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Roy M. Marr

PRESIDENT

FOREWORD

WITH THE APPEARANCE of this volume of *Savings and Loan Annals,* the 65th Annual Convention of the United States Savings and Loan League actually becomes a part of the history of our dynamic savings association business.

This was the thirteenth time that the United States League has returned to Chicago—its birthplace and present headquarters—for its annual meeting. And the fact that the 1957 Convention fell over a weekend gave delegates an opportunity to visit the League offices at an open house which was held on Sunday afternoon, November 24. I am certain that all who visited the attractive and efficient offices and met the capable staff of the U. S. League are more convinced than ever that our trade association is doing an outstanding job for the savings and loan business.

Like its predecessors, this volume contains all the addresses presented before the General Sessions as well as the formal reports of the 20-odd standing committees of the United States League.

This was the third year that our convention program has followed the pattern of scheduling committee meetings in the afternoons of the convention period, with the General Sessions being held in the mornings. This clinic-type committee meeting pattern, at which savings association managers and qualified outside specialists consider operating problems via either the formal paper or panel discussion method, makes it possible for delegates to go away with many helpful and practical operating ideas.

Since the limitations of the convention period make it imperative that several of these committee meetings be held concurrently, delegates frequently are faced with having to choose one of several subjects in which they have a real interest. Because of this fact, we have, this year, included as addenda to most of the committee reports either verbatim presentations or condensations of many of the papers which were presented at the various meetings and in which delegates expressed particular interest.

Thus, the delegate who could not attend all committee meetings in which he was interested at the time of the convention, now has an opportunity to read at least a part of what was said.

Furthermore, appointees to new committee assignments will find the reports invaluable in briefing them on the previous work of the groups and their suggestions for future study. There is scarcely a committee of the U. S. League which is not working on some research or study project which, when completed, will prove helpful to management in its long-range planning.

Those of you whom I have come to know the past year will recall that the need for long-range planning has been a favorite theme of mine. I have urged management to visualize the political, economic and social environment which will surround our business in the next 10 to 15 years and to gauge the long-range effect of today's decisions upon the savings association business of tomorrow. That is why I consider the study programs of our committees so valuable to management.

ROY M. MARR

TABLE OF CONTENTS

NEW CHALLENGES AHEAD

by ROY M. MARR, *President*
United States Savings and Loan League
Memphis, Tennessee

LAST YEAR in Philadelphia you saw fit to honor and entrust me with the duties and responsibilities of the office of president of this great trade organization. It has been a great experience, and a year of inspiration which has passed too quickly.

Doil and I have had the opportunity of renewing old friendships and making new ones as we crisscrossed this nation by air from Maine to California, from the southeast to the northwest, from the Gulf of Mexico to Canada, and also to the states in the plains and the mountain regions. Everyone has been so hospitable and kind. You have made it a year which stands out in our lives and one we will remember always.

I wish that we could have had the opportunity of visiting with more of you, but one short year does not permit a visit to each state, even in this age of air travel. The year has filled me with pride and respect for savings and loan and co-operative bank people, and it is one which I wish I could share with each of you.

JOHN SCOTT SAW THE CHALLENGE

Thirteen years ago this month one of the great leaders of this business, past U. S. League President John F. Scott, stood before us in the ballroom of the Palmer House. He took a good hard look at this business; appraised the mettle of the men and women who then made up the savings and loan business; and, looking beyond the tempest of that time, portrayed a great future of service for the savings and loan business in the postwar period. He predicted a future of great service to be rendered by savings associations to their communities through alert and progressive activities of each community's savings institutions. He foresaw greatest service in accepting the challenge to finance the housing needs of returning veterans and others in the postwar period.

Thirteen years ago, as a corporation executive from another field, I sat in the rear of that hall attending my first annual convention, and I had to agree with John Scott's conclusion that this was a dynamic and resourceful business with an unlimited future and piloted by an outstanding trade organization, the United States Savings and Loan League.

Assets then amounted to $7½ billion and only one state had as much as $1 billion. The net gain in savings that year amounted to about $800 million. Loans for the year were estimated at $1.5 billion and showed a net increase of $250 million. The average dividend rate paid was 2.8%.

There was a war which was being won, and we were beset with legislative and postwar problems that already were becoming visible on the business horizon. America was confident that our private enterprise system could win the war, but there were those who doubted that private enterprise could solve our postwar problems. A profusion of proposals, mostly involving government aid and government participation, were advanced to solve our problems, and most of those adopted proved futile.

How well have we met the challenge of these intervening years?

Those assets of $7½ billion have grown to $46 billion today. The business, which then was not too well known and could only boast of a total of 6 million savers, today is widely known and respected, and serves more than 20 million savers. Today it is commonplace for our business to finance $10-11 billion of home loans each year, and we do from 35 to 40% of all the nation's home financing.

BULWARK OF HOME FINANCE

Of greater importance is the fact that our business is continuously in the home financing business and is the only type of financial business which can be depended upon year in and year out—during periods of easy money and during periods of tight money as well. Certainly the declining participation in home financing by other lenders in the past two years and the shift of their funds to other more profitable channels of investment have helped to emphasize the importance of our institutions as the permanent bulwark of American home finance. I am sure that home builders and realtors, some of whom might have taken savings and loan support of the mortgage market for granted, are more conscious today of our ability to function as a constant source of home credit.

From the beginning of the VA program, the savings and loan business has made approximately $10 billion in loans to veterans, or approximately 25% of the aggregate loans made by all lenders. Furthermore, we would be in that market now in a

substantial way if the frozen interest rate of these mortgages were not so unrealistic as to make it impractical in today's money market.

One of the great accomplishments of the savings and loan business during these intervening years has been its increased stature and acceptance by the public. I believe this increased public recognition is well illustrated by the fact that we have continued to grow rapidly, even though one of the chief advantages over our competitors—the higher rate of return we pay on savings—has been reduced sharply in recent years. In 1944, our savings associations paid an average dividend rate of 2.8%, while the commercial banks paid an average interest rate of only 0.9% for their savings. Today our rate approximates 3½%, while many commercial banks have found it necessary to jump their savings rate to 2½%, and even 3%, to attract savings. And government bonds are being refinanced at 4%. Thus, the difference in cost of attracting money between our associations and our competitors is being narrowed, but the volume of money we attract still remains satisfactory.

RATE DIFFERENTIAL MAY DISAPPEAR

I think it can safely be said that if we continue to hold the welfare of the individual saver in high esteem and continue to serve him well, we will see the day when this difference in rate will be eliminated. The savings and loan business can and will be the pace setter in the savings field.

Now, many of you know that I like to refer to this business as mature, but one which is not growing old, stagnant or complacent. With its problems, the year 1957 has proven the great majority of men and women who guide the destiny of this business to be mature.

We entered 1957 in a spiral of inflation—an inflation which seemed, until very recently, to resist all of the corrective efforts of the Federal Reserve System and, in fact, appeared to accelerate at a more rapid and increasing pace. While there were some segments of our economy which seemed to disagree with and resist the corrective efforts of the Federal Reserve's tight money policy, it is to the credit of the savings and loan business that you recognized the perils of inflation and continuously have lent your full support and cooperation to the Federal Reserve System in its efforts to control inflation.

We took another careful look at the housing situation and saw the inflationary dangers of financing the building of homes under forced draft; and we saw that, under the circumstances, a million new housing units would be adequate to meet the market needs this year. We have expressed hope that the present lull in home building may be utilized by all segments of the housing industry to face up to and work toward a solution of halting the upward spiral in building costs—a spiral which, if not corrected, entails a grave threat to home builders and home lenders as *private* organizations.

THE FIGHT AGAINST INFLATION

As part of its anti-inflation fight, the Federal Reserve has insisted that the credit requirements of our economy be met, to an ever-increasing extent, through individual savings. In order to keep a steady flow of savings into the private mortgage market—a need accentuated by the departure of many of the optional lenders—our institutions have been paying higher dividend rates on savings. To enable our institutions to pay these higher dividend rates, it has been necessary to tighten up a bit on our lending policies and to increase the rate of interest charged on our home mortgages. Through pursuit of these savings and home lending policies, it has been possible for our institutions to aid in the fight against inflation and, at the same time, meet the home-financing needs of our communities.

Inflation and tight money emphasized the problem of withdrawals during 1957. During the month of July we experienced our heaviest withdrawal period, having paid out in withdrawals $68 million more than the amount of new money we took in. The savings and loan business proved its resourcefulness by being prepared with adequate liquidity and proper control of loan commitments, so that these withdrawals created very little concern within the industry or the Federal Home Loan Bank System. In fact, few people in or out of our business realized the extent of these withdrawals until sometime later when the data were collected. We can expect occasional periods of high withdrawals like this, and July demonstrated the way it should be handled by our industry. This is responsible and resourceful management at its best.

We have had the usual and customary legislative problems to cope with during the year. Chief among these were the Financial Institutions Act and the 1957 Housing Bill. Henry Bubb, your legislative chairman, served with distinction on the Cravens Advisory Committee which made recommendations to the Senate Banking and Currency Committee, and later Henry represented our business most effectively before this committee. This bill will be considered in the House within a few weeks, having passed the Senate earlier this year. The 1957 Housing Bill, with its many controversial proposals, required considerable time and work on the part of the legislative chairman and the Washington staff. Many of our legislative proposals are of the perennial type and need constant watching and attention.

During the year it was thought timely to advance our proposal to insure the upper 20% of conventional loans. This proposal was made as a result of a study conducted during President Howard Edgerton's administration. Our plan was included as a part of our testimony during hearings on the 1957 Housing Bill, and it since has been proposed in a bill introduced in the Senate by Sen. John Sparkman of Alabama, who has long been a friend of the savings and loan business.

Our relationship with the Federal Home Loan Bank Board and the banking system is on a cordial and cooperative basis. We constantly are working with the Board toward a better understanding of our problems and to find solutions to them.

To serve as the head of your League for a year provides a real opportunity to work with, and appreciate, the fine qualifications and accomplishments of the staff. Under the leadership of Norman Strunk, the League staff has become a cohesive and powerful guiding force in this business and provides you with one of the great trade organizations of our nation. I wish time would permit me to mention all of the fine men and women who make up your League staff and provide us with a high degree of intelligent and loyal service of which we can be justly proud.

The staff always is seeking new ways to provide information and assistance to our members. In addition to the many services now being furnished to you, we are having the Bureau of Business Research at Indiana University conduct a thorough study of the financial requirements needed to house the great population explosion expected in the decade ahead and to determine what new sources of savings may be available to the savings and loan business to meet the heavy demand for home financing which we anticipate will be required of us.

OTHER NEW LEAGUE PROGRAMS

Another study is being conducted for us by a national accounting firm to improve accounting techniques and systems (both mechanization and electronics) for use in the savings and loan business. This study will require at least a year to complete, and we expect that a very valuable manual will be produced for the information and guidance of management.

New and rather elaborate programs will be launched next year to acquaint school faculties with the principles of our business and to disseminate and provide better materials and information about our business for use in public schools.

These new ideas and projects which enable us to do a better job of running our institutions and to expand our usefulness to the American public are, of course, in keeping with the high standards of service and effectiveness those of us in the business have come to expect from our United States League.

While this tradition of League leadership goes back many years, it has been particularly noteworthy in recent years. In one sense, the League is a conservative organization in that it assumes the necessary functions of leadership in opposing the tampering with our operations—as the League did in the 1955 fight to retain independence of the Home Loan Bank Board; as it did in 1956 in the fight against splitting up the Insurance Corporation and the Board; and as it does every year in trying to make sure the government's interest in housing is constructive and appropriate.

In another sense, the League is highly progressive in that it seeks to expand our capacity to serve the American public through such forward-looking programs as the home loan guarantee proposal and countless ideas, suggestions and programs to aid us in serving the public better.

The work of the League has not gone unnoticed by the savings and loan business. During the past five years, for example, our membership has increased by nearly 650 associations, with combined assets of more than $2½ billion. Approximately 90% of the assets in the savings and loan business today, I am happy to report, is held by member institutions of the United States League.

Now, having looked at our accomplishments, the problems which we have solved or survived and the staff which has so admirably assisted us, will you, for the next few minutes, take a look at the future with me?

