BANKING AND THE FUTURE

An address by
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At the dinner meeting celebrating the
Formal Opening
of the new and remodeled Main Banking Office
of Union Planters National Bank of Memphis
Hotel Peabody, Memphis, Tennessee
May 2, 1952
I am delighted to be here this evening to help celebrate the formal opening of the beautifully remodeled main banking office of Union Planters National Bank of Memphis. I would be somewhat more delighted, and I imagine you would be considerably more so, if I were able merely to enjoy this happy occasion without making a talk. I intended from the moment the invitation arrived to come down here for this event, but until a few days ago I did not expect to be required to sing for my supper. You all know how persuasive Vance Alexander can be; and I cannot resist Memphian persuasion.

In all seriousness, it is good to be here. Memphis, of course, is a most important city of the Eighth Federal Reserve District, and Memphis banks have traditionally had close relations with the St. Louis Reserve Bank. Exemplifying our ties with Memphis are these facts: The Deputy Chairman of our Board of Directors is a Memphian, Will Bryce; Vance Alexander, Chairman of the Board of the Union Planters National Bank, is the present representative of the Eighth District on the Federal Advisory Council; the President of the National Bank of Commerce is a former manager of our Memphis Branch and is currently a member of the Board of Directors of that branch; the President of the First National Bank recently retired from the Branch Board; and the manager of the Memphis Clearing House Association is a former manager of our Memphis Branch. We appreciate and highly esteem the helpful cooperation with which Memphis bankers and other distinguished Memphians have always favored us.

A little more than a year has passed since my first visit in Memphis after going to work for the Federal Reserve Bank of St. Louis. During that time I have come here with - to me - gratifying regularity
and have formed many valued friendships in this city of friendliness.
I have always been deeply impressed by the spirit of vigorous but fair
and courteous competition which exists in the Memphis banking community.
It is exhilarating and inspiring to observe and be associated with bankers
and businessmen who in their souls believe that competition is the life-
blood of the American system of free enterprise, and who practice what
they believe in an atmosphere of good will. In that wholesome atmosphere
it is a real pleasure and a privilege, in behalf of the institution I
have the honor to represent, and in my own personal right, to join with
the friends of Union Planters National Bank - competitors, customers and
well-wishers of all kinds - in hearty congratulations upon the completion
of your beautiful new quarters. May continued success and prosperity
be the lot of your worthy institution, and happiness in important work
well done the continued lot of your management and staff.

It is an agreeable coincidence that this occasion may also be
availed of as my first opportunity to welcome the return to the Eighth
District of a distinguished son of the South, who only yesterday assumed
the presidency of Union Planters National Bank of Memphis. Arthur McCain's
homecoming to this great mid-South area is a fitting testimonial to his
affection for the homeland, an affection which remained strong and
undiminished throughout the years. Our good wishes extend to Mr. McCain
in fullest measure.

The foresight which Vance Alexander and his associates in Union
Planters have displayed by undertaking and bringing to completion this
extensive building and remodeling project is indicative of their firm
faith in the future of this area and their determination to continue and
even increase their institution's participation in the growth and
development of this region. Contemplation of their foresight sets the
mood for my further comments this evening, for I want to talk with you briefly about banking and the future.

You know, I am sure, that a great many people – and I suspect even a good many bankers themselves – are unaware of the really strategic role played by commercial banking in our economic organization and business life. We live and do business in a money and credit economy. The wise extension and use of credit make for better economic performance; unwise credit expansion and unwise credit use add to our economic difficulties. Since the provision and allocation of credit are the special responsibilities of our banking system, good banking is a major factor in making possible economic development and a rising standard of living; bad or indifferent banking inhibits economic growth and aggravates instability of values.

Here in the southern part of the Eighth District, banking generally has recognized its strategic role and has done a good job. I have been greatly impressed by the evident desire of mid-South bankers to continue to improve this area and to do their part in making this region grow. At the St. Louis Reserve bank we have been highly pleased to embrace the opportunity to work with Tennessee, Arkansas and Mississippi bankers, through their state associations, in programs aimed at the economic advancement of this area.

However, I said a moment ago that I want to talk about the future. This does not mean that I know or think I know exactly what the future holds. I do not propose to indulge in any economic forecasting this evening. But I do propose to raise, if I can, some basic questions about the future, both near-term and long-term, and to point up some of the responsibilities and opportunities of banking in the periods ahead.

It is always useful, I believe, to get appropriately oriented in
the present position before trying to talk about the future. We must have some awareness of the present and how we got here before future possibilities can take on any real meaning. For that purpose this evening I want to consider the period from the end of World War II to the present time.

