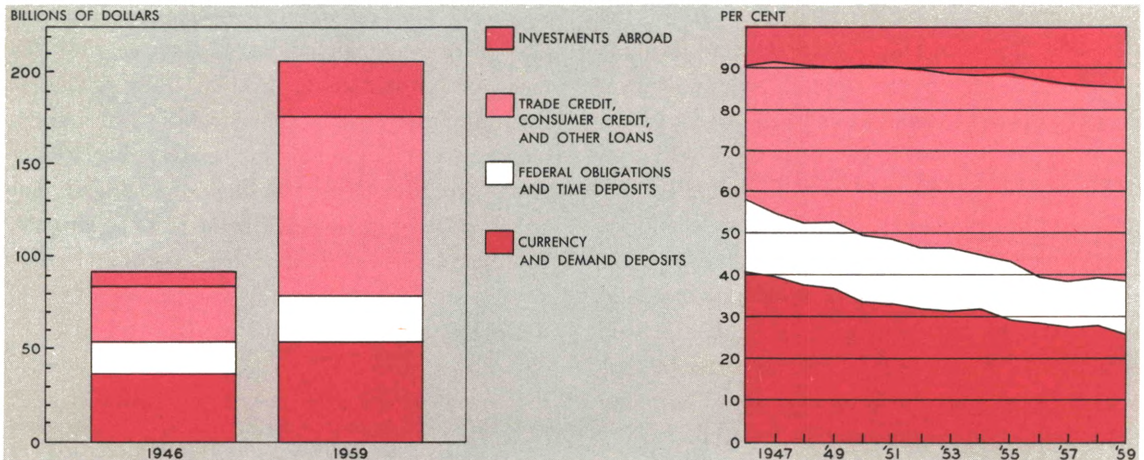
THE CHANGING PORTFOLIO OF BUSINESS— ACCOUNTS RECEIVABLE GROW IN IMPORTANCE

Between 1946 and 1959 the financial claims held by businesses rose more than $113 billion. All classes of assets increased in dollar value, but trade and consumer credit by the greatest amount. By the end of 1959, these receivables accounted for approximately 47 per cent of the business portfolio.*



* Includes all nonfinancial business enterprises
Note: Trade credit held by noncorporate nonfinancial businesses is not included in total business assets.
Source: Federal Reserve Board *Flow of Funds*

Nevertheless they represented a shrinking part of the consumer's portfolio.

Over the period, consumers did increase their time deposits and savings shares by large amounts. Between 1946 and 1959 they added about $94 billion to their holdings. But in percentage terms even this huge dollar increase was overwhelmed by the rise in the stock market. Time deposits and savings shares just about held their same relative importance in the consumer's portfolio.

The dollar increase in consumer holdings of currency, bank deposits, savings shares, and Government bonds—assets that are relatively safe and liquid—could not keep pace with the rising value of stock—an asset that can be easily marketed, but sometimes only at a loss. Nor could it keep pace with the rising volume of short-term debt incurred by consumers—debts which increase the need for liquid assets. Pushed upward by the rapid expansion of consumer credit, short-term debt rose rapidly. The ratio of liquid assets to short-term debt fell from the fantastic high of over 13 to 1 to about 4 to 1.

The business sector of the economy experienced similar developments, with receivables—trade and consumer credit—assuming the role played by corporate stock in the consumer sector. Receivables more than tripled over the postwar period and became the most important single financial claim held by business. At the end of 1959 receivables represented almost one-half of the business portfolio. Currency, bank deposits, and Federal obligations became rela-

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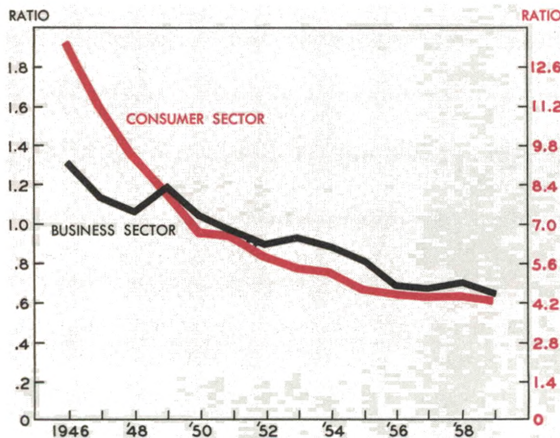
LIQUIDITY OUT—ILLIQUIDITY IN

Since 1946, the liquidity of consumers and businesses, as measured by the ratio of liquid assets to short-term debts, has been falling. Liquidity was "squeezed out" of the economy in the sense that some assets—marketable Governments—were eliminated from the perfectly liquid category after the Treasury-Federal Reserve Accord in 1951. The economy became less liquid, as the ratio shows, in the sense that short-term debts rose faster than liquid assets.*



* Includes currency, bank deposits, savings shares, and Federal government obligations

Note: For the business sector, the ratio is slightly overestimated because trade credit, an asset, of noncorporate nonfinancial businesses is deducted from trade debt, a liability.

Source: Federal Reserve Board *Flow of Funds*

tively less important even though total liquid assets increased in dollar terms.

Here, too, short-term debt rose more rapidly than liquid assets. The ratio of liquid assets to this debt also fell rapidly, as it did in the consumer sector.

