BANKER OPPORTUNITY AND RESPONSIBILITY

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I am very happy to be here in Knoxville to take part in the opening session of the Ninth Tennessee Bankers Conference. When the able and affable secretary of your Association, Grady Huddleston, asked me to come down here, he told me that I would be permitted to select my own subject. Then he enlarged upon that permission a bit by telling me exactly and precisely what he wanted me to talk about. I could not help being reminded of the story about Henry Ford, when some of his people suggested that Ford buyers might like Model T's to come in a variety of colors. Mr. Ford is reported to have said: "They can have any color they wish, so long as it is black".

As a matter of fact, Grady's suggestion about my subject struck a responsive chord and I was glad to adopt it. You might say that he offered me a choice of one black car, and it was just the car and just the color I wanted. His suggestion was that I contribute to the opening of this Conference by directing your attention to some of the opportunities and responsibilities of bankers. Hence my subject: Banker Opportunity and Responsibility.

It would be relatively easy to spend the next quarter of an hour or so uttering glittering generalities about opportunity and responsibility. I could elaborate upon the sometimes forgotten truth that every opportunity has its correlative responsibility. I could ring the changes on people who plead for opportunities but are unwilling to assume the responsibilities without which they are unworthy of the opportunities they covet. If I had what it takes to be the kind of speaker known as "inspirational", perhaps I might be tempted to assail you with that kind of a speech. But bankers who have come to a great seat of learning for the purpose of improving their service to community and nation through the institution of banking really do not need inspiration. My contribution, therefore, will be one of sober consideration of certain aspects of that service.

You would not be here tonight if you did not realize and appreciate the fact that maximizing service to the community and the nation is at once the opportunity and the responsibility of every banker. What you are searching for as you come to this campus is assistance in identifying specific opportunities and responsibilities which you can take in your firm grasp and translate into the gratifying reality of accomplishment. It is my hope that I can be of some small help to you by casting the spotlight for a few minutes upon three separate but contiguous areas of discussion within which we can discern certain clear and unmistakable banker opportunities and responsibilities. The first two areas are generally applicable to all bankers, and the third is peculiarly applicable to the bankers of Tennessee and the Mid-South.

The first area of which I shall speak is the area of monetary policy. It probably will not be surprising to you that a Federal Reserve banker should place the field of monetary and credit policy at or near the top of the list of things which he likes to discuss. As a matter of fact, recent months have witnessed a widespread awakening on the part of the general public to the importance of monetary policy and its influence on the lives of all our people. The rank and file have been and are anxious about changes in the value of our money; they have begun to search for the reasons inducing these changes; they have become aware of monetary policy as a matter of intimate concern to every individual to whom the purchasing power of dollars is important. Who is responsible for monetary policy making? How is that responsibility being discharged? These questions have been insistently asked in many quarters, including the Congress of the

United States.

Most, if not all, of you are familiar with the recent investigation and report of the Congressional Subcommittee on General Credit Control and Debt Management, with Congressman Patman of Texas as chairman. That subcommittee and its predecessor of about two years ago, the Douglas Subcommittee, conducted most thorough and searching inquiries into the why's and how's of central banking and monetary policy. I commend to your attention two volumes of answers to questionnaires, one volume of the record of oral hearings, and the report of the Patman Subcommittee as being well worth concentrated study. This material and that previously published by the Douglas Subcommittee together constitute perhaps the most detailed body of data and opinion ever assembled on American central banking, its organization, purposes, functions and operations. It is and will be of major value to all students of the subject.

The point I wish to make about all this upsurge of public interest and official inquiry into the subject of central banking and monetary policy is that it has come as a sort of climax to a period in which a new monetary climate was developing in this country. Perhaps I should not say a new but rather a renewed monetary climate. In any case, however we choose to say it, a fundamental and significant change has taken place. It began in a modest way early in the postwar period, and came to public notice in a dramatic way with the Treasury-Federal Reserve accord of early 1951. Since that time monetary policy has taken, or possibly I should say has resumed, a place in the economic scene which it had not been able to occupy effectively for over a decade.

Essentially, this new or renewed monetary policy has meant that demand for credit no longer can be so easily accommodated by the simple expedient of creating more credit. That is precisely what was meant by the easy money policy which obtained during the war and postwar years until early 1951. You all know that during those years the presence of a rigid support policy for Government securities made it possible for the commercial banking system to obtain all the reserves it needed in order to create as much credit as there was demand for. Abandonment of that rigid support policy has meant that new reserves are less available to the commercial banking system and more costly. That in turn has reduced the amount of new bank credit available and in the presence of continuing large demand has resulted in increasing the cost of the credit which is available. What is the significance of all this to you as bankers? It emphasizes a category of your reciprocal opportunities and responsibilities which during the reign of easy money policy had lost much of their importance and significance.