The reduction, a week ago, of the rediscount rate in a number of the Federal Reserve Banks is an indication that for the immediate future inflationary dangers are over and that we can be confident that the Federal Reserve will pursue a flexible policy designed to keep our economy on an even keel.

Present indications are that new capital expenditures by private industry and business will be reduced somewhat in 1958 from 1957 because of the uncertain business outlook. Then, too, the prospects seem improved for a slightly higher volume of savings.

All this seems to suggest that interest rates have reached their peak for the time being, that more home credit will be available next year and that there will be more competition in the home loan market.

A REAL TEST AHEAD

A completely unknown factor, which must be considered in any analysis of the outlook for interest rates, is the possible impact of the Russian satellites upon spending for national defense. If the defense budget is increased substantially and cuts are not made elsewhere in the federal budget, the net effect will be inflationary. This further adds to the uncertainty with which we face the year ahead.

The entire situation suggests it is time for savings and loan management to move slowly and cautiously and that our institutions are today facing a real test of our resourcefulness, foresight and judgment.

It is now clear that so far as our business is concerned, the advent of tight money and vigorous competition for savings signaled the end of an era. For some time to come, it is clear that the rate of growth or the dollar amount of growth of many of our institutions will not be so rapid as it has been in the past. The savings and loan business is today finding out what the home building industry has found out—namely, that not all segments of our economy can roll forward continuously at full speed all of the time. Some segments of it must slow down occasionally and consolidate their gains. We call this a rolling adjustment, for want of a better name.

I think our business is in that kind of a period now. This has been brought about by our housing needs having been momentarily and temporarily met. It has been brought about by the unprecedented demand and competition for savings by industry for capital expenditure superimposed on top of our expanding installment and consumer credit. Savings just are not being accumulated fast enough.

In times of high interest rates, such as this, we find ourselves with much of our money invested at fixed rates below the current market level, making an adjustment to higher dividend rates somewhat slower than it is in other types of business. This calls for the exercise of good business judgment and the employment of sound business principles.

Much as growth is to be desired on the American business scene, we ought not to let it become a compelling factor in the attraction of money and the establishment of dividend rates. We must always keep the safety of our institutions as our first basic consideration. We must be sure that our lending policies are sound and continue to be so. We must be sure that we do not momentarily forget that we are charged with the responsibility of providing economical home financing for our borrowers, and succumb to the temptation of imposing excessive commissions and charges during this period of tight money. Many of our borrowers of today are the potential savers of tomorrow, and they will not soon forget the kind of treatment they receive at our hands.

WE LIVE IN A GOLDFISH BOWL

We must remember, too, that the kind of decisions we make today in determining the cost of home financing will determine to some extent the kind of atmosphere we operate in tomorrow. The cost of money is today an intensively controversial issue in the halls of Congress. We live in a goldfish bowl and, because money has become a political issue, leading members of Congress are keeping a close watch on the rates and charges involved in lending money, not only by the banks but by our institutions as well. I hope all of us will bear this fact in mind as we make our mortgage loan policies and decisions.

I think, too, we should operate our institutions in a spirit of friendly competition toward each other. We should remember that so far as the public is concerned, all savings associations have the same name and are considered much alike. Thus, whatever hurts one association hurts the whole business. Cutthroat or destructive dividend competition or lending practices should not be indulged in, and our personal pride and vanity should not force us into improper business decisions.

Now I do not mean that all associations should pay the same dividend rate, or that we should operate within the confines of rigid regulations. It is, in fact, distressing to occasionally hear a successful manager express a desire for more rigid regulations because some other executive momentarily has done something of which he does not approve. This is a mature and resourceful business, and we should remember that regulation is the one-way road toward bureaucratic control and the loss of personal freedom. We have only to read our newspapers to discern how quickly we can lose our freedom. Government aid should never be sought to supplant individual ability and individual responsibility of management.

Why should all associations seek to pay the same rate of dividend? Their earnings differ by reason of types of management, lending policies and lending opportunities in their region. Again, safety and soundness must be the basis for dividend rates.

And so we face great challenges in the future—a future of an exploding population in the next decade and a surging economy which will dwarf ours of today. A future of new science and technology which will test our ingenuity to keep up with rapid changes, and one which may severely test our ability to maintain our way of life. A future that can provide a higher standard of living which today probably would seem impossible. We face this future as a mature, resourceful and dynamic business. We face this future recognizing that we have become an important and influential segment of the financial economy, and we are determined to measure up to our responsibility. We face it eagerly and with determination to meet the challenge to provide more and better home ownership with improved plans for home financing, and better and improved methods of promoting thrift and savings.

And again, as in 1944, we face the challenges of the future with confidence in ourselves and with confidence in our system of free enterprise.

LOOKING AHEAD

by the HON. STYLES BRIDGES

United States Senator

Concord, New Hampshire

IN THIS DAY when the basic thinking and the fundamental concepts of our free society are being challenged as never before, it is indeed gratifying to meet with a group of people whose professional calling has meant so much to the growth and development of that free society.

The savings and loan associations, or the co-operative banks as they are more familiarly known in my section of the country, have had a long and honorable participating role in helping this country to reach its present pinnacle of greatness. You are all familiar with the struggles of the early settlers to gain a foothold on this continent. Their almost daily conflict with the wilderness and the savages was succeeded by a long period of conflicts on the part of the great European powers as to who was to control this vast continent. Next came our supreme effort to establish ourselves as an independent nation and the labor pains of evolving an enduring form of government. Finally, with the conclusion of the War of 1812, we were firmly established as a free nation, and we had thrown off the last foreign power that set foot on our soil in an attempt to subjugate us.

It was shortly thereafter that the rapidly accelerating growth and development of our country began, and it was in this period, 126 years ago in 1831 in Frankford, Pennsylvania, that the savings and loan business began in this country. Like many of our early institutions, the background of savings and loan institutions was found abroad in the English building societies and the German *bau vereins*. However, as was equally true of other borrowed types of enterprise, the American spirit of development and improvement soon took over, and these associations acquired characteristics of their own which soon distinguished them from their European counterparts. Thus, today the savings and loan associations, as we know them, can be truly said to be American products.

Savings and loan associations are founded on the principle of encouragement of two of the most fundamental needs in the establishment and development of a strong society. These are the needs of thrift and home ownership. Without the encouragement of individual thrift and home ownership, political democracy would be meaningless. It could not exist in the form we know without the strength of these foundation stones. So important do I think they are that I am willing to predict that a society in which these incentives are not recognized is doomed to failure. The lack of opportunity to fulfill these individual human desires is the great underlying weakness of communism.

The strength of the savings and loan principle is that its backbone is the very backbone of the country itself—the great middle class, the modest savers and investors, the zealous owners of the average home. A further strength is that of mutuality, which results in maximum interest rates to investors coupled with minimum interest rates to borrowers. The gilt-edged security of the American home, with its strength and diversity, furnishes the final ingredient of success—low loss ratio.

The public nature of savings and loan institutions has long been recognized by the fact that they are government-chartered. At first they were chartered by the states and they still may be; however, since 1933 a charter from the federal government may be had if desired. The importance of these institutions in the economic blood stream of the nation was recognized in 1932, with the establishment of the Federal Home Loan Bank System to provide services similar to those provided by the Federal Reserve System for the commercial banks. Since 1934, modeled after the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation has been available for insuring the accounts of federally chartered institutions and of those state-chartered institutions which care to apply and can meet the qualifications. I want to assure you that I will continue, as in the past, to be wary of any legislation which might be a hindrance to, and sympathetic to legislation designed to help, the great public financial service which you represent.

COMMUNISM ULTIMATELY DOOMED

I have already voiced the prediction that an organized society which suppresses the incentive and denies the human urge for individual savings and individual ownership of homes and other property is doomed to failure. I believe, as you do, in the encouragement of such virtues which are absolutely fundamental in a successful social organization. But we have seen some pretty awesome structures built on inadequate foundations. They

tower, glisten and impress. The basic weakness is not readily discernible because of the tinsel overlay. Such is the Soviet Union today, but we would be stupidly complacent if we sat by unmindful of our own structure while waiting for the Communist house of cards to come tumbling down.

Mark well that when the Communist structure starts to totter, our own will be in mortal danger. The frantic attempts of the Kremlin masters to shore up their crumbling structure could well involve the whole world. We can all remember the satanic excesses of Hitler in the death throes of his empire. They would be as pale, in comparison to the wild struggles of the Kremlin dictators, as the conventional bomb of World War II compared to the atom or hydrogen bomb of today.

Lest some may think I overpaint the picture, consider what unconscionable acts we have been able to observe when even small cracks have appeared in the structure. The purges within the Kremlin itself we can write off as dictators merely devouring each other in the struggle for dominance. But what about the ruthless blood baths of innocent people whose only sin was following the human urge for freedom and dignity?

No one's memory is so short as to have forgotten the Hungarian bid for freedom, the anniversary of which occurred on the fourth of this month. Tanks in the streets mowed down bystanders and freedom fighters alike until the gutters literally ran red with the blood of those unhappy people, who sought to enjoy the sort of life which we daily take for granted.

In order to chink up cracks in the structure, the Kremlin dictators can be equally ruthless with their own people. Let us span the memory of a generation to show that the pattern has always been the same. This story is interesting, too, because it involves the same Nikita Krushchev who talks of peaceful coexistence, his concern for human welfare, his pride in the superiority of the Russian scientific mind raised up in the Communist system of government.

In 1932 and 1933, cracks appeared in the structure when the people of the Ukraine, following natural human instincts, resisted the attempt to collectivize their farms. The plan was failing so the Kremlin masters engineered a manmade famine as the clincher for collectivization. No exact figures are available on how many starved to death as a result of the artificial "famine." Conservative estimates say 4½ to 5 million, others say 6 million. The engineering genius and the administrative efficiency behind this infamous page of history was that of Nikita Krushchev.

With such people in control and attempting to carry out the Communist objective of world domination, aided by the technical potential exhibited in the ability to launch earth satellites, who can doubt that we are in mortal danger? The threat to survival has never been more imminent, not only for this country but for the whole free world, which looks to the United States as the only capable deterrent to the Soviet colossus.

Britain's Prime Minister MacMillan, bidding for closer NATO co-operation, has said: "Never has the threat of Soviet Communism been so great or the need to organize against it so urgent." President Eisenhower, in his recent report to the nation, gave the somber warning: "The Soviets are building up types of power that could . . . damage us seriously." It must be made clear to all that the Soviet emphasis on technology, the intense preoccupation with the build-up of the potential for aggression, constitutes the most sobering challenge we have yet to face. How well the challenge is met will determine whether and when we regain technological supremacy, which now looms as the very price of existence itself.

We are in the midst of a Geophysical Year encompassing the calendar years 1957 and 1958, in which the scientists of the world were supposed to unite in special efforts to take giant strides in technical fields. Fundamental to the effort was the exchange of information and ideas. There were undoubtedly some who looked upon Sputnik I as Russia's contribution to the international effort. However, whether one took that attitude or the attitude of the more serious implications, in no way could the achievement be classed as a "silly bauble," as was done by one top Administration spokesman. Certainly for that individual, as well as any of like mind, I trust that the launching of Sputnik II was a thorough, if belated, awakening.

STOP-GAP MEASURES FOR SURVIVAL

Let us now look at what we have done to meet the challenge on which our survival depends. Immediately, when it became apparent to me that Sputnik I was no accidental phenomenon, and after a briefing by our top military and scientific minds, I announced a stop-gap three-point program.

1. *A congressional inquiry to obtain definite answers in regard to our whole rocketry and satellite program, with emphasis on ways and means to regain supremacy in the shortest possible time.* I pointed out that this was no time for backbiting and name-calling because the situation is so serious as to far transcend partisan politics. The emphasis I felt must be in the direction of constructive objectiveness. The investigation has been undertaken under the leadership of the able Senate majority leader, Lyndon Johnson, as chairman of the Preparedness Subcommittee of the Armed Services Committee; he has expressed himself as being in accord with my views concerning the conduct of the inquiry.