So the liquidity position of the public deteriorated in the postwar period. Relatively liquid assets increased slowly while relatively illiquid assets and short-term debt increased rapidly.* No central authority dictated the entire deterioration that took place. The millions of people making up the public could have chosen to hold larger amounts of liquid assets, though it must be admitted that the investment consumers made in time deposits and savings shares was considerable. At least, the public could have incurred debt at a somewhat slower pace than it actually did. Individuals by themselves have very little influence on the stock market; however, here, the collective attitude of the public played a major role.

The assets which represent such a large part of the public's financial savings today, it should be remembered, entail substantial risk. These claims are not I.O.U.'s issued by the Federal Government, the Federal Reserve, or federally supported financial institutions; there is no F.D.I.C. to insure the stock market or accounts receivable.

A new economy

We are frequently told that we live in a new economy where the consumer is more powerful, corporations more responsible, labor disputes more intractable, and foreign competition more demanding—and where, perhaps, we need not worry about major depressions. This newness certainly carries through to the public's portfolio. Dominated by highly liquid, safe assets in 1946, it is now heavy with assets that involve greater risks—whose liquidity depends on stable or rising markets. Partially as a result of this and partially as a result of rising debt, the liquidity position of the public has deteriorated.

Excess liquidity, of itself, does not appear to constitute an inflationary threat today as it did after World War II. Our economy has been heading in the other direction—toward less liquidity and more interdependence.

The consumers' savings now rest to a con-

* Over the postwar period, the ratio of liquid assets to national income, another measure of liquidity, also fell.

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siderable degree on the stock market—on the continued profitability of corporate business and on that very fickle, psychological catchall called market sentiment. Businesses depend, to an increasing degree, on receivables—in other words, on the ability of other businesses and consumers to meet their debt obligations. More so now than at any time since the end of World War II, consumers and business have a real stake in American free enterprise—a real financial stake.

While the public's portfolio has changed greatly since 1946, we don't really know how far we've gone in the direction of the prewar period. We do know, fortunately, that our economy today is vastly different from what it was in the past. We have built into our economy automatic adjustments to stabilize income; and we have developed discretionary policies to reinforce these built-in stabilizers. Our commercial banking system, and our entire financial system, is far more secure today because of the reforms of the 1930's. Of great importance is the fact that the stock market boom of the 1950's was not built on a torturously strained credit expansion such as characterized the "big bull" market of the late 1920's.

All these differences are important; they go a long way toward preventing first-magnitude financial crises such as occurred in the past. And yet it is still important to judiciously consider the growing risks in our economy.

While the public is not completely alone in its financial struggles, these struggles have increasingly become personal affairs. The policies of the central authorities—the Federal Reserve and the Federal Government—help maintain the financial soundness of the economy and have an important influence on the liquidity of assets. Powerful weapons, operated with intelligence, would without doubt be brought to bear in any emergency. But these policies, and even the emergency equipment, are not directly aimed at maintaining the value of the financial assets that have become so important to the public in the postwar period—corporate stock and accounts receivable. With stock now so widely distributed and representing such a large proportion of the consumer's portfolio, a sharp decline in the stock market could possibly have a very depressing influence on spending, and thereby endanger the large volume of "accounts receivable" outstanding. The interdependence of the free enterprise system makes the economy only as strong as its weakest link.

We have returned to free enterprise and financial interdependence in the postwar period; both the individual and the central authorities must be concerned with minimizing the danger.

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A Report On Conditions This Year . . .

DOWN ON THE FARM

Farmers in Pennsylvania, New Jersey, and Delaware are experiencing another year of excellent crop yields, say county farm agents in leading agricultural areas of these states. Comments on local farm markets are somewhat less reassuring. Prices of most products are described as slightly firmer than a year ago, although some still are subject to rather wide fluctuations. Farm production costs are mentioned as another area of some concern. They have not increased significantly, neither has there been any decline, except possibly in the case of feed.

A continuing spread between prices received and prices paid puts a heavy premium on operating efficiency—a fact of life that county agents say is making a deeper impression on farmers in this area with each passing year. With this goal in mind, the size of our farms is increasing and the number of farms is declining as more and more small units are being absorbed.

A good growing season

To say that farmers in the Third Federal Reserve District had a better-than-average growing season does not rule out all weather problems, particularly the passage of Hurricane Donna in early September. Damage from this storm was severe in some eastern counties, where apple and peach trees were blown over and corn crops flattened. Over most of the season, however, ample supplies of moisture and relatively few weather extremes provided nearly ideal conditions for maturing crops. Only minor frost damage was reported in the spring.

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Field crops above average

Winter grains are said to have survived the cold weather with little or no loss. Wheat, rye, and barley yields were sharply higher than a year ago. Oats was the only grain crop that was disappointing in some areas, owing to a virus that became especially difficult to control. Hay ran to high yields, but in the early cutting, farmers experienced difficulty in curing, so quality suffered somewhat. Production of soy beans may be almost one-fourth greater than in 1959, reflecting a sharp increase in Delaware, where this crop is growing rapidly in importance.

Corn for silage and grain looks like a crop that could almost make history this year, according to some of our county agents. Some corn was planted late and will need a growing season of at least normal length; a little more frost-free time, and it will add substantially to what already is being harvested. In areas where hurricane and gale force winds occurred, much of the blown-down corn can be salvaged, although harvesting costs will be increased. Potato yields and quality are expected to run fairly high.