While an easy money policy held sway, while we were living and doing business under mounting inflationary conditions, bankers tended to be less selective in granting credit applications. This was so because attitudes toward creditworthiness undergo inevitable change when incomes are rising and credit is actually overabundant.

At this point we may well pause to reflect and remember that the true concept of creditworthiness is dual; it is actually two concepts rolled into one. A credit is worthy in one sense if it can be reasonably expected to meet and fulfill the specified terms of repayment. No banker is likely to overlook that very often. He may make mistakes of judgment about it, but he will not often be unmindful of it.

In times of easy money and continuously rising prices - that is to say, when inflation is the order of the day and its end is not yet in contemplation - the concept of creditworthiness in the sense of collectibility tends to become dimmer and dimmer. In such times the credit risk that does not look pretty good is a rarity. Money is easy to come by, and collection problems, like old soldiers, "just fade away". Bankers are human, notwithstanding occasional spiteful rumors to the contrary, and their attitudes are apt to reflect the tempo of the times.

Now for the other branch of our dual concept of creditworthiness. A credit is worthy if it will enable the borrower to make a worthy contribution to the community and the nation. Thus the traditional duty of the banker, and indeed one of his highest duties, is to make such allocations of the credit at his disposal as will best serve the community and the nation. This is where judgment, wisdom and courage are required to the greatest degree. When available credit has some limit, the banker's task of selection and allocation calls for private statesmanship of the very highest order. But when money is easy and there is more than enough credit for all, the necessity to make hard and often unpleasant decisions recedes. Under such circumstances the second of our twin concepts of creditworthiness becomes relatively inoperative.

The point I am trying to drive home here, in terms of banker opportunity and responsibility, is just this. We have returned to a more normal money-credit climate, something different than obtained for more than ten years during and after the war. In the money-credit climate now existing, when natural market forces are showing their strength in tighter money and higher rates, it simply is not possible to say that <u>all</u> credit demand which meets only the first test of creditworthiness (reasonable expectation of repayment) can be accommodated. The banker has to resurrect and refurbish his powers of selection; he again faces the opportunity and the responsibility to see that sound credit demands are supplied in order of priority of contribution to community and nation, and, of course, to see that unsound demands are denied. In other words, the banker must return to the traditional dual concept of creditworthiness and govern himself accordingly. Historically, bankers have done this well, but in these changed circumstances some may need to relearn half-forgotten techniques. This real down-to-earth function of bankers today requires skill, know-how and courage to a much greater degree than in the previous ten years.

You may ask how long these changed conditions may be expected to continue, and I must answer that I cannot say. Obviously the general economic situation will be a major factor in determining continuation of tight money or relaxation to easier credit. I do not propose to attempt a forecast of the economic outlook, mainly because I do not have any very certain ideas about it. That, as I see it, is the real point - the outlook is uncertain. You hear various opinions, and I mean informed opinions, that the course of the economy during 1953 will be up (more inflation) or down (deflation) or sideways (stability). 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 all the alternatives which may reasonably be discerned. This means being prepared to the best of our ability for whatever comes. 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. The soundness and prosperity of our banks and of our whole economy depend to a sometimes unrealized degree upon the ability of our bankers to meet the exigencies of an unknown future.

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 may not look so attractive when time of payment arrives.

It therefore seems to me that in general these broad principles should be held in mind. Sound and essential projects should continue to receive financing; non-essential and speculative borrowing should continue to be discouraged. We should be cautious about marginal credits and reluctant to crawl too far out on the limb with marginal producers. Defense contract financing, of course, 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 banker should 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. The economic strength of our nation rests on the efficient producer in all his counterparts, be he farmer, manufacturer, wholesaler or retailer. Bankers stand in better position than anyone else to discover these elements of strength in their communities and to assist in their development through sound financing and sound advice.

Now we come to the second of our three areas of discussion, and I think we can dispose of this one rather briefly. In this area, like the first, the special banker opportunities and responsibilities which confront us are the product of the new or renewed monetary climate of which we have spoken. An important element in the composition of this climate is to be found in the financing needs of the Federal Government. You have all heard or read, no doubt, that there will be a sizeable Government deficit during this fiscal year, that even with our present high taxes the cost of defense and defense related activities is so great that Government will have to borrow substantially. You all know that Government borrowing is most inflationary when it is done through the commercial banking system, and least inflationary when it draws funds from non-bank sources. These points, I am sure, need not be discussed in detail before a banking group; and I assume also that in this company there is no need to labor a point as to the necessity of adopting adequate preventive measures against further outbreak of inflationary forces.

