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THE FUNCTIONS OF MUTUAL SAVINGS BANKS
IN A GROWING ECONOMY

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Mutual savings banks were originally established to serve both individuals and the public welfare. Because the institution of mutual savings banking was wisely conceived, it grew, prospered, and spread.

General economic conditions have changed beyond recognition in the century and a half since the first mutual opened its doors for business; notwithstanding these changes, the influence of the mutual savings bank is still salutary. The chief purpose -- to encourage thrift -- was a good purpose 150 years ago and an excellent objective today. It is an objective that still conforms to the best interests of the individual; and within the framework of current and prospective economic conditions, it is an objective which dovetails neatly with the over-all objectives of economic policy -- price stability, full employment, and sustainable economic growth.

I shall presently discuss in more detail this close relationship between the objectives of mutual savings banks and economic policy. Permit me first to review with you the development of mutual banking. I think this development provides a key to understanding the role mutual savings banks play in a growing economy.

When the Reverend Henry Duncan established the first mutual savings bank in Scotland in 1810, he was in harmony with his age. This "institution operated for the advancement of human welfare through the encouragement of thrift" reflected the most enlightened thinking of the day.

"Whatever . . . we may imagine the real wealth of a country to consist in," Adam Smith had concluded not long before in THE WEALTH OF NATIONS, "every prodigal appears to be a public enemy and every frugal man a public benefactor."

Reverend Duncan and Adam Smith lived at a turning point in history. The world had been one thing and it was changing into something else. In England and on the Continent, century-old customs were being destroyed and new machines and industrial techniques were being applied to the production of goods and services. Agricultural workers were being uprooted from the land and were moving to the burgeoning industrial centers.

For centuries peasant farmers had belonged to the land; but the land had also belonged to them. Advancing commerce and industry were tearing apart the fabric of their old ways of living. These people were in need of new bulwarks against the uncertainties and fluctuations of industrial civilization.

Public-spirited men saw that a savings bank, by encouraging thrift, could help these new workers; it would provide a place in which they could set something aside for a "rainy day." The farmer still frequently welcomed the rainy day; but for the industrial worker the term had acquired a new meaning.

Before the development of mutual savings banks, there was no place where small savers could lodge their savings and earn interest. Individual workers and tradesmen could not save very much; nor did they have the background and experience necessary to invest wisely what they did save. The strategic insight that made the mutual bank a successful institution was that the savings of small savers could in total be very large -- certainly large enough to be put to use in a capital-hungry economy. And if they could be put to use, these savings could earn a return.

A mutual savings bank could then be a reservoir -- collecting the

savings of workers and tradesmen -- and a conduit -- channeling these savings into investments. Adam Smith had seen that in many cases individuals trying to promote their own self-interest, also promoted the public welfare. The mutual savings bank has survived and prospered because it has been an institution that has helped convert the strivings of individuals for security into a public benefit.

As you know, the first mutual savings bank to begin operations in the United States was established in Philadelphia in 1816, several blocks east of where the Federal Reserve Bank of Philadelphia now stands. Today there are mutual savings banks in 17 states, primarily concentrated in the northeastern section of the country. When mutuals were first established in the United States commerce and industry were concentrated in the large cities on the eastern seacoast. Agriculture was the predominant activity in most sections of the country. Beyond the eastern settlements, farmers produced primarily for themselves and not for market. There was less need for mutual savings banks on the frontier. By the time these frontier areas had become sufficiently industrialized and commercialized to support savings banks, other types of institutions had also become interested in savings. The ability to invent new institutions has always been a strong characteristic of American society; and where mutual savings banks blazed a path there was soon a variety of profit-seeking enterprises eager to follow.

But in the areas in which mutuals had their first successes, they have survived and grown. Today there are over 500 mutuals possessing over 22 million accounts. Mutuals still do business with the small saver. The average size of the account is under \$2,000. Mutuals possess total assets of over \$37 billion, of which over \$22 billion are represented by mortgages and over \$7 billion by Federal Government obligations. By virtue of the large number of people with

whom mutuals deal and the large dollar volume of assets, they exert a significant influence on the economy of the country.

From the point of view of attaining our over-all economic objectives, this influence, as I mentioned, is beneficial. When we observe the way our economy has been operating in recent years, the role savings banks play becomes apparent.

Over-all, the American economy has acquitted itself well in the last ten years. Our gross national product in real terms has increased about 35 per cent, or about 3-1/2 per cent per year. Unemployment has been relatively low, averaging about 4-1/2 per cent. We have thus far won at least three battles over mass unemployment and depression. Our economy has shown a remarkable resiliency in adjusting to new conditions.

Our chief shortcoming has been the erosion in the value of money. Our price level in 1959 is about 20 per cent higher than it was in 1949.

With this exception, our record, as I have said, has been commendable. But inflation is a vital exception -- one that can cumulate in importance over time, and seriously undermine our other efforts.

Looking back in the last year of the decade on the price inflation of the 1950's, I get the feeling that we have been rather inflexible in our demands. As consumers we have demanded more and better consumer goods and thereby encouraged high levels of expenditures by producers; as citizens we have required our state and local governments persistently to increase their expenditures to accommodate our expanding populations and our improving tastes; as citizens also we have sanctioned our Federal Government continually to increase expenditures to meet the ever growing demands of national security and other seemingly vital programs.

Because our economy has been operating at levels approximating full capacity during most of the 1950's, expansion of our demands has resulted in increases in prices as well as output.