Tobacco prospects excellent

In Pennsylvania's Lancaster County, tobacco growers are harvesting and curing another large crop of quality leaves that should bring good prices. Tobacco is heavy, with a high moisture content that will require some breezy, dry, curing weather if shed burn is to be avoided. Some of this crop was planted later than usual, so frost dates are critical, as in the case of corn.

Vegetable yields larger

Our vegetable growers seem to have had fewer problems than in the 1959 season. Production generally was heavy and in nearly all cases quality was high. Prices in the fresh vegetable market showed considerable fluctuation this year and we heard complaints on that score. Most of the weakness in local markets, however, seems to have occurred early in the season. Later returns on sweet corn and tomatoes are said to have been better than a year ago. Contract prices on crops grown for processing were no higher than in 1959 but volume was somewhat greater. Adequate moisture reduced irrigation costs and most growers were reporting less difficulty in controlling plant diseases and insect pests.

Orchard fruits of high quality

According to crop estimates as of September 1, this season's harvest of fall apples may be about one-fourth smaller than in 1959 and considerably below the ten-year average. The Delaware and New Jersey crops were cut sharply by Hurricane Donna. Reports from important growing areas in Pennsylvania indicate light production centered in three leading commercial varieties. Quality of all apples, however, is said to be high with respect to both size and color. Peaches were an unusually good crop this year and appear to have brought fair prices in all local markets.

Cranberries and blueberries rank high among the small fruits grown in this area. The cranberry crop produced in New Jersey is expected to show some reduction this year. Market prospects at present are hard to appraise because of the unfavorable publicity associated with last fall's cancer scare. However, growers appear to feel that with the safeguards that have been taken, the consumer has been largely reassured on this score. Blueberries are said to have been high in both yield and quality and to have brought slightly higher prices this season than in 1959.

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Dairymen in good shape

Dairy herds are described as being in excellent condition. Little supplementary feeding has been necessary, so dairymen have saved on the feed bill. Moreover, with ample supplies of home-grown feeds in prospect they appear to be in very good shape for the winter and early spring. Milk production has continued high. County agents are reporting generally satisfactory market conditions—but, of course, the milk check always could be larger. Surplus milk problems have not been too serious and in some areas a slightly larger proportion of output has been going into the fluid milk market.

Fewer beef cattle on feed

Feeder cattle operations continue on a somewhat smaller scale in many areas this year. For one thing, price weakness in finished cattle has been a problem from time to time. And this, along with the relatively high cost of replacement stock, has discouraged expansion in this type of farm enterprise. Reports from areas where this is an important source of farm income also indicate that feeder cattle are being marketed at somewhat lighter weights because of the narrow price spread between fat animals and those less highly finished.

Poultry situation improving

After two very bad years in a row, poultrymen are said to be recouping some of their losses. Broiler markets have been somewhat stronger than in either of the past two years. Although prices have increased only moderately, this could be a good thing for an industry seemingly plagued with heavy overproduction whenever a sharp rise occurs in any important market. Poultrymen with laying flocks also are reporting a somewhat better situation. Egg prices are higher and have been subject to less fluctuation than a year ago.

Production costs a stumbling block

Although farm production costs have not risen perhaps as much as in some other years, they still point upward. Taxes, wages, and machinery, in about that order, are the cost components we hear the most complaints about. Tax increases seem to be associated with rising land values in the vicinity of our larger cities and towns. A recent study by the United States Department of Agriculture indicates that 1959 taxes at the national level showed their sharpest rise in a decade. Of the three states included in the Philadelphia Federal Reserve District, only Delaware experienced an increase that was less than the country's average rise.

Some of our county agents speak of increasing difficulty in securing adequate farm labor, particularly the experienced type that is almost a "must" for the dairyman. All of them are reporting some advance in wage rates again this year. Local farmers who have turned to labor-saving machinery are finding this only a little less expensive than hiring field hands. So machinery replacements are being deferred.

Larger farms—fewer farmers

Faced with prices of farm products that seemingly refuse to rise in line with production costs, an increasing number of our smaller farmers are said to be considering the advisability of selling out or expanding their enterprise into a more efficient operational unit. Our county agents have been talking about this for some time. They tell us an expansion trend is especially pronounced among dairymen, many of whom have installed bulk tanks and other equipment intended for use with a larger number of

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cows. Thus, in the past few years, the size of dairy herds has been increasing. The number of milk cows has scarcely changed but there has been a noticeable reduction in the number of farms having dairy herds. The poultry industry in this area is another type of farm enterprise where larger operations are handled by fewer farmers. Expansion trends are least noticeable among fruit and vegetable growers.

Farm cash income static

Cash receipts from the sale of crops and livestock products in Pennsylvania, New Jersey, and Delaware were only 1 per cent larger in the first seven months of this year than last. In this period income from crops showed substantial increases over a year earlier in every month except January. Receipts from livestock products fluctuated widely, with comparisons ranging from a substantial minus last winter to a small plus around mid-year. It is too early to get a good notion of how total farm cash income for all of 1960 will compare with that of a year earlier. Receipts from marketings in coming months could change the picture considerably. Much will depend on price trends in livestock and livestock products and on returns from late vegetables, an excellent tobacco crop, and fall apples still to be harvested and sold.