2. *The appointment of a coordinator of our whole program for the development of rocketry and satellites.* The purpose of this was to have the responsibility under one head, not only to get the program rolling in higher gear but to insure the most judicious spending of money in a stepped-up program. The appointment by the President of President Killian of the Massachusetts Institute of Technology brings to the program not only a foremost scientist, but, equally important, a peerless administrator. It will be my continuing effort to see that his authority is extensive enough to make him responsible only to the President and the Secretary of Defense, in accordance with my original stipulation.

3. *An immediate equipping of our own overseas forces and those of our NATO and Baghdad Pact allies with our short-range missiles, which carry atomic warheads, and with our intermediate-range missiles, which will carry them when available.* Moved into our forward defensive ring, these, together with the terrific striking power of our Strategic Air Command, would give us a "Sunday punch" superior to Russia's, even if she has tested a practical intercontinental ballistic missile, and would enable us to checkmate for the time being any aggressive ideas which the Soviets might have in the exuberance of their recent accomplishments. The implementation of this third point would be highly classified as to detail. I am gratified by the plans now under way in regard to it.

LONG-RANGE PROGRAM FOR SUPREMACY

So much for a short-range stop-gap program. What concerns me now is the long-range prospect. It will never suffice that we be satisfied merely to checkmate with a stop-gap program. We must strike out for absolute, unchallenged leadership by a clear and substantial margin for as long as we want to be the foremost power in the world. For anyone who has the welfare of this country and the free world at heart, that would be forever.

Although we all agree on the objective to regain and retain leadership, disagreements will develop on the methods. The great debate of the coming session of Congress will revolve around the means. The battle lines are already forming. On the one side are those who feel we can spend our way out of any difficulty. Just pour out the money and let inflation, unbalanced budget and rising debt limits take care of themselves. On the other extreme are the stand-patters who say that our research and development program needs no overhauling, that we are proceeding on schedule and that leadership will from time to time change hands depending on when particular programs reach completion.

As usual, the answer isn't as easy as either extreme would make it. First, let me make my own position clear. I believe that we must exercise extreme care that the halt to inflation now in evidence is not upset by any crash program of unbridled spending in the research and development field. Recently I went on public record as willing to support increased spending, if necessary, of $1 to $2 billion in the next fiscal year for a stepped-up research and development program for rocketry and satellites. On the other hand, as one of the leading free-enterprise and economy advocates in my twenty-one years in the United States Senate, I believe we can have security for our country without sacrificing our economic stability. I think it is clear to all that the cold war is being fought equally vigorously on the economic front. Our collapse on that front would serve the Communist cause as well as continued superiority in technology.

As ranking Republican member of both the Senate Armed Services Committee and the Senate Appropriations Committee, I am acutely aware of the need to strike a balance between economic stability and military superiority based on a matchless technology. I believe we can have both; indeed, it is vital that we do have both.

Let us first look at the economic picture. It is generally good. We presently are in a leveling-off period, which I think is a healthy sign. Creeping inflation must be stopped, and a leveling off is one of the best ways of accomplishing it. The galloping inflation which cut the value of the dollar in half between 1939 and 1952 was stopped when the present administration came into power in 1953. The very slow creep since then has not been of serious proportions, but it has been irritating and should be stopped. Economic reports released within the last few days indicate that it has been.

SUPREMACY ON A BALANCED BUDGET

We have been presented three balanced budgets in a row by the present Republican administration. I shall be disappointed if the fourth is not persented in January, despite whatever increases for missile and satellite development may be necessary. I will tell you why I think it can be.

You will recall that after several years of Eisenhower budgets, sharply reduced from the Truman high, the President last year submitted a budget which, although balanced, started rather sharply up again. It seemed to me that with gross national productivity at an all-time high, and with federal tax income at an all-time high, there should be a greater anticipated surplus for June 30, 1958, than $1.8 billion. With the uncertainties of budget estimating, that seemed like too thin a margin to guarantee any debt reduction and possibly a tax cut in 1958. It also seemed that then, if ever, we should start putting aside for a rainy day; start building a cushion for unforeseen contingencies. Little did I foresee the contingencies of Sputniks, but it has been good

Yankee philosophy to provide a little margin for that extra emergency effort that inevitably crops up. It is that same philosophy of setting aside in time of prosperity for a time of economic stress on which your institutions are founded; and what is good for the individual is good for that collection of individuals known as the nation.

The program which I proposed last February and in which the President largely concurred as the session progressed, resulted in a cut of approximately $5 billion in new spending requests. Although that figure may be trimmed somewhat by supplemental requests at the coming session, nevertheless there is ample margin for a stepped-up research and development program of the sort I have endorsed, well within the total requests of last year. But this is only the beginning.

The reason I have endorsed, if necessary, a research and development increase of from $1 to $2 billion in the coming fiscal year is that I don't think more than that sum can be spent to good advantage without waste. Regardless of the amount provided, only so much can be used on a sound basis. The figure I have set is more than adequate for the present; but what about the years to come in a vastly speeded-up race for supremacy, with greater costs as we probe farther and farther into space?

A SHIFT IN EMPHASIS NEEDED

We must be prepared for a shift in emphasis on what programs the federal government shall undertake. I don't think the people of this country can contribute much more in tax revenue and still feel that they operate in a free economy. The federal government takes 20% of the national income. The other governmental subdivisions—48 states, 3,000 counties, 16,000 towns and cities, 17,000 townships and 79,000 school, water, sewer and irrigation districts—raise the total tax bill to one-third of the national income. Besides that, we have a national debt of $275 billion, greater than the total indebtedness of all the rest of the world combined and equal to the assessed value of all the tangible property in the country. We can also add an almost equal amount of contingent liability, $250 billion.

Think of these staggering figures and answer for yourselves whether in this coming year of decision, in this debate on ways and means of survival, we can decide to have government as usual. This will be a hard decision to make for those who, wittingly or unwittingly, look upon the socialized state as the epitome of government. If there ever was a time that our time-proven and trusted republican form of government needed free rein to meet the challenge of the day, now is the time.

The effort that many of us have made for some years to get the government out of the area of private enterprise and back into the area of things purely governmental never had greater validity than now. When I was chairman of the Senate Appropriations Committee, we made a survey which revealed the federal government engaging in a thousand different business activities in direct competition with the taxpayers. While I was a member of the Hoover Committee, 3,000 such activities were uncovered. During the present administration, the Defense Department alone has discontinued, curtailed or is in process of curtailing 548 commercial or industrial activities; and 958 other operations are under study for similar treatment. The only legitimate function of the Defense Department in our future stripped-for-action posture is defense.

Another aspect of government about which we must be wary as we gird to meet the herculean challenge is new or expanded programs. In the fiscal year 1958, budget proposals for totally new or expanded programs amounted to $8.8 billion; 350 appropriations items called for increases; 14 new grant-in-aid programs were proposed, in addition to the 53 already existing. Knowing full well that initial costs are only the beginning, in the area of new and expanded programs I wielded the pruning shears most vigorously.

FIRST THINGS FIRST

With the government's financial picture as I have outlined it and with the vital necessity of increased research and development, it is obvious that some of the otherwise desirable programs already authorized by Congress will have to proceed less rapidly than some people might prefer. Some programs will have to be postponed for a while, perhaps forever. First things must come first. The urgency of the moment is survival itself. The people of this country must prepare themselves for a "blood, sweat and tears" type of effort in the nation's behalf.

In pointing out to you my feeling that $1 to $2 billion more could be spent to advantage on research and development in the fiscal year 1959, I have tried to make it clear that the increase can and must be within the framework of a balanced budget. Now I want to make it clear that I do not think the research and development program has been hamstrung or starved for lack of funds in the past few years.

A rather deplorable partisan attempt was launched in some quarters to make it appear that our present lag in rocketry and satellite development was due to a penny-wise pound-foolish policy. Let me repeat: There is not time for partisan politics in the vital job of rebuilding to unchallengeable strength. Remember this, in evaluating the tempests of debate as they swirl around you in the months ahead.

Here are the amounts programed for research development,

test and evaluation for fiscal years 1956, 1957 and 1958: $3.8 billion, $5.2 billion and $5.32 billion, respectively. These figures were originally prepared by the Defense Department for the Congressional Committees on Appropriations and are corroborated by a recent publication of the National Science Foundation. This publication also includes many charts and tables which give as clear a picture as possible within security restrictions of the distribution of and programed expenditures for our various research programs. Nearly three-fourths, or $3.9 billion, is directly attributable to national security; the balance is in fields sufficiently closely related to be important in the total picture of defense.

WHY ARE WE LAGGING IN RESEARCH?

It is human nature, when faced with a discomforting situation, to look for a whipping boy. If we have been alert, if our research and development appropriations have been adequate, why are we behind?

First, let me say that our intelligence sources are good but not perfect. The Iron Curtain is a formidable barrier and the Soviet security precautions are fantastic. We cannot rely on sufficiently accurate intelligence reports to pace our efforts thereby. We must now assume a Russian scientific competency that goes far beyond kidnaped German scientists and stolen United States atomic secrets. We must assume a first-class Soviet scientific capability and therefore run our own front-running race without too often looking over our shoulder.

Next, "our program has been too diverse; we have tried to cover too much waterfront, with the result that the items which should have been pinpointed have suffered somewhat from diffuseness." This is inherent in our form of government, which looks to the improvement of all phases of existence. Our research program is scattered through nine departments and sixteen independent offices; in all, there are fifty-seven research agencies with literally hundreds of separate projects in each one. The time has come to reappraise and re-evaluate.

The problems I am surveying with you seem to fall naturally into the missile vernacular of the day. I have given a fairly detailed treatment of those of immediacy, the short-range and the intermediate-range considerations. Before concluding, I would like to mention the long range, otherwise known as intercontinental, and finally a new range, which I might call interplanetary.

The long range contains all the ingredients of the first two with something added. The "something added" is scientific education. The Soviet satellite break-through is an achievement which goes beyond captured brains and stolen secrets. It points to a thorough education in fields leading to basic research, which appears to be equal or superior to ours.

Let us again turn to the National Science Foundation, which recently held a conference attended by the top men in the field of education and science. Here are some of the findings which none of us can ignore: The price of leadership in education is high and the Russians are willingly or unwillingly paying the price of sacrifice. They have a wider base at the high school level on which to promote higher scientific training, and at the university level their training is comparable to and perhaps in some respects better than ours.

SCIENTIFIC EDUCATION INCENTIVES NEEDED

This is our long-range mission for our ultimate long-range missile: the education of sufficient numbers of our rising generation in scientific fields so that any stepped-up governmental program of research and development can be manned adequately. This is what I meant when I said that no vastly stepped-up appropriation would immediately produce like results. Dollars need trained minds to be effective and to produce results. It will be among my first concerns in the coming session of Congress to explore the possibilities of a federal system of scholarship incentives or a revolving loan fund to further scientific higher education. Any number of minds trained in the free enterprise system will always be superior to an equal number slave-trained under communism.

Finally, in the interplanetary range are the moral considerations. We are a God-fearing, peace-loving nation that has never fought a war of aggression. Those are indelible truths which the whole world, slave and free, has observed for years. In the long range, we must expand and emphasize our moral position. With scientific supremacy in our hands, there could be no honest fear of missile mastery, rocket ascendancy or satellite superiority, because of our moral position. Those advantages in the hands of this nation would be used for the benefits of the inhabitants of earth and of the neighboring planets, when such interchange may become feasible. In the hands of a benign power such as our own, the ultimate secrets of the universe must rest.

In summary, may I emphasize these points:

1. The survival of this country is the most important consideration of every American.
2. The struggle for survival is now at a dangerously grave point.
3. The Soviet determination to dominate, by whatever ruthless means, is abundantly evident.
4. The best cooperative free world efforts are necessary for success in the struggle.

5. There is no room for complacency or for those who would take partisan political advantage.
6. Russian duplicity defeats the fullest realization of the Geophysical Year.
7. A stop-gap program holds the fort.
8. We must and can regain supremacy within the framework of a balanced budget.
9. A reappraised and redirected research and development program will be adequate for the task with relatively small increases in expenditure.
10. Scientific education incentives must be furnished for long-range supremacy.
11. There must be greater emphasis on the moral position of our country and the spiritual rededication of its citizens.