In this environment, high levels of savings become extremely important. They are important because they help modify the disorderly effects of unrestrained demands upon resources.

Savings represent transfers of purchasing power from one group of spenders to another; they permit expansion in some sectors of our economy by limiting expansion in others. Because interest must be paid for borrowed money, savings are typically invested in sectors which, under the pressure of demand and often with access to technological advances, are expanding rapidly. This is the manner in which we achieve growth in an economy operating at full capacity.

Twenty-five years ago many would have questioned the desirability of encouraging thrift. In the abyss of a great depression it was reasoned with justification that one man's spending was another man's income; and to increase income, it would be wise to encourage spending, not thrift. Of course, savings can also be spent; but they usually are not in a depression.

Conditions have changed extraordinarily since the 1930's. We have learned a great deal in the process about saving and spending. Whatever truth there was to the proposition of the 1930's that thrift is an impediment to economic growth, there is certainly none today. Far from having the problem of too much savings, I think that today we are troubled by too little savings.

Personal savings statistics certainly suggest this. Between 1951 and 1958 disposable personal income in current dollars -- the income which people actually have to save or spend -- increased about 37 per cent. Over this same period, personal savings out of this income increased by only about 19 per cent. Incomes increased faster than savings because individuals were upgrading their current standards of living. They were spending a larger proportion of their incomes on consumer goods.

When we deflate these income and savings figures so as to eliminate the effects of price changes, something else is revealed. Over the period, real disposable income increased about 22 per cent. Real savings also increased, but only by about 5 per cent.

While real income increased in every year but one between 1951 and 1958, there was very little variation in the real savings figure. For example, real savings in 1952 were exactly the same as they were in 1958. When we look at the period as a whole, I think we are justified in concluding that in absolute terms total real savings out of income have shown no tendency to increase at all despite increasing real income.

Between 1952 and 1958 our population, however, did increase. On a per capita basis, real savings out of disposable income shows some variation over the years, but in 1958 it was 7 per cent less than it was in 1951, while income was over 8 per cent more. This suggests that individuals and families are actually saving less in real terms out of growing incomes.

While personal savings have been lagging, the demands for funds, as I have pointed out, have been expanding. There have been dramatic increases in the demands for funds in many areas; there have been notable increases in areas in which savings banks have traditionally been active. As you know, we have had a housing boom during the 1950's and, as I have already mentioned, a great expansion in Government expenditures.

The coming decade, most observers believe, is going to be one of growth and prosperity. There are certain fundamental forces that may well make for rapid economic expansion; our population is increasing and our technology is showing unprecedented developments.

I expect that there will continue to be large increases in the demands for funds -- including the funds held by mutual savings banks. Many foresee a

building boom in the late 1960's and it would be unrealistic to expect a curtailment in the demands for funds by governments.

If we are to accommodate these demands and grow without inflation, it is of great importance that the historic objective of the mutual savings banks be fulfilled.

The savings bank, as you can see, has an important function in a growing economy. Mutual savings banks can also contribute in another way. Traditionally, mutuals have secured funds from people with modest incomes. To the extent that these people spend an exceptionally large proportion of increases in their incomes, we can strike an exceptionally effective blow against inflation by persuading them to increase their savings.

I want to underline the urgency of the need to maintain a stable price level. We may well be at a crossroad today. If we permit the price level to resume its upward course now, we shall probably find it infinitely more difficult to contain inflation in the future.

Once people begin to expect a rising price level, they do things that make it inevitable. If they are afraid that prices will rise next month, they have a real incentive to make next month's purchases this month. They have an incentive to trade money for goods, real estate, stock, and anything else they think will rise in value. When people think and act this way, prices are certain to rise -- not next month, but this month, and by more than originally expected.

The other side of the coin is, of course, that rising prices make it increasingly difficult to convince people to save. The "most striking consequence of inflation," J. M. Keynes wrote thirty-five years ago, "is its injustice to those who in good faith have committed their savings to titles to money rather than to things." We cannot expect people to save if we permit their savings continually to lose value.

If mutual savings banks and other interested institutions can encourage savings today, it will be that much easier to persuade people to save tomorrow.

Taking all this into consideration, I am happy to see a growing awareness among some savings bankers of the need to adapt traditional policies to rapidly changing economic conditions. As an intermediary in the savings-investment process, the mutual savings bank is in a strategic position in a growing economy. Performance of this act of intermediation aggressively, efficiently, and with a view to the requirements of depositors and the economy is a proper exploitation of this strategic position. There is no disputing the remarkable record of success and safety mutuals have enjoyed. The best insurance that this record will be maintained is for mutuals effectively to adjust themselves to the changing times.

With the major problems of the day so pressing, I am sorry to see such a great deal of energy dissipated in internal dissension. The tax issue between mutuals and commercial banks is technical and complicated; and I have no special solution for it. But, as an onlooker, it seems to me that the controversy has thus far generated more heat than light. Many people seem to have forgotten that the country has need for all the savings that both the savings and the commercial bankers can persuade people to make. I think if we could start from this basic proposition a calmer, more judicious, and more effective kind of program could be developed.

As I have indicated, mutuals can play an important role in a growing economy. If mutuals grow, they will in their own course help the economy function well. If the economy functions well, it will generate an increasing amount of savings and mutuals will grow.

Mutual savings banks, as I said at the outset, were originally established to serve both individuals and the public welfare; they still have an opportunity to execute their design.

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