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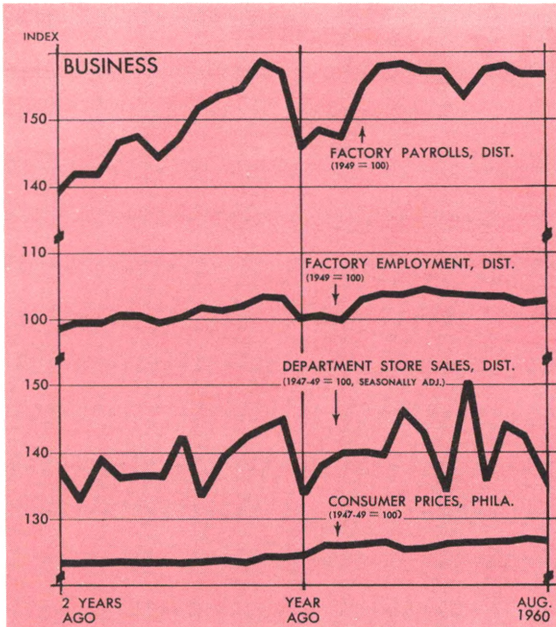
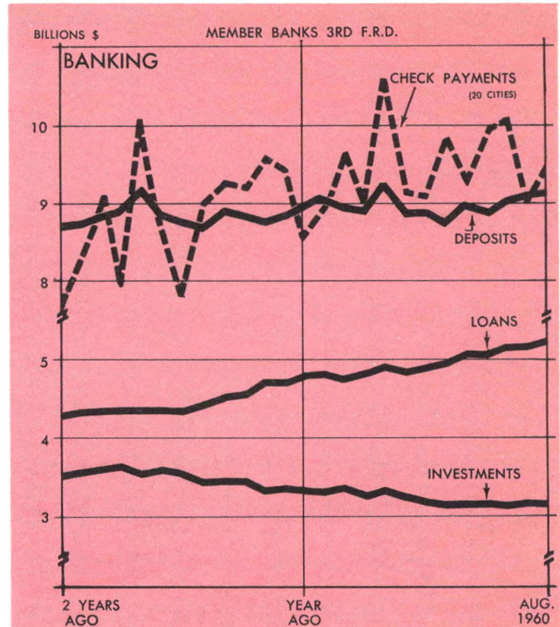
FOR THE RECORD...





SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Aug. 1960 from mo. ago	Aug. 1960 from year ago	8 mos. 1960 from year ago	Aug. 1960 from mo. ago	Aug. 1960 from year ago	8 mos. 1960 from year ago
OUTPUT						
Manufacturing production	+ 1	+ 3	0	+ 4	+ 5	+ 4
Construction contracts	−21	−19	− 8	− 8	+ 7	− 5
Coal mining	+37	+27	− 1	+30	+ 9	+ 2
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	+ 3	+ 2	+ 1	+ 1	+ 2
Factory wage income	0	+ 7	+ 3	....	....	....
TRADE*						
Department store sales	− 4	0	+ 2	− 3	0	+ 2
Department store stocks	0	+ 1	....	....	....	....
BANKING (All member banks)						
Deposits	0	+ 2	+ 1	0	+ 1	0
Loans	+ 1	+ 9	+11	0	+ 6	+10
Investments	0	− 6	− 8	0	− 6	−11
U.S. Govt. securities	0	− 8	−10	0	− 7	−13
Other	− 1	− 1	− 2	0	− 3	− 4
Check payments	+ 5†	+10†	+ 6†	+ 8	+16	+ 7
PRICES						
Wholesale	....	....	....	0	0	0
Consumer	0‡	+ 2‡	+ 2‡	0	+ 1	+ 2

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES

	Factory* Employment		Factory* Payrolls		Department Store† Sales		Department Store† Stocks		Check Payments	
	Per cent change Aug. 1960 from mo. ago	year ago	Per cent change Aug. 1960 from mo. ago	year ago	Per cent change Aug. 1960 from mo. ago	year ago	Per cent change Aug. 1960 from mo. ago	year ago	Per cent change Aug. 1960 from mo. ago	year ago
Lehigh Valley	0	+15	0	+31	....	....	....	....	+ 8	+15
Harrisburg	+ 1	+ 9	0	+21	....	....	....	....	+10	+15
Lancaster	+ 1	− 2	+ 2	− 1	−15	+ 1	0	+ 4	+10	+ 9
Philadelphia	0	+ 2	0	+ 4	+ 2	0	− 1	+ 2	+ 6	+ 8
Reading	+ 1	− 2	− 2	− 5	− 7	0	− 6	− 1	+21	+25
Scranton	0	− 2	+ 2	+ 4	− 4	− 1	0	− 5	+ 5	+12
Trenton	− 1	− 1	+ 1	+ 4	− 8	+ 1	+ 6	+ 6	+13	+ 8
Wilkes-Barre	+ 1	− 2	+ 2	+ 2	− 7	− 3	0	− 8	+ 7	+10
Wilmington	+ 1	+ 7	− 7	+ 5	− 7	− 1	− 5	− 2	−16	+17
York	+ 2	− 2	+ 5	− 2	−12	− 1	− 2	− 1	+ 6	+ 8

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.