These are indeed grave times, but they are times to stir men's souls and challenge their imaginations. I believe with Dr. Killian, our rocketry and satellite coordinator, that our time calls for "a sense of urgency without despair." The same spirit of determination which carried us through the troublesome times of our early history will carry us through the present. Make sure it *is* the same spirit.

The same human need for a sense of dignity and accomplishment which your present great type of enterprise recognized in its humble beginnings at Frankford, Pennsylvania, 126 years ago is the same drive which will ever keep this nation foremost in the world. The nation, like your organization, has had its temporary setbacks which only served to spur it to a greater determination for success. Successful this nation will be in the pursuit of the same virtues and goals that spark your organization.

A LEGISLATOR VIEWS OUR AMERICAN ECONOMY

by THE HON. ALBERT RAINS

United States Congressman, 5th District

Gadsden, Alabama

As CHAIRMAN of the House Banking and Currency Committee's Subcommittee on Housing, I am well aware of the great contribution the savings and loan industry is making toward a better housed America. I am also aware of the fine work you are doing in encouraging thrift. It is no secret that you are the largest single source of home financing funds and that, as such, you not only have a public-spirited interest in housing but also a very definite and considerable financial interest. So, as I address an industry which finances better than one out of every three home purchases made in this great nation of ours, I feel certain we have a mutual interest in our nation's economy and, in particular, our nation's housing.

In looking over the record for 1957, I find that the savings and loan industry continues to be the leader in the field of home financing; and I note that while other lenders' activity in home loans has dropped off 10 to 20%, the savings and loans' lending volume remains nearly as heavy as it was in 1956. I am sure that the slight drop of a few percentage points in your lending volume was due chiefly to the drop-off in new savings coming to your institutions.

INVITATION TO A RATE WAR

I spoke out strongly against the Federal Reserve Board's action about a year ago which permitted commercial banks to pay 3% on time deposits. In my judgment, this move contributed as much as any single factor in reducing the savings inflow into

your savings institutions this past year. I opposed it because it would inevitably put heavy upward pressure on interest and dividend rates. It was, in my judgment, an unwise invitation on the part of the "Fed" for a competitive rate war between different lender groups. Just the other day in Washington I read where a number of local savings and loan associations were thinking of the necessity of raising their dividend rates from 3½% to 4%. There is no question in my mind that they were brought to this juncture by the need to maintain their competitive relationship with local commercial banks.

I also opposed the Fed's action because I know that every dollar which is attracted to your association means a dollar which will be lent for the purpose of buying or repairing a home, whereas the same dollar, if placed in a commercial bank, would result in 30 cents or less going toward home financing. This does not mean that I do not recognize the essential services that commercial banks perform and the need for those institutions to have time deposits. I am simply pointing out the cold fact that when it comes to home financing, the savings and loan dollar goes more than three times as far as the dollar in the commercial bank.

During this past hectic session of the 85th Congress, my committee held prolonged hearings on housing legislation in general and on many specific matters which are of direct interest to you. I did not see eye to eye with all of your recommendations, nor did you agree with everything I proposed. In general, however, I think we will agree that both the Congress and your industry are continually working to come forth with the best housing legislation possible for everyone concerned. I think this desire for improvement is clearly evidenced by your United States Savings and Loan League proposal to permit more liberal conventional financing in the housing field. The plan, as it was explained to me, seems to have much merit; and while I have not personally made a detailed study of it, I can assure you that my staff has been studying it over for the past several months. In this connection you may be sure that your Washington representatives, headed by the very capable triumvirate of Steve Slipher, Bert King and Glenn Troop, have not been asleep at the switch.

To me, this proposal is a concrete effort on your part to come up with a specific plan to make home financing on a conventional basis available to additional millions of American families. I assure you that our Housing Subcommittee will give your suggestions every consideration and I personally feel that there is a need—a very definite need, I might add—for some method along the lines of your proposal which would help close the gap between 60 or 70% conventional loans and 95 and 100% FHA and GI loans. As a matter of fact, I think it is imperative that we find a way to help lenders to supply first mortgage financing on a liberal loan-to-value ratio, whether through FHA or some such alternative program as you propose.

DANGEROUS HOME-FINANCING PRACTICES

In recent hearings and studies of our subcommittee, we have documented the unpleasant truth that in many sections of the country home buyers are being forced into dangerous financing practices involving second mortgages or installment land sale contracts. We have found in some areas that a particularly vicious form of second mortgage is being employed—I refer to the so-called "balloon" type second mortgage. This form of secondary financing is truly insidious because it lulls the buyer into a state of false security. By this I mean the monthly payments on his second mortgage are not too severe, because after all they are not sufficiently large to amortize the mortgage over its typical three- to five-year maturity.

But what does the home owner face at the end of this three- to five-year period? He finds to his amazement and shock that he owes almost as much on his second mortgage as when the loan was closed and that, moreover, the remaining principal must be paid in full. Even if he is able to refinance the remaining indebtedness, it will undoubtedly prove costly to him; and should economic conditions be such that his income is reduced or he is out of a job, I do not need to tell you what would happen. He and his family would be out in the street.

In addition to field hearings, our committee has received reports from all over the country through the cooperation of the Veterans Administration, the Federal Housing Administration, the Federal Home Loan Bank Board, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Comptroller of the Currency. And these reports paint a sorry picture indeed. They show that in virtually the entire southern and western regions of our country, these unhealthy financing practices are the order of the day and that they have increased alarmingly in frequency over the past several years—coincidentally, I might add, with the tightening of the Administration's hard money tourniquet.

Now, I recognize that there is nothing illegal about most of these financing schemes. I recognize further that institutions such as yours do not make the second mortgage financing available. But I am sure you will agree that where builders are taking back second mortgages on a volume basis, the lender cannot be unaware of the existence of the practice. I think you will agree, too, that any lender knows that such practices, if conducted on a volume basis, can only lead to potential economic trouble ahead. Apart from the economic misery it might well bring to the home owner, from a selfish point of view it could greatly increase your servicing and foreclosure costs.

Another subject of concern which our subcommittee has uncovered, at least in a preliminary way, is that some conventional lenders are making what I can only regard as excessive charges to the builder and consequently to the home buyer. Again I recognize that the cost of doing business has risen and that lenders have to pay higher rates to attract savings. But I am fearful that some institutions may be going beyond the bounds of restraint and I feel duty bound to mention that if these practices get out of hand we will inevitably hear proposals for remedial legislation on Capitol Hill.

I think that as a very first step your industry, as well as other lender groups, should undertake immediately some campaign designed at self-policing to introduce a measure of restraint into these two problem areas—namely, the growing prevalence of second mortgage financing and the increased reports of excessive financing charges against the builder and home buyer. I hope that the private lending industry can, through its own initiative, at least scotch the worst features of these practices.

MORE LIBERAL HOME MORTGAGE LOANS

The answer, it seems to me, lies in finding ways to encourage lenders to make long-term first mortgage loans on a liberal basis so that home owners can buy with a modest down payment and with reasonable financing costs.

One avenue for such financing is already open. The FHA insurance program offers, in my judgment, an excellent vehicle to foster home ownership the right way. Indeed, it was the advent of the FHA program under the New Deal which put an end to the terrible second and third mortgage practices which were prevalent in the 1920s and which, in my judgment, were a prime factor in the economic debacle which followed. But as practical men we must face facts and we must recognize that for one reason or another some lending institutions have never taken kindly to the FHA program. In many cases I am sure their reasons are proper, and I am certainly not one who would say that the FHA program is the only answer and that any lender who fails to cooperate is somehow not playing the game.

Since we must recognize that some lending institutions do not fit readily into the FHA pattern, it is clearly a legitimate and desirable goal that we fashion some alternative program which will enable them to make similar type financing available on reasonable terms. That is where the U. S. League's proposal for a guaranteed conventional loan program comes in with perfect timing.

I have not yet studied your program in detail but you can be sure I will do so before the next session of Congress, and I am hopeful that some program along the lines you propose may supply the answer we seek. Let me caution you, however, that a plan such as yours could lead to abuse and that, if such a plan is adopted, each and every one of you will be charged with the responsibility of preventing its abuse. I refer to unconscionable interest charges or excessive discounts, as well as too liberal appraising or overextension of credit. The vast majority of you are conservative businessmen who would use such a plan only to the best advantage of all concerned. Unfortunately, however, in any large group there are always a few individuals who will not look at the over-all picture; they will simply take the greatest possible advantage of any given situation. You in the savings and loan business have a public duty and responsibility far above simply making money. Your savers must be fairly and adequately rewarded; about this there is no question. On the other hand, you also have a duty to provide dollars for financing at a reasonable cost to the borrower.

THREE TYPES OF SERVICES

I would like to discuss another subject of vital interest to your industry and indeed to the whole housing and home finance industry. As we all know, the Federal Home Loan Bank Board is considering a proposal which would make the Home Loan Bank System a more effective secondary market.

I am in agreement that the present Home Loan Bank System is not functioning effectively as a credit reservoir for capital-short areas. It was set up to furnish three principal types of services to the savings and loan industry. One was to act as a source of liquidity to meet unexpected heavy withdrawals, and the second was to meet the seasonal requirements of your associations. By and large, the System has worked effectively in meeting these two areas of need.

But in achieving its third purpose—to provide a source of additional funds for areas where there is a deficiency of savings and capital—the System is just not doing the job adequately. Somehow we must fashion a program under which the Banks could tap the intermediate and long-term capital markets. I strongly favor such a program and will give it my wholehearted support. Frankly, however, I am not too confident of the outcome because it is pretty clear in my judgment that such a proposal will run squarely into opposition from the Treasury. The Treasury is apparently jealous of permitting any interference with its preemption of the long-term capital market. But I have been in battles before and maybe we can win this one.

The subject of providing additional credit for home mortgage lending leads logically to another viewpoint of mine which I want to emphasize. I hear from some quarters that the precipitous decline we have suffered in housing construction for the past two years is actually a good thing. It is argued that we have built enough housing, that housing markets have become saturated and that it is a healthy thing to put the damper on housing construction.

MORE HOUSING CONSTRUCTION NEEDED

Personally, I cannot hold with such a theory. In the first place, virtually all of the drop of more than 300,000 units in the annual rate of housing production this year, as against 1955, has come out of moderate-priced homes produced under the FHA and GI programs. In other words, we have had not only a quantitative decline but a disturbing qualitative change in which the needs of the lower-income families are being denied.

All of the figures I have seen indicate that housing demand remains strong and that in a very short time our housing needs will be substantially higher than they are today. Household formation is remaining at a much higher level than many predicted. We have an increasing number of births of second, third and fourth children. We have a truly fantastic population mobility. We have family incomes remaining high. We know that consumers want better housing. We know that slum clearance and highway programs are accentuating the number of removals from the supply of existing housing.

Also we have the incontestible fact that the vacancy rate in housing remains at a rock-bottom figure. Indeed, in the most recent period, there is an indication that the vacancy ratio is shrinking even lower.

In short, we are not meeting our housing needs at the present level of production and as each day passes we are falling farther and farther behind. We must continue to search for ways to increase housing production and to increase the supply of the lifeblood of credit which housing production demands.

We should never overlook the crucial role that housing construction plays in our economy. At a time when many economists and financial observers are beginning to worry about recessionary influences, it would be the height of folly to let our giant home building industry continue to plod along in low gear. We must increase substantially our rate of housing, not only to meet our essential housing needs and to rid our nation of substandard housing but also to supply a solid prop to a prosperous America.

Now I would like to move beyond the narrower field of housing and mortgage finance and talk about certain more basic matters in the general field of economic policy and the role of government in our economic life.

First, it is high time that someone countered the barrage of one-sided arguments and theories on the subject of inflation which are literally saturating the business and financial press.

IMPORTANCE OF FULL EMPLOYMENT

I am sure you have heard many statements of late as to the dangers of inflation and the importance of increased savings as a method of combating inflation. I certainly am no proponent of inflation, creeping or otherwise. My record will bear this out.

I served on the House Banking and Currency Committee during World War II, the immediate postwar period and the Korean War. On that committee and in the Congress during those periods I always stood with those (sometimes in the minority) who battled for a stable price level against certain shortsighted pressure groups. I hope that you will not feel that I am even a little bitter when I say that unless my memory is playing tricks, many who are now serving as field marshals in the present anti-inflationary army were conspicuous by their absence in the battles of 1946 and 1950.