We emerged from World War II in the late summer of 1945 with an industrial and agricultural plant of far greater capacity than existed in this country at the war's beginning five years earlier. Though we had millions of men in the armed services, our production had risen tremendously; we had succeeded in preserving a high level of civilian living while fighting and winning a war which constituted the greatest drain on our resources in all our history. A lot of people had been prophesying that with the end of the war would come tremendous business depression. You all know the actual record. Instead of depression, continuing high levels of income, reinforced by huge savings accumulated during the war and rapid credit expansion, led to an unprecedented demand for civilian goods. Instead of depression we had substantial inflation. With the exception of a few months in late 1948 and early 1949, we had practically constant inflationary pressures from the summer of 1945 through the first half of 1950.

Then came the aggression in Korea in June, 1950, and this nation embarked on a major rearmament program. An immediate consequence of that program, or rather a consequence of what we thought the program would be, was an intensification of inflationary pressures which persisted until the early part of 1951. Since that time, we have discovered that we can support a major defense program and at the same time preserve a high standard of living and achieve a gratifying degree of economic stability. In truth, since March, 1951, for slightly more than a year,
we have had a remarkably stable economy in spite of the fact that the defense program and defense expenditures have expanded steadily.

Let us consider three or four figures which indicate where we are economically at the present time. The Federal Reserve index of industrial production is at 222 per cent of the 1935-39 average according to latest reports. The only time that figure has been higher since the end of World War II was in March, 1951 when it was one percentage point higher. Total production for both defense and non-defense purposes is now at a peacetime peak. We are currently spending for defense at an annual rate of about $50 billion. That rate is scheduled to go substantially higher, to about $65 billion, by early 1953. These are sharp increases over the $20 billion rate of December, 1950. We have virtually full employment in this country. Unemployment is currently less than 2 million, substantially below a year ago; and many think this is almost as low as it can get.

But in the face of growing defense expenditures, high production and over-full employment, wholesale prices are today appreciably below levels of a year ago, and consumer prices are not much above levels reached in the spring of 1951. These few figures furnish a thumbnail sketch of our current position and highlight the economic stability we have been experiencing for approximately the last year. With these facts as background, we can now turn our eyes on the future.

There are three basic opinions as to what will happen to our economy in the near-term future, say, during the next 6 to 18 months. One group of observers see further inflation ahead of us and base their case primarily upon an expected reduction in the present rate of consumer saving and possibly an accelerated use of liquid assets in the hands of consumers. These factors, if they should become realities, would lead
to higher consumer expenditures and, running along with the increasing defense effort, would put pressure on supplies and further pressure on prices. These observers also see pressure on prices from the cost side as a result of wage and price increases which may accompany a steel settlement. They expect, with both defense needs and consumer buying increasing, that we will have a continuation of the present high level of business expenditure for plant and equipment, thus generating more steam in inflationary boilers. Some members of this group even expect the international situation to worsen, and point to little or no progress in Korean peace talks. All these things, in the opinions of some, point to nothing but more inflation in the months to come.

On the other side of the road are observers who foresee a decline in economic activity in the near-term future. They expect the defense program to increase, but say that consumer spending will not grow appreciably. In other words, they expect the rate of consumer saving to continue high and liquid assets in the hands of consumers to remain inactive. They also anticipate that business expenditures for plant and equipment will begin to decline sharply after the middle of 1952. To say it another way, they expect private demand to fall off more than Government demand for defense purposes increases.

Between these two extremes a third group of observers expect the increase in Government demand to be offset by rising production, while private demand, both from individuals and business, continues about as it is. Members of this group consequently foresee continuation of present high level stability in the immediate future.

These three views or opinions may be portrayed, I believe, about as follows. All hands agree that we have reached a sort of high-level plateau of economic and business activity, a plateau we have been occupying
for about a year. The first group of observers I mentioned a moment ago believe that from this plateau the road ahead leads on up into the mountains of further inflation. The second group believe that from this plateau the road leads surely downward to a valley of recession. The middle-of-the-roaders, the third group, believe that the road immediately ahead lies on the plateau and neither ascends nor descends from it.

Now as I said earlier, I do not intend to offer you a forecast of the economic situation. My own inclination is toward the middle-of-the-road opinion for the short-term future, but both of the other opinions have something to be said for them, and I don’t pretend to know exactly what is ahead of us.

Not knowing precisely what the immediate future holds, however, must not mean stagnation of thought and effort nor abandonment of planning and development. Progress is not a static thing. Progress is dynamic. It is achieved by men whose eyes are on the future though unable to penetrate it very far. Progress is accomplished by men who, when denied the power to see ahead, are such realists that they busy themselves at preparing for the various alternatives which may reasonably be discerned. This means being prepared to the best of our ability for whatever comes, and it is the hardest kind of work. It is the kind of work that really separates the men from the boys. It is the kind of work that bankers must not only do for their own banks, but must also help their customers do for themselves and their businesses. The soundness and prosperity of our banks and of our whole economy depend to a sometimes unrealized degree upon the ability of our bankers and their customers to meet the exigencies of an unknown future. Let’s see whether we can be a bit more specific in view of our present position on a so-called plateau.