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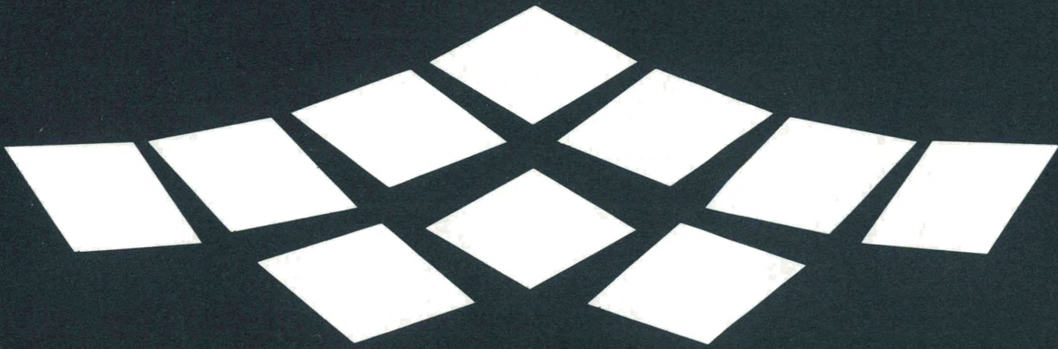
MANAGERIAL GROWTH—WITHOUT INFLATION



Supplement to **business review** October, 1960

FEDERAL RESERVE BANK OF PHILADELPHIA

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An Address
by
Robert N. Hilkert
First Vice President
Federal Reserve Bank of Philadelphia
before the
Trust Division
of the
86th Annual Convention
American Bankers Association
Belmont-Plaza Hotel
New York, N. Y.
September 19, 1960

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Managerial Growth—Without Inflation

In the comic section of the Philadelphia *Evening Bulletin* there appears a syndicated cartoon depicting a strange character known as Carmichael. Each day he makes sage comments on various facets of American life. This talk today on MANAGERIAL GROWTH—WITHOUT INFLATION had its beginnings with Carmichael, who recently made the following observation:

> "This probably is a good company to work for, if you can ever get through the training program."

Obviously, this remark can be meaningful only to the segment of the population that knows something about training programs. It can be funny, in a cynical sort of way, to a still smaller number who perhaps know *too much* about *some* training programs. At any rate, it seems that Carmichael has some doubts and, at the risk of being considered reactionary, I too shall express a few doubts as we move along.

At this stage in our banking history it is unnecessary to belabor the thought that managerial growth is a matter of concern to all banks, large and small. No business of a bank is more important than seeing to it that there are on hand today men prepared to carry on the business tomorrow. The community, stockholders, and employes have the right to expect stability and continuity. A bank's charter is granted in perpetuity. It is supposed to keep going after everybody now connected with the bank has gone. The show must go on.

Some banks don't keep going. Not the least of the reasons for some mergers is that there are not enough competent and thoroughly experienced men to manage the banks as separate institutions. While this point is more freely discussed in convention corridors than in open meetings, the problem I am sure does not come as news to anyone here.

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Any bank can, in the next day or two, lose its chief officer or other key figure because of unexpected illness or death. This is the age of coronaries, and most senior bankers are of coronary age, or soon will be. Banks also lose key men by resignation. Piracy did not end with the seventeenth century. In fact, there are times when a bank is almost afraid to permit too much public exposure of its ablest young men for fear they may be lured or attracted to more fertile fields. There seems always to be someone around who is eager to cash in on *our* investment, just as there are always people who seek to reap where they have not sown. Let me hasten to say that I wouldn't for anything want to give up the "free market" idea. We have much more to gain than to lose. I merely point out that individual banks can suffer talent losses in this free-market operation and we must manage with that risk ever in mind.

To give emphasis to this point we might scan the personal columns of banking trade publications. We are forced to conclude that there is a great deal of managerial "milling around." Again, much of this is good for banking, and for individual bankers, but it isn't *all* good. For some banks the heavy experience-losses are such as to place them not just on the sick list, but on the critical list.

Why do we lose good men? In this talk today I am considering principally the younger men. Some of them describe their own situation this way. "I'm just not getting anywhere." A variant of this is, "I just don't know *whether* I'm getting anywhere." Then there are those who say, "I may be getting somewhere, but the going is just too slow for me." Well, what do they want to get? Where do they want to go when they say they aren't getting anywhere? How can they come to know *whether* they are getting somewhere?

Young men want to grow. They want to grow managerially. It is hard to find an able young man who doesn't hope to become a boss, or a bigger boss, or the big boss. There is nothing wrong with this. It is normal ambition, candidly expressed. The young man wants to grow at a fairly decent rate of speed. Why not? Is there virtue in growing slowly? When we recruit young men we always say we are looking for those who are intelligent, who have superior educational records, who have demonstrated initiative, drive, and ambition. Isn't it curious that after we have found them we show surprise, at times annoyance, when they attempt to display the very qualities for which they were selected?

This leads us to questions. If the young man in the bank is not growing as fast as his capacity permits, if he is not *doing* all that he could be doing, given the right conditions, is the bank getting its money's worth? Obviously not, it is getting less than full value. I call this managerial growth—with inflation. So it is with the young man. He is not getting full value. He is paying too high a price for what he is receiving from us. From his point of view, it is managerial growth —with inflation. It is only when he receives full value in growth terms that the bank gets its money's worth, and vice versa. These are two sides of the same coin. It is when the man grows as fast as his capacity permits, and when the bank makes *full and productive* use of his abilities and acquired knowledge and skills, that we can have managerial growth—*without* inflation. We are familiar enough with the principle that rising wage rates without commensurate increase in productivity is inflationary. We seem not to appreciate the need to be concerned with productivity associated with managerial growth.