Frankly, I am afraid that too many executives in high places in business, government and the financial world have a preoccupation solely with the inflation side of the coin which amounts to a monomania. Let me give you some examples.

Recently the president of one of the largest insurance companies in America had this to say; his analysis shows a high level of intelligence and intellectual power, but it illustrates the myopia which I am afraid is affecting some of our leaders to an alarming degree:

> ... if we are really sincere in our desire to achieve both prosperity and price stability, we must be willing to accept short periods of price rise in order to ensure high employment, and also *short periods of temporary rise in unemployment* in order to ensure stable prices. (Emphasis supplied.)

He further says:

> At the present time, after over a year of substantial price rise, I believe that we are justified in maintaining a tight money policy, even at the expense of causing some decline in profits, and *even at the risk of a temporary rise in unemployment.* (Emphasis supplied.)

Let me cite another example which I saw quoted recently in the *Washington Evening Star*. The Guaranty Trust Company of New York was reported as saying that the Employment Act of 1946 should be amended to make monetary stability a primary aim of federal economic policy. Presumably full employment, production and income would become secondary objectives in the minds of these gentlemen.

Frankly, I am deeply disturbed by such statements. It seems to me they reflect a complete disregard of the human element in a deflationary policy pursued to the point where unemployment will be the inevitable result. Unemployment does not deal with commodities or mechanical counters—it involves human beings. These human beings have wives and children—possibly fathers and mothers—to support. They have to pay their bills for groceries, clothes and shelter. The payment for shelter may very well be in the form of payment to a lending institution for interest and principal on their mortgage. Unemployment for these people is a stark personal tragedy.

There is always the danger also that business contraction with its accompanying unemployment will feed upon itself. The reduced purchasing power of unemployed workers, many of whom are not under unemployment compensation or do not receive adequate amounts, will so reduce their effective demand for goods and services as to cause further business contraction and further unemployment. We then may find ourselves in a vicious circle. Business faced with reduced profits and sales is forced to reduce its labor force. Unemployed or partially employed workers have less money to spend. There is less demand for the products of industry, and this causes further business contraction and unemployment. Therefore, in your laudable objective to prevent inflation, do not lose sight of this side of the coin. After all, an unemployed worker who cannot make the payment on his mortgage held by one of your institutions does not help your growth or stability. I don't need to tell you that the road to foreclosure is a costly journey for all concerned.

I am not alone in my fears that the present monetary policy, if relentlessly pursued to the end, will cause substantial unemployment. Let me quote from a respected economist who certainly cannot be accused of radical leanings. In a recent article, Sumner H. Slichter, economist and professor at Harvard University, expressed thoughts not often seen in the business press. In talking about a policy of credit restraint, Slichter warns that it can affect rising costs in two ways: by creating a price-cost squeeze and by creating unemployment. He says further:

> A cost price squeeze has much to be commended in times of inflation provided it does not create unemployment, but the deliberate creation or tolerance of unemployment in order to halt inflation cannot be defended. That would merely solve the problems of inflation by creating a still bigger problem—the problem of unemployment.

The professor is not saying that unemployment will inevitably result from the hard money policy, but he clearly indicates the potential danger in that direction which is inherent in the present policy.

Someone with a gift of phrasing has called creeping inflation the pickpocket of prosperity. I think that is a very apt description. But I wonder if the same gentleman who composed that phrase realizes that the other evil—deflation—can be a criminal of an even higher order. Deflation or recession or depression—call it what you will—can do much worse. It does not stop at pilfering a man's wallet; it can actually rob a man and his family of their livelihood, and sear his soul with scars which can never be erased.

AMOUNT OF SAVINGS A DELICATE QUESTION

We hear a great deal these days about the importance of saving. It is important, we are told, because it will make easy our capital expansion and it will help fight inflation. Certainly we can all agree that we need savings. Capital expansion unaccompanied by savings results in a dangerous inflationary condition. You are as aware of this as I am. However, I should like to sound one small note of caution.

There has been a tendency in evidence the last five years—admittedly not too great but still a tendency—to transfer more and more of the national income to those whose income is derived from interest and dividends and away from those whose income is derived from wages and salaries and from the farms. Now, if carried too far, this trend could become dangerous. However, I would not like to see the nation at the stage that it was during the late 1920s when a relatively few families at the top received a lion's share of the national income.

The availability of capital for industrial expansion, even when accompanied by low interest rates, is no guarantee that the expansion will take place. The average businessman is not interested in expanding his plant or his facility unless he knows that there is a market for his products. The farmers and the working man are good customers from the point of view of the businessman. They buy the products that he turns out. If we pursue too far a national policy where an ever larger share of the national income is siphoned off to the higher income groups who draw income from interest and dividends, and who are not really such good customers for automobiles, appliances and houses as the farmer and working man, we may be in for serious trouble.

Clearly, the question of the optimum rate of savings is a delicate one. What is apparantly seldom realized is the obvious fact that savings can be pushed too far. For example, what would happen to our economy if every family overnight were to double its rate of savings? In my judgment, we would be plunged into a serious recession. I readily agree that over the past several years, when business investment has boomed at an unprecedented level, it would have been desirable to have a somewhat higher level of savings. But there are signs in our economy today which indicate that a further increase in the rate of savings might have dangerous repercussions for our economic health.

I think we may be reaching a juncture in our economy which will require the most enlightened cooperation between business, labor and government in order to maintain our economy on an even keel.

Now, in the interests of attaining perspective, I should like to take you back a little in history.

DEMOCRATIC CAPITALISM, THE AMERICAN WAY

At the turn of the century, the air was full of the cries of Marxists and other radicals that capitalism was doomed. It was contended that capitalism contained the seeds of its own destruction. The left-wingers of 50 years ago charged that it was inevitable that the rich would get richer, the poor would get poorer, and our capitalistic economy would expire in a violent convulsion. Instead we find today that the United States is exceedingly prosperous—that while we are not without depressed economic groups, by and large we have attained in this land, through enlightened capitalism, a high degree of national wealth accompanied by a satisfactory standard of living for the greater part of our society.

How has this been accomplished, it is often asked. Both business and labor in the United States, in contrast to many other countries, have for the most part had a progressive outlook. They deserve the thanks of the American people. I feel that our present state of prosperity and lack of class conflict are primarily the results of the foresight of the American people. It is they who, through their agent, the government, have laid down the basic rules under which our economy and our society are to operate. It is the American people who have decided that the farmer shall no longer be required to sell in a free market while he is buying in a protected one and that the economic welfare of the farmer and his family will not be left to the chance workings of the market place. It is they who have decided that sustaining the farmers' purchasing power is necessary not only as a matter of social justice but as a vital matter for the economic prosperity of the entire country.

The American people through their elected representatives have also determined that labor shall be paid a minimum wage and shall have the right to organize and bargain collectively. These decisions have had the effect of guaranteeing to the working men of this country a fair share of our national income. It also guarantees to the businessman that labor will have the purchasing power to buy the products and services which he has for sale. For example, it enables the working man to buy or build his own home, thus providing a use for the capital and savings in institutions such as yours.

The business cycle has not been abolished, but we have devised certain safeguards which will considerably reduce the impact of a decline in business activity. Unemployment compensation comes to mind immediately. So does social security. So does the insurance of bank deposits and savings and loan accounts. I say, thank God for the progressive democratic capitalism we have and thank God that the American people have been enlightened enough to establish it, protect it and cherish it.

Perhaps you may not share many of the views I have expressed. But I believe these things strongly, as a matter of faith, and I felt the irrepressible urge to state them publicly, particularly as an antidote for what I regard as an almost hysterical preoccupation with only one side of our economic problem. Let me conclude by emphasizing that while I may have touched upon some depressing possibilities, I am certainly no Cassandra. The economic outlook, while somewhat murky and beclouded, is, I believe, basically sound. And I am convinced that if we pursue enlightened policies in which government, labor, business, finance and agriculture can cooperate in harmony, the future need hold no fear for us.

THE MYTH OF CREEPING INFLATION

by the HON. JAMES L. ROBERTSON, *Member*
Board of Governors of the
Federal Reserve System
Washington, D. C.

UNDOUBTEDLY YOU ARE quite weary of speakers who point with alarm at a crisis that demands wise and strong action, and demands it *now*! Our country has been facing difficult problems for 180 years; and even though we would hesitate to claim they were all solved wisely, the United States has survived in pretty good condition.

A century ago our national problems were social and economic, as well as political, just as they are today. But as mankind has mastered the machine and thereby has almost obliterated limitations of time and space and has created a most complex and interdependent society, major problems arise more often and must be dealt with more quickly, if they are not to get completely out of hand.

Luckily for our country and the rest of the world, some of the most fearful political and social crises do solve themselves if they are left strictly alone. This is not true, unfortunately, with regard to monetary policy. Day in and day out the national economy is deeply affected by the availability of credit. Lack of a monetary policy would affect economic growth and stability just as powerfully as does the most carefully thought out policy. The only difference is that the former inevitably would do a great deal of damage and the latter can make a major contribution to the country's economic welfare. So when we think about monetary policy, we are dealing with a problem that is fundamental and that cannot be ignored.

A major objective of monetary policy is to maintain the stability—the purchasing power—of the dollar. The billions entrusted to savings and loan associations constitute one of the biggest segments of the savings of the American people, and a shareowner has been badly treated if the money he withdraws will buy significantly less than it would have bought a decade earlier when he entrusted it to your care. Your institutions would be derelict in their duty to shareowners if you took no part in the fight to see to it that the dollars you return are worth as much as when you undertook responsibility for them. And, from the selfish viewpoint, apart from the welfare of the people for whom you are in a real sense trustees, monetary instability always makes saving an unpopular pastime, which is never very good for the success of savings institutions.

Last summer the Senate Finance Committee started an "Investigation of the Financial Condition of the United States," which Senator Byrd described as "the first full-dress examination of our fiscal and monetary policies since the one conducted by the Aldrich Monetary Commission in 1908." The Byrd Committee hearings revealed that intelligent and sincere men in responsible positions hold extremely divergent opinions as to the proper role of monetary regulation in our economic system.

Some, bothered by the recent slackening in our rate of economic growth, feel that maximum production is all-important and that, without worrying very much about the effect on prices, available credit should be constantly increased in the hope that production can also go on increasing.

Others concede that the price level should not be disregarded—that inflation is a "bad thing"—but argue that monetary restraint is the wrong prescription for the ailment. Those unfriendly to the business community accuse administered or allegedly monopolistic prices of being the prime cause of inflation; those on the other side put the blame on labor unions that seek and obtain wage increases in excess of increased productivity. Both groups agree, however, that holding back demand by restraining commercial bank credit is the wrong medicine.

I consider some of these contentions to be what lawyers call "special pleading"—emphasizing the other fellow's responsibility for a bad situation and denying or disregarding one's own part in producing it.

Still others believe our economic system has such a strong built-in "inflationary bias" that nothing can stop the long-term upward trend of prices; and feeling that it is inevitable, they happily discover that it is all for the best after all!

I solicit your sympathy for the unfortunate Federal Reserve System, which cannot adopt any of these relatively simple positions. It cannot discharge its responsibilities by charging labor, management or anybody else with malfeasance. Nor can it accept the view that "everything is for the best in this best of all possible worlds" and float the economy on a tidal wave of Federal Reserve credit until it smashes against the jagged rocks.

There is, in my opinion, a substantial element of truth in the arguments of each of these "special pleading" groups. But recognizing the validity of some such claims brings us face to face with one of the initial difficulties of monetary policy: the difficulty of maintaining stability of prices if price advances in some areas are not matched by price declines in other areas. Price stability does not mean stability of individual prices but of the averages; and it does not mean absolute stability of price averages in all phases of a business cycle.

Some individual price increases must be accepted as inevitable. To grow and attract capital, a new industry may have to offer a better rate of return than can be found in older industries. To attract workers into a new area, a business may have to offer higher wages than those prevailing in settled areas.

