

SUMMARY OF REMARKS  
before the  
Meeting of Third District Congressmen  
with  
Members of the Board of Directors  
and Senior Officers of the  
Federal Reserve Bank of Philadelphia  
at the Capitol  
Wednesday, June 29, 1966

Dr. Willis J. Winn, Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania, and Chairman of the Board of Directors of the Federal Reserve Bank of Philadelphia, opened the meeting by stating its purpose as that of providing a means for the members of the Board of the Philadelphia Bank to put before Third District Congressmen some problems with which they had been concerned. He stated that the Board took quite seriously its responsibilities for helping to maintain a sound banking system and the integrity of the dollar and that in this task they felt it essential to communicate from time to time with Congressional lawmakers who had created the Federal Reserve System and exercised surveillance over it. Dean Winn expressed his confidence in the Federal Reserve System but observed that neither he nor the other directors had a vested interest in it; however, unless and until a different system for providing an adequate monetary structure were created, he felt it was essential that the present one not be permitted to break down at any point by default.

Dean Winn introduced the other directors present: Bayard L. England, Deputy Chairman of the Board of Directors and Chairman of the Board of the Atlantic City Electric Company, Atlantic City, New Jersey; Ralph K. Gottshall, Chairman of the Board, Atlas Chemical Industries, Inc., Wilmington, Delaware; and D. Robert Yarnall, Jr., President Yarway Corporation, Philadelphia, Pa. He then called upon Karl R. Bopp, President of the Federal Reserve Bank of Philadelphia.

✓ The Role of the Federal Reserve Bank

Mr. Bopp outlined briefly the scope of activity of a Federal Reserve Bank, indicating that its President had a concern for international affairs as well as for national monetary policy making. At the same time, he had to interest himself in the economics of his Bank's region, interpreting regional problems to the Board in Washington and relating national policy to the region and to the member banks of the District. He pointed out the difficulty of reconciling different -- but quite valid -- national objectives and indicated the appropriateness of a Federal system to deal with this. In terms of monetary objectives, he expressed great concern

that a city the size of Reading, Pennsylvania, because of withdrawals from the Federal Reserve System, now had the prospect of being without a Federal Reserve member bank.

### The Third District Economy

Mr. David P. Eastburn, Vice President, Research, of the Philadelphia Bank, spoke on economic developments within the Third Federal Reserve District. His remarks are summarized in the attached booklet. Several Congressmen expressed interest in an elaboration of the statistics which were presented, and Mr. Eastburn assured them that he would be very happy to cooperate with Congressional staff in providing such regional material as was available to him. He hoped that he might also call on Congressional offices from time to time to obtain information.

### Banking in the Third District

Mr. David C. Melnicoff, Vice President in charge of the Credit-Discount function, spoke on developments in banking. He pointed out that banks had shared in the boom of the last five years, but that, while the banking system had responded well to the current challenge, recent changes had produced pressures on liquidity positions and stresses and strains within the financial structure had generated some obvious abrasions and complaints.

He pointed out that there were several elements making for a banking revolution within the past five or ten years. One of these is the size and nature of the expansion of banking activity. For instance, loans by commercial banks in the United States have increased over 75% since 1960. (The rate of growth in the Third Federal Reserve District has been closer to 60%, paralleling the somewhat slower rate of general economic growth.) For Philadelphia Savings and Loans, the measure of growth during this period was somewhat slower than this, but it had been considerably faster during the previous decade.

### Pressure on the Banking System

What has placed pressure on the banks is a change in the nature of commercial bank liabilities. In the United States in 1964 -- and in the Third District in 1963 -- commercial bank time deposits exceeded demand deposits for the first time in modern history. Time deposits have grown steadily in proportion ever since. Commercial banks have functioned more as intermediaries in recent years, seeking to recapture some of the business that had been taken from them by specialized institutions; and this has placed them in more direct competition for funds with the savings and loans and mutual savings banks.

As the pace of the boom has quickened and demands for credit have increased, the competition for savings has pushed interest rates upward. The nature of regulatory rules and limitations during the past year or so apparently has enabled the commercial banks to take a larger share of new savings, though it is only very recently that the savings institutions have experienced any absolute decline in deposits. The higher rates, of course, have introduced a new and important element of banking cost.

### Interest Rate Ceilings

A number of questions were raised concerning suggestions that ceilings be placed on the interest rates which commercial banks may pay for savings deposits, in an effort to prevent the diversion of savings from those institutions which traditionally and by law make their major investment in the field of housing. Many have become alarmed at the recent decline in housing starts and attribute it to a lack of mortgage money. Mr. Melnicoff and others pointed out that as the entire structure of interest rates had shifted upward, savers had a number of investment alternatives. A ceiling on commercial bank time deposit rates might result merely in a shift of funds to other intermediaries or users. Moreover, in a period when demand for credit was outrunning available production resources the one way to satisfy all demands, including mortgage money demands, at a fixed interest rate would be to create as much credit as the market desired. This could result in a first-class inflation and the Federal Reserve was resisting it, though it was still permitting a gradual increase in the money supply.

Questions were raised, too, about the previous day's action by the Federal Reserve Board in increasing reserve requirements on certain types of time deposits. Mr. Melnicoff suggested that this action was a response to the recent consensus of the House Committee on Banking and Currency in an effort to warn banks of some of the possible dangers inherent in large scale use of CD's, and an effort to make their use somewhat more expensive.

### Mergers and Withdrawals

In conclusion, Mr. Melnicoff pointed out that technological and personnel problems had placed great pressure on banks, especially smaller banks, which have had difficulty in expanding new types of services made possible by the computer. Some banks have sought relief through merger and the number of banks in the Third Federal Reserve District, as elsewhere, has declined in recent years. Under pressure for increased earnings, some state member banks have withdrawn from the Federal Reserve System and more are threatening to do so. The chief reason for this is the fact that state reserve requirements are generally lower than those of the Federal Reserve System. Mr. Melnicoff said that it was a worrisome thing that there was a

growing number of banks outside the Federal Reserve System whose liquidity problems, should they become acute, could be alleviated by the Federal Reserve Bank only under emergency conditions.

#### An Invitation

In closing, Dean Winn expressed his appreciation for the participation of the Congressmen in the discussion and reiterated the Board of Directors' invitation that they feel free to call on the Federal Reserve Bank at any time. He expressed the hope that the Congressmen would continue to be sensitive to the needs of the monetary system as they are influenced by changing economic circumstances. He did not want to discuss any particular legislation, but indicated the Board's eagerness to maintain communications with the Congress on matters of mutual concern.

✓ - Accepted  
X - Declined

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