It may be that some of us have slipped in our

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approaches to training because we have lost sight of the importance of *work*. We have given so much thought to the design of *programs of study* that we have neglected to give enough thought to *programs of work*. All work and no study leads to underdeveloped managers, but all study and no productive work will not produce mature managers either. Of course, no one goes to either of these extremes, but it is by giving thought to extreme positions that we are more likely to come up with a better "product-mix."

Many of us have always felt that the man who worked his way through college reaped a few important benefits that did not come to the man who found it unnecessary to "work his way." What philosophy are we following if we design a management development program which places minimum emphasis upon productive work? Doesn't work contribute to managerial growth? Don't we believe with John Dewey that we "learn to do by doing?" What did our friend Carmichael mean when he said that this is probably a good company to *work* for, if you can ever get through the training program? Don't we gather that he thought it would be a red-letter day when he could begin to do productive work for the company, and not just keep on "going to school?" Is there doubt that there are men in some of our training programs who have similar thoughts?

Bankers, including some of my own colleagues, have reminded me that able young college men are attracted to those banks which have "the best" training programs; and that banks, therefore, must compete for the best men on the basis of training programs. Not long ago one of our officers, after interviewing a series of applicants, said, "These fellows don't want jobs—they want fellowships." This is a bit of a twist on a quip appearing recently in a national magazine: "There are enough jobs for all college graduates; there just aren't enough positions."

I don't believe it is true that young men don't want to work, that they don't want to "go to work"—on a real job. The difficulty is that many of us have given them ideas which they have taken seriously, one of which is that the sure way to success is through training programs—"management development" programs. The siren song of recruiters is, "Come with us, we have the best training program."

What is "the best" program? Is it one with the greatest number of lectures and seminars? Is it one which boasts the most elaborate audio-visual equipment? Is it one that sends men away to the most meetings—usually at very nice hotels or resorts, or to quiet but expensive spots where one can "get away from it all" and spend the whole time just "thinking management?" Is it one that features job rotation, except that ours rotates faster than the others? Is it one that offers the greatest number of *observation* points, although perhaps the fewest number of *participation* points? Is it one which provides a great variety of work experiences, but without responsibility or accountability? Is it one that requires the most study and the least work?

Ideas that young men have about training programs have come from employers—from us. If this is the road to success, they want to be on it. Should this surprise us? Certainly we should not be surprised if the young men decide that it makes sense to play according to the ground rules of our own making. I suggest that we take stock to determine whether we have worked out a game that leans more upon *off*-the-job training than *on*-the-job training. And if we have, have we been right?

There are real values in off-the-job training. Like you, I have taken part in a good many

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sessions held in schools, on college campuses, and in hotels—sometimes as student and sometimes as teacher. Again like you, I have learned a great deal that I would not have learned, certainly not as effectively or as quickly, while on the job. It would be hypocritical of me to serve on the faculties of banking schools if I were not convinced that these schools fill a genuine need in banking education.

Off-the-job training, however, is not a substitute for on-the-job training. We should note also that the term is on-the-*job*, and that this is not synonymous with "on-the-*premises*." Many of us have had the experience of realizing that a problem presented for discussion in the relaxed, academic atmosphere of a training room is actually quite different from that supposedly "same" problem encountered on the operating floor in the course of duty. We know that one of the greatest difficulties in supervisory training courses is to obtain carry-over from the lecture or seminar to the field of operation. Most ballplayers look pretty good in batting practice. No one would suggest the elimination of batting practice, but we would all agree that there is no substitute for the contribution made to growth by the playing of the game in competition.

In this business of training it may be that we have become overly enamored of the word "program," or the idea of program. To some, a program is a kind of outline of events, with names and numbers of all the players, a sort of table d'hote syllabus (printed or Xeroxed and placed in a fancy binder) which is to be followed by every individual who is to "go through" the program. This may perhaps be justified if it can be demonstrated that every individual needs to undergo the same course of treatment as part of his managerial growth and development. Haven't we, however, tended to lose sight of one of the principal things we know about individuals, namely, that they are different? They come to us having different qualities and qualifications, different educational and experience records, different accomplishments, different personalities, different strengths and weaknesses, different interests; and, because of the foregoing, different needs.

Another thing we know about individuals is that they grow at different rates. A program which puts everybody through the same ropes, and at the same pace, is inefficient and wasteful. Full value is not received for the time, effort, and money expended. Managerial growth—with inflation.

Companies are increasingly gathering evidence that training must be geared to the specific needs of individuals. No one questions that there are aspects of training which can be handled effectively, and most economically, on a group basis. (I am tempted to say that this would be killing many birds with one stone, but that might be misinterpreted.) It appears increasingly clear, however, that more of the developmental program needs to be tailor-made than was formerly supposed. Our task is to determine what forms of training are best suited to group undertaking, and what parts must be tailored to the person. Honest appraisal will, I feel sure, lead to the use of more rifles and fewer shotguns.