But if individual price increases are not to increase the price level, they must be offset by price declines elsewhere. This is where the rub comes. No one likes to see the price at which he sells his goods or his services shrink.

Rises and falls in general price levels are not only inevitable; they are also beneficial in that they tend to prevent the pendulum from swinging too far in either direction.

When a recession begins and demand shrinks, prices go down. That encourages more buying and consequently more employment. When demand begins to snowball during economic revival, prices begin to go up. This acts as a brake on accelerating demand while at the same time it encourages an increased supply that brings the economy back into balance.

It is when prices advance despite adequate supply, as they have in the past year, that the price advance becomes pure inflation. It it this kind of price advance that experience shows is antisocial and undesirable.

Particularly in a boom period, there are almost irresistible incentives and opportunities on all sides to increase the size of one's wedge of the economic pie through increased use of credit, higher wages, higher profits and so on. Experience has proved that it is unrealistic, in such an economic climate, to expect people to exercise self-restraint sufficiently to control the "inflationary bias." Although occasionally an industrial corporation or a labor union performs an astonishing act of economic statesmanship, by and large this is not the rule; that is why the central bank and its monetary policy must perform, in boom times, a most important—and most unpopular—duty.

CAN CREDIT RESTRAINTS STOP INFLATION?

In theory, the Federal Reserve System can stop an inflationary trend in its tracks if it presses the application of its credit restraints hard enough. But if this power is exercised too vigorously or too late, we run the danger of simply reversing the spiral and starting the economy down the other side of the mountain, with unfortunate and untold costs in unutilized capital and manpower. We learned in the '30s that turning a depression upward is somewhat more difficult than restraining a boom.

If the men charged with formulating monetary policy had instantaneous, complete and accurate information regarding the economy and also had the infinite wisdom to evaluate and apply that information precisely, delicate adjustments might be made from day to day that would furnish the country with exactly the amount of credit it needs to achieve our economic objectives.

Unfortunately, information is not available on those terms. Even if it were, no men have the absolute wisdom to understand it perfectly and to make the necessary decisions without error. The most we can do is to get the best information we can as fast as we can, to understand and apply it as well as we can, and to adjust monetary policy to the needs of the country as we see them. The economy is not a test tube into which one can pour controlled and measured ingredients; time and again the formulators of monetary policy misjudge and are compelled to make adjustments later and more radically than would have been ideal, as we see in hindsight.

OUR ECONOMIC OBJECTIVES

A restatement of our economic objectives will serve to correct and refocus our perspective.

First, the basic objective of economic policy is to use our economic resources fully and efficiently. Second, we want to grow in the direction of a higher standard of productivity and of living. Third, we want a reasonable degree of stability in over-all economic activity and resource use. Finally, we want a reasonable stability of average prices.

These objectives may conflict one with another. Growth itself may sometimes seem to defeat the full use of resources. For example, growth is often accompanied by considerable technological change that makes some kinds of capital equipment and human skills obsolete. The unemployment of these obsolete skills and equipment seems to conflict with the objective of using all our resources. Furthermore, growth often makes it harder to achieve stability; the use of new technology may be quite unstabilizing for some sectors of the economy. But in a dynamic economy it is unrealistic to expect straight-line productive growth or absolute stability of economic activity or prices.

When we set out to measure our economic accomplishments, we get differing answers, depending on which of these objectives we emphasize. Only common sense, certainly no mathematical formula, can tell us how to blend these objectives. But the blending has not been shockingly bad in recent years. Quite the reverse. Productive resources have been kept employed, machines have been kept busy and good men have been harder to find than good jobs.

Our economic growth has been quite satisfactory, although the rate of growth has varied considerably from year to year. Sometimes we have made giant strides. At times we have paused to consolidate previous gains. But the meaningful point is that we have a strong drive toward improvement which cannot be impeded for long. The existence of broad and imaginative plans for new and better things gives me great confidence in future growth.

It is hard to pinpoint the optimum level of economic activity. Sometimes we may have gone beyond it. When jobs get too easy to find and profits too easy to make, we lose some of the incentives for initiative, cost-cutting and hard work. My impression is that the performance in this country has averaged out reasonably well—certainly better than in some countries where overabundant economic stimulation and brimful employment have led to slack management and poor workmanship.

OUR STABILITY RECORD

We can also be moderately proud of our stability record. Considering the dynamic nature of our economy, we are bound to have some ups and downs. Those of the postwar decade may not have been too high a price to pay for high-level production and employment, provided we do not become so soft with the "ups" that we panic at the first sign of a "down."

This generally satisfactory performance has been marred by recurring waves of price increases. We can blame World War II and the Korean War for much of this, but the price increases of the past two years cannot be attributed to such nonrecurrent events. Even more disturbing than the absolute increase in prices since 1955 is the creeping notion that continuing inflation is here to stay.

For several years we have seen high production, relatively full employment and, at times, inflation marching forward shoulder to shoulder, like the "Spirit of '76." The majority of Americans "never had it so good." In such circumstances, it is human nature to let well enough alone. Some say that inflation has seriously hurt only a relatively few so far and that if "mild" inflation and abounding prosperity go hand in hand, why should we try to separate them? Even the orthodox concede that the inflation of recent years has acted as an economic stimulant, so why should we deny ourselves a reasonable amount of the stimulant because of the fear—perhaps quite unfounded—that its pleasures will be followed by the agonies of depression? The contention that "creeping inflation" is not only inevitable but even desirable is indeed a very attractive fallacy—a myth in the making—if we do not analyze it too closely.

The hardships inflation already has imposed on millions of Americans are unnecessary and unjustified. But even more important, continued "creeping inflation" is impossible.

PLANNED INFLATION WON'T WORK

There is no way to stabilize inflation. If we should support inflationary developments at any planned rate—creeping, walking, trotting or any other pace—the fact would soon become evident to everyone and would affect all economic calculations. Sellers of goods or services in strategic bargaining positions would insist on price rises even larger than the planned rate of inflation. Buyers would offer little resistance in the belief that prices would be even higher tomorrow.

The American people are rapidly becoming more sophisticated regarding the financial facts of life. If they become convinced that inflation is a permanent part of our economy and that the recent profile of modest ups and downs of economic activity must be overlaid by an expectation of what the economists call secular inflation, we are flirting with danger. The danger is that the pace of the boom will become so violent that it cannot be sustained and a serious depression will result.

The notion that inflation can be held at a creeping speed and not be converted into galloping inflation is false on psychological grounds. Almost everyone feels that he is not adequately compensated for his efforts. The farmer feels the prices at which he sells his crops are too low; the worker, that his pay envelope is too thin; the businessman, that his profit margin is too narrow. I can speak for public servants. With complete sincerity and conviction everyone can argue the unfair inadequacy of his income.

The only way to halt this race to get ahead of others is to erect a barrier that cannot be surmounted. Monetary policy can be such a barrier. It is not surprising, therefore, that monetary action is often unpopular.

Because of the widespread feeling of the inevitability of inflation, the Federal Reserve "money managers" face the particularly difficult and thankless task of piloting the ponderous ship of national economy through the narrow channel between the sharp rocks of inflation and the shoals of deflation. If, on the one hand, we are more responsive to minor evidences of deflation than of inflation, it encourages the belief that we will validate all price and wage increases by furnishing enough credit base to support the higher levels. It does not take a psychologist

to see the effect of such a belief on the minds of those administering prices and negotiating wages. On the other hand, we must avoid pursuing restrictive policies to the point where they bring about a general recession. Recent discount rate actions indicate quite clearly the unlikelihood of that happening.

The prime monetary question, as I see it, is whether the prevailing expectation of continuing inflation can be dissipated without some drastic proof of its long-run impossibility. I hope that people can be made to see this without having it painfully demonstrated.

FINANCIAL INSTITUTIONS CAN FIGHT THE MYTH

Financial institutions such as your savings and loan associations can help in several ways to combat this danger.

First, credit-granting should be based on present price levels and not on the expectation of further inflation. In the postwar period the margin of security behind many credits has been widened by movements in the price level and, in contemplation of its continuation, the amount and terms of credit have been unduly liberalized in many cases. But credit policies that depend on the assumption of rising prices cannot pay off indefinitely.

Next, the aggregate amount of lending should be brought in line with the current rate of savings. Long-term loans should not be made on the basis of short-term borrowing.

Finally, savers should be given assurance that they have powerful friends in the community working to protect their interests. Savers have always tolerated fluctuations in the value of their money. But it is one thing to maintain the savings habit despite occasional unintended fluctuations, and quite another thing—and much less likely—to do so in the face of a planned, indefinite decline in the value of money. Lacking some assurance of protection, they may try to protect themselves by resorting to whatever means they think will do the trick.

Because I believe this fight to be yours as much as ours, I invite you to join the ranks both in fixing the policies of your institutions and in carrying the economic gospel to the American people. This fight may at times put your personal popularity in jeopardy, but in the end the only good money system is an honest one. When the issue is put in this light, there is no other course.

EVERY FINANCIAL INSTITUTION HAS ITS PLACE

by KENTON R. CRAVENS, *President*
Mercantile Trust Company
St. Louis, Missouri

I UNDERSTAND that I am probably the first commercial banker that has been on your program in more than 20 years, and you probably wonder what I am doing here. I am here, first, because I was asked to come and, second, because I want to know you all better and find some way that we can work better together.

At the outset, let me clarify the title of my remarks. It is not my intention to put any particular type of lending institution or financial institution in its place; in fact, it is just the opposite. Each has a very real place, but we seldom take the time to consider the functions that our own institutions perform. The work of the Advisory Committee referred to by Mr. Bubb brings this into sharp focus. Side by side around the table are the many different types of members, each with his own important problems. These problems clearly demonstrate that as our society changes and evolves, the functions performed by the institutions change—sometimes so imperceptibly that we fail to recognize them, although probably more easily detected in types of lending institutions other than our own—and that accordingly we should have more interchange of ideas and information. Let me reiterate, every financial institution, or more particularly every lending institution, has its proper place and its very real problems.

Our important lending institutions are our life insurance companies, mutual savings banks, savings and loan associations, credit unions, and commercial banks. The credit needed to maintain our economy comes primarily from these sources, although any such list probably should include the many governmental lending agencies. The line of demarcation between the functions

of these institutions has become increasingly more obscured. As another result, competition has increased and controversies have arisen.

In my opinion, the controversies have been magnified out of all proportion. Any up-to-date study will show that our lending institutions basically supply funds to their traditional markets. Life insurance companies are still primarily in the field of making long-term credits, as are mutual savings banks and savings and loan companies.

The principal difference between life insurance companies and other lending agencies is that the former mobilize their funds from savings on a contractual basis. These savings are not generally invested in equities but in loans to finance the capital improvements of business and agriculture. These companies have become your investment competition by their activity in the field of real estate mortgage loans. They, too, have their legislative problems, since recently their income has become subject to some form of federal taxation, and present studies may lead to more taxation. These companies play an important role in financing our economy by supplying an enormous amount of funds for industrial expansion.

Mutual savings banks are operating in only about 17 states and on a more or less restricted basis in many of them. As you know, they confine themselves to making real estate loans and investing in high grade corporate and public securities. They have attempted to make their funds available almost on a current account basis for the reason, I assume, of becoming larger.

You may have seen the announcement recently of a scheme devised by two of the New York City savings banks which is tantamount to operating a commercial checking account service. The plan provides for their depositors, in person or by mail, to fill out a withdrawal slip with a list of tellers' checks, if he wishes to withdraw, made out on the reverse side. The bank draws these checks at no charge.

Now, in the first place, no institution can offer demand money and invest deposits in long-term investments and stay solvent. In the second place, the nation's commercial banks are prohibited by law from paying interest on demand accounts. How you can reconcile this plan with the present law and their lack of liquidity is beyond me.

While on the subject of mutual savings banks, I want to express my concern over Congressman Multer's bill, H.R. 4296, providing for national charters for mutual savings banks. This bill provides that the comptroller of the currency would charter and regulate these institutions and sets forth requirements of reserves, branches, and so forth. It would provide a fourth system of federally chartered financial institutions. There is clearly no demonstrated need for a fourth system supplementing the present three, namely, the national banks, the federal savings and loan associations, and the federal credit unions. Personally, I am opposed to this legislation until a need for it has been adequately demonstrated.