Bankers occupy a strategic position in our efforts to cover the

Government's borrowing needs outside the banking system. They furnish the bone and sinew of the nationwide organization for sale and distribution of Savings Bonds. Their close and confidential relations with their customers are such as to render their encouragement of Savings Bond purchases more effective than exhortation from any other source. It is my firm and sure opinion that this state of facts lays upon the threshold of every banker an opportunity to perform signal service for his Government, and I am wholly confident that such an opportunity to serve must be embraced by all as a solemn responsibility. It is clear that every dollar of the Government's borrowing needs covered by purchases of Savings Bonds by individuals is a dollar which will not have to be obtained through the banking system. To the extent that there is Government borrowing still to be done after all possible Savings Bond dollars have been obtained, bankers can still render great and important service by assisting in the placement of other securities outside the banking system.

Before leaving this area of discussion, we should take notice of the fact that the new money climate of which we have spoken not only stimulates banker opportunity and responsibility with respect to the Government's borrowing but also affords an important degree of assistance in discharging that responsibility. The whole purpose of the change that has been wrought in our money climate is to protect the purchasing power of our dollars. In the sale of Savings Bonds we can today make an answer to those who object to saving money because of fears that money will be worth less in the future than it is now. In our new money climate we can say that if only the threat of large-scale war can be ruled out, the chances are better than they have been for more than a decade that stability of the dollar's value can be sustained. The money climate is now favorable and not unfavorable to saving.

Our third and last area of discussion, as I have said, is peculiarly applicable to bankers of Tennessee and the Mid-South. That is so because it encompasses the growing economy of the Mid-South and especially its developing agriculture.

The advancement of this region in recent years has been little short of astonishing, and yet if one understands what is happening here, there is no cause for astonishment but only for genuine admiration. There is no need for me to analyze the reasons for your progress. You know them as well as I do. Nevertheless I do not desire to lose this nor any other opportunity to take satisfaction from the fact that throughout the Mid-South the institution of banking generally has recognized its opportunities and responsibilities and has done a good job. I have been impressed by the alertness of Tennessee bankers and their eager desire to improve their state. At the Federal Reserve Bank of St. Louis we have been highly pleased to embrace our opportunities to work with you through your state association and with your institutions of learning.

The growth and change which are taking place in the economy of the Mid-South appeal to the imagination and ingenuity of bankers for adaptation of financing techniques to the expanding and evolving credit needs of business, industry and agriculture. Nowhere are these needs more apparent than in agriculture. You are aware, I know, of the changes in farming methods and techniques that have occurred in the last 20 or 30 years. This agricultural revolution is a continuing thing. We must see that it is not interrupted, and as bankers we must see that we do not fail to keep our credit procedures and our attitudes toward agricultural credit abreast of changing conditions and technology.

I would not undertake to write a prescription tonight for the kind or amount of agricultural and other financing that Tennessee and the Mid-South will need in the future. I hope only to emphasize that the bankers of this area, as elsewhere, have to learn and grow with their customers. Bankers cannot fall behind the parade. Indeed they must strive to lead the parade. They must be on their toes to recognize changing conditions; they must be able to interpret those changes accurately in terms of financial requirements; they must be able and ready to meet the new requirements.

The field of agriculture affords apt illustrations. Capital requirements of farmers have been increasing at a rapid rate. Farm production costs have risen in relation to farm capital investment, and the ratio of cash expenses to receipts has been drastically increased. These factors have important bearing on farm financing. Capital accumulation, for example, has not been too difficult during periods of rising prices, but when prices stabilize or turn down, farm capital accumulation and debt service will present problems not only to farmers but to lenders as well. Provision of working capital for farmers is not the same problem today that it was a few years ago. Consider the time when a plantation owner could mortgage his land for enough to finance production of, say, two years' crops, and contrast it with today's situation in which the cost of producing one crop may exceed what the land can be mortgaged for. These things and others lay the problems of agricultural economics right in the banker's lap. They challenge his best thought and his most energetic efforts.

As I conclude I ask you to consider your credit problems in the light of our new or renewed money-credit climate. An easy-money doctrine no longer dominates our economy. In this climate there sometimes may be more demand for credit than can be satisfied immediately on the basis of available bank reserves. Bankers will have to exercise wisely and judiciously their traditional function of determining credit priority. They will have to recall the twin aspects of creditworthiness: that the borrowing will be repaid on schedule and that the borrower will produce the most of those goods and services needed by the nation and the community with the borrowed funds. But there will be credit aplenty, if it is wisely used.

In the Mid-South where regional development and growth rest so largely upon the best use of abundant but as yet undeveloped resources, the banker's task is doubly important and doubly difficult because development requires more credit and involves greater risk than mere maintenance of existing levels of production. In our renewed money-credit climate, where the over-all supply of credit can be less easily expanded than before, the banker's role is likewise renewed or restored. Let me repeat, there will be an abundance of credit if it is wisely used. The requirement of wise use, as I see it, is the challenge that has been flung at bankers by the course of human events. It is a real challenge. It is the essence of banker opportunity and responsibility.

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