A basic issue, of course, is whether it is better training for one to be exposed to a great variety of subjects and experiences, or to be given the opportunity to learn a few things really well. Someone will ask, "Are we trying to train men to be specialists or generalists?" We need not get bogged down on that one. It is a bit too ambitious for the program to attempt to train the young man to command the whole army before he has learned how to be a patrol leader.

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There is wisdom in handing over the big problems to a man who has demonstrated his ability to handle successfully the smaller problems encountered on live jobs.

I am trying to set forth the point of my belief that managerial growth must stem principally from job performance. I am endeavoring also not to under-value off-the-job training. It does seem appropriate, however, to raise the kind of doubts that may lead each of us to evaluate the results, even to forecast them wherever possible, of the particular forms of off-the-job training in which we may be engaged. Are they in fact contributing to the managerial growth we seek? Are we getting our money's worth? I have also stated a belief that the most effective training is that which is keyed to the specific needs of individuals. This, of course, means that we must, through our own continuous observation and study, know the individuals and their needs. This opens a whole field of exploration which unfortunately we cannot pursue today.

It should be immediately apparent that the managerial growth we seek will not come from the performance of just *any* job. While the job ought not be beyond the man's current capabilities, assuming opportunity for a certain amount of mind-stretching, a job will contribute little if it consists exclusively of simple routines. In passing, however, let me say that it is good for every potential manager to understand a few basic facts about routines: (1) that each of us has to do some work which we look upon as routine, and that we might just as well get used to it; (2) that one man's routine is another man's challenge, and sometimes even his Waterloo; and (3) that a mistake in simple routine at one point of a bank's operation can create havoc at some other point. Because a task or operation is simple doesn't mean it is unimportant. A bank can be upset merely by pushing a wrong key.

The kind of job that contributes to managerial growth is one which entails, among other things, responsibility. By this I mean responsibility for planning, coordination and control; and, most important, responsibility for results. It calls for the making of decisions, which means the exercise of personal judgment. This is high sounding, and I don't mean it to be because I envisage planning, coordination, and control applying in the earlier stages of training to fairly light responsibilities. We can and should increase the demands as the man's knowledge, skills, and abilities expand and deepen through experience. The trick is to see that we do not allow him to keep on performing the simple tasks *only*, certainly not after he has mastered them. We don't want growth to stop.

On the other hand, and strangely enough I haven't found this point mentioned in management literature, it is completely unrealistic for one to think that on every job a man can have a new, interesting, and unique experience every hour on the hour. It is a sign that one is growing up managerially when he learns not to be bored with old and familiar problems. We shall have, and we need, new problems, and we must learn how to meet them; but who among us does not have much to learn in trying to find better solutions to old problems?

My guess is that there is general agreement on this. It has a kind of safe, traditional ring. But does it when we reflect upon the implications? The man in training who devotes his thought processes and his enthusiasms to finding new, and hopefully better, solutions to old problems will in all likelihood depart from patterns of behavior and action which we ourselves have established. Are we receptive to such nonconformity? Elsewhere I have asked the

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question, "Why do junior officers not put into practice some of the fine management ideas they have learned in training programs?" I have supplied one answer—that it is because their vice presidents won't give them the green light. What is the sense of teaching juniors a lot of theory which their superiors refuse to let them put into practice?

To be sure, there are right ways and wrong ways to handle some problems, but with others there are *different right ways*. Difficult though it may be, we not only must permit, but we must encourage new approaches to old problems. Our personal reward lies in the satisfaction which comes from providing the climate, the freedom, and the inspiration which enable our juniors to grow not just up to us, but way beyond us.

Among the self-evident truths about managerial growth, or any kind of personal development, is that all of it is self-development. Someone has said that the teacher can teach, but it is the learner who must learn. Some of us never did agree with the slogan used during World War II by the Training Within Industry Programs that "If the student hasn't learned the teacher hasn't taught." This is no more true than the one about the customer always being right.

We can create, foster, and sustain an environment conducive to managerial growth, and it is of crucial importance that we do so; but we must live with the truth that *every man has to do his own growing*. A little later I shall comment on our responsibilities for the environment, but at this point I wish to place some responsibility for growth where most of it belongs, on the man who is doing the growing. This is one of his responsibilities while on the job, and even more so in his off-the-job training.

Isn't it true that there is spreading in America a belief that all off-the-job training must be on company time and at company expense? I think we should do everything we can to resist the spread of this idea. Why shouldn't a man devote some of his own time to self-improvement, to his own managerial development? There was a time when it was said that a man earned his salary while working on the job, and that he earned his promotions off the job. I am not advocating any violation of the Fair Labor Standards Act, and I am sure that the Wage and Hour Division of the Department of Labor doesn't consider it unlawful for a man to engage in many valuable forms of self-improvement on his own time.

The volume of published material on every phase of banking and of bank management is enormous. Just as reading is not a substitute for practical experience, so is job experience no substitute for a carefully chosen reading program. Men in training should do a lot of reading for themselves. We hear it said that book learning isn't everything, and of course it isn't. But it is *something*—and it can be a mighty important contributor to managerial growth. Banks can save a lot of money spent on training if we can effectively inspire men to do what used to be called in school "outside reading." Note that the word used is *inspire*, not *require*. We don't want to be legally trapped into having to pay for this at time and a half. I don't know a better way of inspiring a man in training to read widely and deeply than to set the example by doing it ourselves.