PROBLEMS OF THE CREDIT UNIONS

Credit unions are probably the most important among the specialized institutions making relatively short-term loans. I believe their paper is largely confined to consumer installment paper and some real estate loans. While they began back in the middle of the 19th century in Europe and began to be state-chartered in the United States in the beginning of the 20th century, still it was not until they were chartered by the federal government that they began to grow very rapidly. Your own *Fact Book* indicates that their growth was from $100 million in 1936 to approximately $300 million at the end of last year.

The rapid growth of the credit unions has contributed to the problems of competent management, effective auditing control, and unsound loan policy. They have outgrown the examination requirements of many states. They, too, are apparently trying to become larger, and some are advocating the establishment of a central credit union banking system as a source of additional funds.

Commercial banks would not attempt to run a larger bank by borrowing funds from the Federal Reserve System, nor is it desirable for credit unions or other financial institutions to do so. All of these institutions should be dependent on the funds which they secure from depositors or shareholders. There could be no serious objection to utilizing the government lending agencies for emergency purposes, but there would be some for using them as a permanent source of funds. Undoubtedly their continued growth would result in more rigorous examination and financial control by supervisory agencies.

Let me make myself abundantly clear. I have no criticism whatever of credit unions as competitors. I only want them to be strong and to properly serve their loan needs. The very concept of credit unions does not include turning them into a national federalized finance company. You, too, should be interested in their progress and development. It is likewise necessary for them to realize that as financial institutions they have special responsibilities to the community.

NEW FINANCING REQUIREMENTS FOR COMMERCIAL BANKS

To describe the commercial bank system in a few words is virtually impossible. Basically it fills the need of short-term loans to advance the production and distribution of goods and accordingly has incurred short-term obligations of a debtor-creditor relationship.

The gradual changes in our economy over the last 20 years have resulted in new financing requirements on the part of the nation's banking system. Some of these are strong credit loans, term loans to business, mortgage loans to individuals and businesses, common carrier equipment and capital goods, long-term loans, and so forth. It is these new fields that make it quite evident that they are undoubtedly unduly restrictive in accumulating adequate reserves.

The increased losses attendant on this specialized and long-term lending requires higher bad debt reserves or, in their absence, a direct charge to surplus. Notwithstanding the drastic changes in the character of bank loans, it is important to you that the banks still cannot, under any circumstances, compete with you on rates to attract savings.

OUTSTANDING ACCOMPLISHMENTS OF SAVINGS AND LOANS

Now, finally my discussion reaches the savings and loan associations, the fastest growing of all our financial institutions. Purely for background I cite your own statistics, the rise in the savings in your institutions from $7.4 billion in 1945 to $37.3 billion in 1956. The source is your own bankbook.

Also by way of background, you have concentrated your loans in home mortgages and to some extent in government securities and probably have avoided the role of financing the corporate and industry.

This is probably as good a time as any to offer you my sincere congratulations for two outstanding accomplishments of your industry, and I do not refer to your outstanding progress and growth. The accomplishments I refer to have to do with your substantial contribution to our economy.

First, you have been an outstanding strong and constructive force in selling savings to the nation in an inflationary period, a period during which investments have outrun savings and thereby created some inflationary measure. Frankly, I do not know where we would be today if it were not for the outstanding job you have done in attracting and stimulating savings. You have used great resourcefulness in accomplishing this by the erection of fine new office buildings, the use of appealing advertising and high incentives for savings.

Second, you have contributed greatly to one major segment of our economic strength, namely, the construction industry. But more important, you have done it without demanding government subsidies and guarantees. I congratulate you on your high percentage of home loans that carry no Veterans Administration or Federal Housing Administration guarantees. You have set a splendid example, and I am sorry that more of our other lenders have not followed this pattern to the same degree.

It is not my purpose to embark upon a detailed discussion of your business or its problems or those of the commercial banking system. More important to our discussion today are a few specific problems, some of which we have in common. I predicate my first comment on the experience of the commercial banking system in the '20s and on the story of banks that have failed because of unsound practices.

SHORT-TERM LENDING NOT FOR SAVINGS AND LOANS

In capsule form, do not try to be something you are not—namely, a short-term lender—nor try to imply that you are equipped to make payments on demand. Bankers have learned the hard way that we cannot invest demand money in long-term loans and investments. People basically understand the reason that you can pay a higher dividend, namely, because of your higher yield on long-term investments and because they are equity holders and not creditors.

Believe me, there is nothing inherently wrong with being an equity holder; in fact, it probably has a great deal more appeal than a debtor-creditor relationship. It is possible that your fast growth and your desire to pay a higher dividend rate may have adversely affected the quality of your investments in your loan portfolio. It would be well to remember that your period of greatest growth has been in the years of postwar expansion. You would undoubtedly need all the reserves possible if a sharp collapse in business should occur.

It is most fortunate that you have such a great latitude in building reserves, and it would be well for you to take the fullest possible advantage of it. Remember that the savings and loan institutions have become such an important segment of our financial community that we simply cannot stand a high percentage of failures, whether or not the institutions are insured. A large number of failures would undoubtedly have dire consequences and a chain reaction could very well set in.

I have previously described the new and far more hazardous extension of credit by the commercial bank system, and the system's lack of allowable reserves for losses. In your case you have ample allowable reserve limitation, and your problem is to fill it up to the limit. The banks' problem is to convince Congress to permit them to have adequate allowable reserves and then fill them up as fast as possible.

By contrast, the banks are yearning to siphon their earnings before taxes into reserves, whereas there seems to be some reluctance on your part to fill up your allowable reserves. Unfortunately, some of our commercial bankers forget that our real objective is adequate reserves and want to achieve a competitive parity with you by reducing your allowable reserves. I cannot think of any more unsound approach to the problem. I am convinced that the great preponderance of the nation's farsighted bankers know that the only real answer to the problem is congressional approval of higher allowable bank bad debt reserves.

True, my good hometown friend, Congressman Tom Curtis, introduced a bill to reduce your allowable reserves. He has, however, assured me that this is only for the purpose of stimulating hearings on the whole problem and that he is most anxious that both types of financial institutions have adequate reserves. He hopes through such hearings before the House Ways and Means Committee that a good climate will be produced to approach constructively the banks' bad debt reserve problem. He has not particularly solicited bank support for his legislation, nor do I think there is an intention on the part of organized banking to support it. This does not mean, however, that some individuals may not actively support the bill. But Congressman Curtis assured me just a few days ago that he has no intention of personally pushing it in its present form.

COOPERATION BASED ON SINCERITY AND ETHICS

This whole area of adequate allowable bad debt reserves is one that we can and should work together on. Both institutions must have adequate allowable bad debt reserves if we are going to do an effective job of financing our nation's economy and needs. Working together on this problem and on other common problems is not a matter of merely giving lip service. It is a matter of sincerity and ethics.

These remarks are applied with equal force to my fellow bankers as well as to you friends here today. First let us be careful of our terminology. Many times it is little things that irritate the other party, such as savings and loan companies using the word "bank." On the other hand, there are the attacks by a few bankers on your insurance program as being inferior to that of banks.

Time doesn't permit the enumeration of the many things, big or little, that fall into the category of unethical. There isn't a member of your organization or of a single bank that doesn't actually know down deep in his own heart when he is being unfair and unethical. If we all tried to approach our competitive problems with sincerity and ethics, a better understanding would result. Actually the banks and the savings and loan companies are competitors only in one or two major areas: that of attracting savings, mainly; and in deflationary times, when we are seeking investment, we probably compete to some extent in seeking real estate home mortgage loans.

On the other hand, every one of you is a customer of some bank. Personally, I value highly the account relationship the banks have with the savings and loan companies, and in my own case I only wish we had more.

All of this adds up to the fact that by better cooperation we can help not only our own institutions but can contribute more to our economy and, probably equally important, can resist the constant pressures for more bureaucratic supervisory control.

Mr. Bubb referred to the latter problem. As chairman of the Advisory Committee I remember that I was literally shocked by some of the requests made by the Federal Home Loan Bank Board for additional controls over savings and loan companies. What occasioned these unusual requests I do not know, but my opposition to them is a matter of record. I have consistently advocated that supervisory control over all our financial institutions must be tailored to meet present conditions and not be just increased control; and, most important, that under similar conditions supervisory control should be on a parity for both the savings and loan companies and banks and, as a matter of fact, for all financial institutions. This is a perfect example of what we can achieve by working together.

MODERN LEGISLATION FOR FINANCIAL INSTITUTIONS

May I make some further brief comments with respect to the Financial Institution Act of 1957 and the Advisory Committee. First of all, it is a good bill, particularly the Brown version of it, H.R. 7026, and I am somewhat chagrined because of an incident which occurred with respect to an amendment contained in the Brown bill broadening the savings and loan branch section. It has to do with a misunderstanding in the banks' own trade association, resulting in a staff member's letter soliciting the support of S. 1451 as against H.R. 7026. However, while I do not speak for the association in any manner, I am confident that organized banking will not oppose the Brown version of the savings and loan branch section.

As I said, this is a good bill because our economy demands some modern legislation for our financial institutions. First, our commercial bank system is the heart of our industrial and agricultural economy, and you cannot keep up with the demands of business and agriculture and properly serve them without some modernization of its banking loan. It has been considerably over 20 years since anything has been done to modernize the banking laws. On this count alone the bill is far too important to our over-all economy for any of us to quibble about minor provisions that may or may not suit us. It deserves and must have our active support. The bill achieves much-needed reforms without a single competitive gain for any group. Moreover, it sets a precedent for standardizing supervisory control under similar conditions for both of our institutions. I do not think it is a perfect bill; it contains some things pertaining to the banking business that I do not like, and the House could very well make some amendments that would improve the bill.

But whether or not you or I like some of the details, or whether the House does improve it, it still deserves and must have everyone's backing. This bill is largely the product of the Advisory Committee on which your industry was so ably represented by Mr. Henry A. Bubb. I think it is only fair to say that as chairman of the Federal Savings and Loan Subcommittee he rendered an outstanding service, and I want to so recognize it today.

You all probably know that Mr. Bubb is firm in demanding the things which he thinks are right. I can tell you he was always objective. He was ably assisted by your Association's competent staff. It was a rare experience to sit down with the representatives of the various lending institutions, initially with many conflicting interests, and see the evolvement of such an objective and constructive point of view. I would be less than frank if I did not tell you that this job would not have been done without the help of a very capable individual, Mr. Donald Rogers. He was the one who labored.

You will also remember that the Advisory Committee recalled that in the intervening years since the National Monetary Commission of 1908, when it completed its study, which led to the formation of the Federal Reserve System in 1913, major economic and social changes have occurred. The committee stated that these changes have substantially altered the functions, type and relationship of financial institutions to fit the public needs and economy.

A MONETARY STUDY PROPOSED

I have referred to some of these changes today. Only piecemeal legislation has been enacted from time to time to meet the day-to-day needs of our economy. Our committee therefore recommended that the 85th Congress create a monetary commission. No action was taken on this recommendation. Rather, Congressman Patterson endeavored, by H.R. 85, to have the House Banking and Currency Committee act in this capacity. Following the defeat of H.R. 85, the Senate Finance Committee endeavored to make a partial study on the Byrd Committee, as it is called. The activities of this committee and the defeat of H.R. 85 clearly demonstrate that this should not be solely a congressional undertaking.

It is my understanding that the Committee on Economic Development has just proposed a monetary study and that the

Ford Foundation has indicated its willingness to finance its approximately $500,000 deposit. It is also reported that the study has the support of certain members of Congress and the White House. It is possible that this will be the answer to a nonpartisan, objective, qualified monetary study. I solicit your support of any such undertaking. Whether by this group or by the establishment later of a qualified monetary commission, when Congress' activities in this field cease, then they are through.

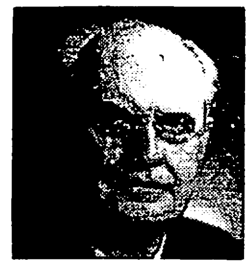
MONETARY CONTROLS NEED SUPPORT OF FINANCIAL INSTITUTIONS

The recently fast-changing money market and impending changes in our economy deserve some comment. True, our economy has been on a spree for a number of years, operating at high levels of jobs, production and income. Monetary and credit controls have been used to restrain inflationary pressures resulting from what is commonly known as a tight-money market. Monetary and credit policies have now proved themselves flexible. The actions of the monetary authority will require considered support from all of us engaged in financing and industry.