When uncertainty as to future developments is as great as now,
it behooves us as bankers and businessmen to follow policies which offer maximum flexibility. In other words, given the kind of a situation we have at present, it simply is not good business to bet everything including our shirts on a definite forecast of going either up or down, or sideways. Rather it is good sense and good business to be prepared to meet any one of these eventualities. Policies that permit maximum flexibility of action and movement are characterized by two basic factors: caution and imagination. Caution is indicated on two counts. First, bankers should wish to extend credit discreetly and wisely if there is to be further inflation, because unwise credit expansion would add to inflationary dangers. Second, bankers should be aware of the fact that if there is to be deflation, credits which looked good when extended under conditions of stability or inflation may not look so attractive when time of payment arrives.

So I should think that in general the broad principles of the Voluntary Credit Restraint Program should continue to apply. Sound and essential projects should continue to receive financing; non-essential and speculative borrowing should continue to be discouraged. In a situation like the present it is desirable to be cautious about marginal credits and reluctant to crawl too far out on the limb with a marginal producer. Defense contract financing, however, must be forthcoming as needed. If such credits seem marginal from the financing bank's point of view, the availability of the V-loan program should be kept in mind.

The second factor I have referred to as underlying a program of maximum flexibility is imagination. The banker should look to the future
economic needs of his community and his area. Never forget that the man
who is most important to his community, region and nation, is the
efficient producer. Financing that helps make him more efficient, that
helps him grow stronger, is the kind of financing that is both profitable
to the financing institution and useful to the country. Be he farmer,
manufacturer, wholesaler or retailer, the economic strength of our
nation rests on the efficient producer in all his counterparts. Bankers
stand in better position than any other businessmen to discover these
units of strength in their communities and to assist in their development
through sound advice and sound financing.

While emphasizing the need in these times for caution and imagina-
tion, I am constrained to speak of a third essential factor for which I
do not have an apt name. It is perhaps more distinguished for what it
is not than for what it is. My maternal grandfather used to say that
some people of his acquaintance were "do-less". Though I have never
found that word in the dictionary, it seems to me more expressive than
many that are there. I wager that every man in sound of my voice this
evening can think of businessmen of his acquaintance who during the lush
years of inflation have become to a greater or lesser extent "do-less",
who have become accustomed to the idea that skimming the cream of the
business is the regular order of things. They have forgotten how to
employ principles of salesmanship because for too long there were more
people wanting to buy than there were things to sell. Some of them have
forgotten how to extend and collect credits because during the lush years
of inflation the collection problem was not what it used to be. When
the table turns, if it hasn't done so already, these cream-skimmers may
find it difficult to stir themselves out of their lethargy.

Some day, as sure as we sit here, things are going to be different.
When the bloom is off the boom, the price of being "do-less" is going up, and it will become dearer than anybody under reasonably competitive conditions can afford. Now, I do not mean to imply that bankers have themselves acquired "do-less" characteristics. I merely suggest that they would be well advised to give thought to such of their farmer and business customers as have acquired such habits, seeking ways and means of restoring them to the more rigorous but fruitful habits of other days when the antithesis of "do-less-ness" was an essential qualification for success in business, industry and agriculture. I don't know whether this is a problem of the short-run or long-run future or both. In any event it commends itself to my mind as something which may not be adequately covered by the concept of caution and imagination of which I have already spoken.

Now for the longer term - for the next ten to twenty years - it is at once easier and harder to point up possibilities. It is easier because we know that certain trends will keep on working. We can say with some confidence that there will be more and more people in this country, more basic demand for food, fiber and manufactured products, more potential productive capacity, and so on. It is harder because no one is bright enough to foresee precisely what will happen at any given point of time. We can conceivably be in deep depression or in strong inflation ten or twenty years from now. We can be engaged in major war or moving ahead in a peaceful world. All we can really talk about is potentials; what actually will be is hidden from us.

But taking the potentials, we can see great possibilities for this mid-South area. We have here great resources which are far from optimum utilization. We have a growing population. Our real task is to get that growing population engaged in full development and use of
available resources so as to make for higher total income, higher per capita income and thus a higher standard of living. In accomplishing this task the bankers of this area can make a major contribution.

Here, in the long-term period, I would stress mainly the factor of imagination. I do not know just what kind of financing or what amount of financing will be needed over the long-term. I suspect that present techniques may not be adequate to meet tomorrow's needs anymore than yesterday's techniques would meet today's needs. But progressive and aggressive bankers will find ways and means of meeting tomorrow's needs.

As I said earlier, the event which we have celebrated here today is an eloquent testimonial to the faith in this region's future - both short-term and long-term - that abides in the hearts of the people of this area. So long as that faith is kept alive and nurtured by the effort, ingenuity and courage of those who hold it, so long can the reward of continued growth, development and prosperity be confidently expected. I pledge to you that the Federal Reserve Bank of St. Louis stands ready and eager, as it has in the past, to cooperate in your endeavors. We derive tremendous satisfaction from being permitted to have a part in planning and working with you toward your notable achievements.