Over a period of years I have made it a point to ask a good many successful men the questions, "What in your background do you believe contributed most to your managerial growth? What aspects of your training were most effective?" Let me summarize what they have told me. Contributing most were:

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1. Experience obtained in the performance of productive work on live jobs.
2. Being given responsibility for results, and for the solution of problems encountered in the course of daily work.
3. Working in an environment in which one had freedom to express his thoughts, to ask questions, and to try out ideas—some of which were not very good.
4. Working under a first-class man who supplied just the right amount and kind of guidance which led tangibly to improvement and advancement.

I have already touched on each of these, with the exception of the last which, upon reflection, they typically placed first: "Experience gained in working under a first-class man." It is on this "theme and variations" that I wish to conclude.

My plea is for a greater and wiser use of the understudy method of training and development. In referring to the man *being* understudied we have no comparable term of designation, so I supply the best one I can think of—the coach. What are his characteristics and what must he do?

It goes without saying that he is a technically competent operator. Like all seasoned coaches, he knows the game down to its finest points. He is aware of, and receptive to, new ideas contributing to the improvement of the game. He is an active seeker of refinements of old ideas.

The coach is a teacher, one of the very best kinds of teacher. He spends little time lecturing to groups, although there are occasions when he does. He devotes time to individuals. He studies them in action. He ferrets out their strengths and weaknesses. He shows them how to capitalize on their strengths, and how to work on correcting their faults. The players learn to do by doing, but the coach supplies the guidance by indicating what it is that is to be done. Each individual learns the "fundamentals" before becoming very deeply involved in complex plays.

The coach knows that his job is to develop a team, not just an aggregate of individuals; and, just in passing, this means not only a first team, but a good bench. He teaches individuals how to work together, how and when to rely upon one another, and when and how to act on one's own.

If there is one thing that a coach knows beyond all shadow of doubt it is that the game is not won solely by virtue of the technical competence of the players. One of the winning ingredients is that of spirit, or morale. The coach knows that it is an indispensable part of *his* job to foster and sustain the esprit de corps. He does this through his own enthusiasm, his personal interest in every player, his obvious desire to help each player to grow. He gives recognition to superior performance. He shares the individual and team sorrows as well as the joys.

I am not trying to suggest that banking is just a football game. If this sounds superficial then I am failing to convey my very strong and serious belief that those of us who have a responsibility for promoting the managerial growth of our young men should study how a first-class coach operates. If we will spend more time studying how to be a good coach, spend more time being a good coach, and less time devising fancy and frilly "programs" of off-the-job training, we shall, I believe, do a better job of management development. The bank will get more for its money. The understudy will have the feel that he is getting somewhere, and if the coaching is implemented as it should be, the young man will advance in position, prestige, and compensation as fast as his increasing capabilities will take him, making due allowance for one of the hard and sometimes disappointing

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facts of life that one cannot be promoted to spots which are not yet vacant. We, too, must face a fact of life. No one will wait too long for a higher post for which he is fully qualified, certainly not if there is a more attractive alternative.

The beauty of the understudy method of training is that it is applicable to banks of every size. Bankers in small banks have often told me that they are unable to have a training program because they are too small. I try to remind them that no one, in my judgment, has yet improved on the training program exemplified by Mark Hopkins on one end of a log and a student on the other.

In conclusion, banking education to foster managerial growth consists of both on-the-job and off-the-job training. Neither is a substitute for the other. I have raised some doubts about our use of, or perhaps our over-reliance upon, off-the-job methods, devices, and programs. This must not lead any of you to believe we should refrain from using them judiciously. Let no one conclude that, conservative though I may seem to be, this talk advocates tossing out the baby with the bathwater. We must recognize the great strides being made in training ideas and devices. We can think offhand of the recent developments in bank management problem-simulations which make use of the modern computer. We must take note of the vast improvements continuously being made in the educational programs of our banking schools—the programs of the ABA, the AIB, and schools sponsored by our regional and state associations. And, as one who has been trained in the field of personnel administration, I would be a traitor to the profession were I to be unappreciative of the contributions being made by the personnel staff organizations in our banks, especially in the field of off-the-job, but on-the-premises, training.

What I *am* asking is, "Have we tended to rely too heavily upon off-the-job training with the result that, by slow and easy steps, we have begun to lose sight of our own personal responsibility for the managerial growth of our successors? Have the bright lights which have been shining upon the glamor programs had the effect of causing us to hide our own lights under a bushel? In transferring our obligations to others, however unwittingly, have we even withdrawn too much of the responsibility from the shoulders of the man who must do his own growing? Are we bearing in mind that growth must be continuous, till death or resignation do us part?"

This is a plea for a re-evaluation of ourselves, of our responsibilities, and of our policies and methods of promoting and fostering continuous managerial growth. It is a reminder of our obligation as managers to assess the values of all forms of training and education, especially education on the job, and related to the observed needs of specific individuals. We must look to cost and to full value for money spent if we are to have managerial growth—without inflation.

We all know of many instances in which far *too little* is being spent on training and development. On the other hand, it may well be that some of us are spending *too much for what we are getting*. The suggestion is that we look beneath the glitter to ascertain whether it is in fact being produced by gold.

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