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SUMMARY AND PROJECTIONS

**Lecture 5 of the 1943 Seminar
Philadelphia Chapter A. I. B.**

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Midday Club

**Friday, December 3, 1943
8:00 P.M.**

Introduction

Three-fold task - difficult

1. Summarize
2. Practical implications
3. Projections of things to come

Distribution of charts to facilitate discussion

A.
per Martin Rovensky

I. Cas and Ralph agree on high deposit level

1. Historical evidence - Chart I
2. Prospects of post-war national income

	<u>National income</u>	<u>Deposits</u>
1940	\$78	
1946	135 (1942 \$)	
	+ 75%	+ 60%

3. Analytical evidence - how deposits were created - possibility of a reversal
 - A. Loans - Ralph says no if bankers are progressive and forward-looking.

Illustrate progressive banking with current ratio

B. Government securities

- (1) Total - little prospect of rapid or early decline
- (2) Changed ownership: banks as residual owners

- (a) Government agencies — + \$1 billion a year
 - (b) Insurance companies — + $1\frac{1}{2}$ billion
(at the outside)
-

Total \$2 $\frac{1}{2}$ billion

- (c) Corporations and individuals - probably decline

II. Implications of permanently high deposit level for individual banks

- 1. Number of banks
- 2. Some advisers say equal maturity distribution to 10 years

Why have unit banks?

Tailor-made policy

- 3. Others say keep increase liquid
 - A. Negative attitude: prepare for the worst
 - B. Expectation of rise in rates
- 4. REAL QUESTIONS
 - A. How fast and far must rates rise to justify delay?
 - B. What is prospect they will do so?
your judgment

Re A - discuss Chart II

Digitized for FRASER Shorter rates must rise.

- C. No intention of keeping funds idle permanently.

Have intended not to for 10 years.

- D. Chart II assumes worst conditions.
I.e., decline in price

- E. If present level is maintained -
Chart III. Weak and strong spots
in market.

- F. Resulting price history - Chart IV

5. Job of individual banker

To shape policy against this background

- A. Meeting like this can point out
background only

- (1) Higher total deposit structure
- (2) Higher yield on long-term
securities and its implications
- (3) Suggest method of approach for
individual banker

- (a) Analyze position of com-
munity in post-war world.

Many changes in prospect.

CAS on changes to date

Balance of payments factor

- (b) Deposit structure

Why we conducted survey

Results will reach you next
week in Monthly Review

- (c) Prospects for loans
- (d) Investment policy

B

Predictions of things to come - 7-league boots

I. Answers divulged only by Burning Bush

1. The duration of the war in Europe and the Far East
2. Governmental policy with respect to re-negotiation and cancellation of contracts, including rapidity of settlement
3. Governmental policy with respect to stock piles
4. Governmental policy with respect to Government-owned plants and facilities
5. Governmental policy with respect to demobilization
6. The tax structure

II. Reasonably certain

1. The total deposits will be far higher than before the war.
2. Federal Reserve will have larger amounts of short-term Government securities.
3. Taxes are bound to be on a permanently higher level.

Total, say, \$15-20 billion a year (interest charges \$4-6 billion; armed forces 5-6 bil.)

In the 1930's expenditures never over \$8 billion.

In the 1920's not over \$4 billion.

4. Prices probably will be higher than in the 1930's.
5. Large deferred demand in the post-war period.
6. Controls will continue for a time.

III. Economic possibilities of our grandchildren

1. Invention irreversible movement
 - A. Industry 3 per cent a year
 - B. Agriculture 1.2 per cent a year
 - C. Variations among industries
2. Can it continue? - Ellsworth quotation
3. The new discovery - latent abilities
4. Options in 1983
 - A. Equivalent of 4 times our real income
 - B. Born too soon?
 - C. No problems then?
 - D. The function of the economist in that era

IV. Summary

A principle of sound living - Watkins quotation