First, we must do everything possible to encourage sound business and distribution practices during the immediate period ahead. Second, we must keep ourselves strong during a period of possible deterioration in the quality of our loan and investment portfolio. Third, should good loans become scarce, we should more actively support the Treasury issues and ease the Treasury's terrific problem of debt management. And last and probably most important, we should do everything possible to discourage unwarranted business pessimism. The psychological effect could easily generate a business downfall. Let us caution our customers to be realistic and conservative but not to be unduly swayed by molders of public opinion.

A QUARTER CENTURY OF PROGRESS

by the HON. ALBERT J. ROBERTSON, *Chairman*
Federal Home Loan Bank Board
Washington, D. C.



LAST YEAR you were kind enough to invite me to appear on your program in Philadelphia. That was only about two months after my appointment to the Board. Now that I have had a little more experience and am greatly impressed with what I have seen and learned, I am greatly impressed with the devotion of my two colleagues on the Board and with the dedication of the members of the staff to the welfare of our industry.

We value the role of the League in the savings and loan industry. Your awareness and understanding of our policies and your support are very much appreciated.

As President Marr said, 1957 is an auspicious year in our business. The Federal Home Loan Bank System has reached a benchmark, its 25th anniversary. A silver anniversary is always an appropriate time for stock-taking, and our experience has demonstrated the soundness of the assumptions and judgments on which the System was founded.

Last month we took official notice of this anniversary. As part of our observance the bank presidents presented a special citation to President Eisenhower in recognition of his encouragement of thrift and home ownership through private enterprise, and former President Hoover was given a medallion in appreciation of his foresight in proposing creation of the Bank System. We also had an anniversary celebration back in Washington with many distinguished guests, including President Marr, Vice President Holzka and other officials of your League.

The founding of the Federal Home Loan Bank System, like the formation of the Federal Reserve and the Federal Land Banks, was a great constructive step in the development of our monetary system. It was designed to bring greater stability to our financial structure, to buttress it against shocks caused by panic psychology and to provide greater safeguards to home ownership and sound mortgage investment. The System provided a solution to the difficulties that resulted from a lack of organization of the machinery for home mortgage credit.

The System, as most of you know, constitutes a national unification of 4,500 local thrift and home financing associations. It represents a pool of their resources, a study in diversification of their risks, a cooperative alliance for greater solidarity and voluntary submission to accepted safeguards of sound lending practices.

The influence of the System reaches into practically every sizable community in the country and affects practically all our domestic, financial and business affairs. To the family that finances its home on a long-term amortized basis through the facilities offered by members, the System means protection against a sudden withdrawal of mortgage credit and consequently greater stability and security of home ownership. To the nation as a whole it means also an increase in the volume of funds available for home financing and a better distribution of those funds.

Today the 11 Federal Home Loan Banks and their 4,500 members, with $45.5 billion in assets and $39 billion in savings, constitute the largest mortgage reserve organization in the world. During the quarter of a century since the System was founded, the banks have made total advances of approximately $7 billion, of which about $1.1 billion is currently outstanding. This is away below the authorized borrowing capacity of the members. Supplementing the System, the Federal Savings and Loan Insurance Corporation has also moved forward at a rapid pace.

The constantly increasing public demand for protection of its savings is reflected in the number and assets of the insured institutions. Within the past five years the number of those insured has increased from 3,150 to 3,770. During that period the number of insured state-chartered institutions passed the number of federal associations. Assets of the insured membership have more than doubled during the five-year period and today approach $44 billion. The members of the Federal Home Loan Bank System and the Insurance Corporation have grown to a stature which is recognized for what it is, a tremendous and important aggregate of savings funds and reserves.

LOAN PARTICIPATION PROGRAM

The Board is constantly on the alert to extend properly and feasibly the usefulness of the System. It has made a number of new regulations recently and has others under consideration. Last spring the Board issued a regulation permitting insured institutions to make participating loans beyond their regular lending rates. By authorizing associations to purchase or to sell a 50% participating interest in home mortgages held by other institutions, credit is being made more readily available to prospective home owners, purchasers and builders.

The Board has been encouraged by the country-wide interest shown in this idea as well as by the substantial number of purchases and sales that have already been consummated. The district banks have been urged to assist members of the System in locating prospective purchasers and sellers of participation loans and in bringing them together for negotiation. They have responded well. Although it is too early to measure precisely the full significance of the loan participation program, activity is encouraging. Our latest report showed a total of 32 buyers and 21 sellers in the aggregate of about $40 million, or the transfer of some $20 billion in mortgage loan titles in the nine districts. The greatest interest has developed in Greensboro, Topeka, and the Boston banks. For example, Greensboro had 28 member institutions interested in some $26 million.

The program is off to a good start. It has many advantages besides the mere mobility of funds. It has been pointed out to us by savings and loan associations in highly industrialized areas that they are trying to diversify their portfolios by getting mortgages in an area different from their own. Thus the participation program has advantages other than the mere exchange of dollars. It can spread the risk, which of course is tremendously important in a business like ours.

PLANS FOR OBTAINING LONGER-TERM MONEY

The Board has under consideration means of channeling loan and intermediate capital funds into the residential monthly market. Our plans are not yet definite, but they might shape up something like this.

The Board could sell an appropriate amount of intermediate to long-term obligations in the investment market. The proceeds could either be lent directly in the form of long-term advances to those institutions which could use them, or under another title they could be used subject to appropriate legislation to finance a secondary market within the System or as a separate operation. The first plan would be the quickest and simplest to set up, requiring only an extension of the Board's present system of selling consolidated obligations in the market.

Under the second plan the 11 Federal Home Loan Banks or a separate corporation could purchase mortgages or even participations originated by member institutions in their respective communities. The local institution would continue to service the mortgage. If the plan proved popular, consideration could also be given to the need for long-term financing in the market. Our most recent idea in this respect is to tie in the sale of a limited amount of approximately five-year consolidated obligations with an increase in the percentage of advances to withdrawal for capital for members wishing to use longer term advances.

In connection with the issuance of these obligations the present limitation on borrowing capacity of 12½% of withdrawal per share of capital could be raised to, say, 17½% with the proviso that the 5% increase be applicable only to those members using these longer term funds.

One important aspect of obtaining longer-term money is the desirability of shifting at least a portion of the System's short-term borrowings into longer terms. Operating exclusively in the shorter end of the market for total funds required does not provide an over-all balance of the borrowings of this System. But it is recognized that present conditions may not be the most favorable for the issuance of longer-term consolidated obligations or for longer-term borrowings by associations. It is also difficult to foresee a time when all of the interested parties would consider every factor to be in a completely proper and harmonious relationship.

VARIABLE DIVIDEND REGULATION PROPOSED

The Board recently proposed a variable dividend regulation designed to stimulate savings, which, if adopted, would permit federally chartered associations to pay a bonus or an extra dividend on systematic savings and lump accounts. The principle involved is one used successfully in practically every type of savings, to encourage long-term receivers and investors.

The Board's proposal to permit payment of an additional ¼ of 1% after a three-year period and ½ of 1% after 7 years was made on the theory that an association can afford to pay this additional cost for long-term investments and that a regulation permitting such payments might lessen some of the pressures evident during the past year or so to raise dividend rates to too high a level.

The proposed regulation has been out for about three months and, as you can understand, we have received many widely divergent comments on it. These comments do not fall into any particular pattern, and they are both for and against. They are being analyzed and the Board will study them very carefully. It is hoped that the final decision will be the correct one for both the public and the industry.

SOUNDNESS OF FSLIC POLICY

Time permits only a brief review of the soundness of matters of policy in operation that have been before the Board in its capacity as head of the Federal Savings and Loan Insurance Corporation. One of the Board's continuing functions is to pass upon applications for insurance and to maintain the standards of eligibility. Starting with the basic statute creating the Corporation, we find that soundness of operation is stressed as a key to the approval of insurance applications. While it is not feasible to discuss all of the many points that have a bearing on this subject, I should like to mention a few of them.

Not surprisingly, one of the features emphasized in the insurance law is the accumulation by insured institutions of a reserve for losses. Specifically, the law requires that an insurance reserve be established so that it is equal to 5% of insured accounts at the 20th year of insurance. To make this long-term objective effective, the Corporation requires for insurance certain conditions which have been found by experience will accomplish the intent of the regulations. The excellent performance of the insured institutions of the Reserve Board is indicated by the fact that of the more than 1,700 institutions that have celebrated their 20th insurance anniversary, only 23 failed to meet the 5% requirement, and of this number only 3 have not complied to date.

Perhaps the most difficult problem of all in passing on an insurance application is the evaluation of the need factor. How many associations an area can support is, of course, debatable and can vary considerably from time to time under changing economic conditions. Careful studies are made in each case in order to determine the need over the long pull.

OUTLOOK BRIGHTER THAN ANTICIPATED

As to the savings and mortgage outlook of the associations in 1957, the picture for this year is much brighter than may have been anticipated. As you well know, the strong demand for investment funds in the face of successive increases in requirements to meet the needs of the national economy has resulted in very sharp competition among various institutions in their effort to attract and hold the savings dollars being set aside by thrifty individuals and families.

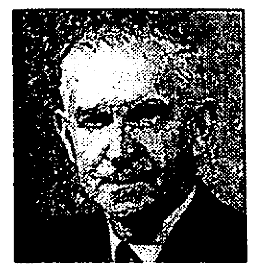
Despite these developments and this strong competition, savings and loan associations in 1956 increased their savings of capital by $5 billion, slightly more than in 1955, which was the previous all-time high. During the first nine months of this year they have received net $3.1 billion, only $300 million less than during the same period in 1956. With three months to go—and there are signs of a slight pick-up—it would appear that, everything considered, the net savings growth of the associations for the full year of 1957 should amount to about $4.7 billion, only some $300 million less than last year. Lending may be less by about an equal amount, which would bring it to about $10.3 billion for the current year.

That, in my opinion, will be a very good record.

As I said before, 1957 is the 25th anniversary of the Federal Home Loan Bank System. It has come far in the past 20 years. It is approaching a $50 billion structure. It will continue to grow but probably not at a pace too great. Times will change, and it will change with them. Proper timing is the key, of course, to financial success. If our industry continues to be prudent, energetic and faithful to its trusteeship, it will grow with America. More than that, it will help our country to grow.

OPERATING UNDER CREDIT RESTRAINTS

by FRED BENTLEY, *Chairman*
Building Societies Association
Halifax, England



As CHAIRMAN of The Building Societies Association of the United Kingdom I bring to all delegates attending the 65th Annual Convention of the United States Savings and Loan League the cordial greetings of The Building Societies Association.

For many years we have welcomed at our Annual Conference several representatives of your League. The friendships resulting from these meetings have served to strengthen our joint faith in the ideals of saving and of home ownership.

More recently, at Stuttgart, many of us from Great Britain met representatives of your League at the Seventh Congress of the International Union of Building Societies and Savings and Loan Associations. We are glad that you in the United States share our view that the International Union is a valuable organ for the extension of our movement throughout the world and we are determined, as I believe you are, to give active and practical support to the growing work of that body.

I am charged with the pleasant duty of conveying a special greeting to you from my colleagues on the Council of the Building Societies Association. They wish your League continued success in its many activities. They also extend fraternal greetings and good wishes to the officers and members of the American Savings and Loan Institute.

Believing that you will be interested to learn something of the present conditions of business in the United Kingdom, I have chosen to speak on the subject of building societies under credit restraint. Credit restrictions are not unknown to you, but with you governmental measures are less severe than with us and in consequence the impact upon your business appears to be less pronounced.

In the 10 years preceding 1955, we continued to enjoy the full confidence of the saving and investing public. We experienced a rapid expansion of our funds and were enabled to meet to a large extent the increasing postwar demand for home loans. In 1955, our peak year, British building societies made 342,000 loans totalling $1.1 billion, the average loan being about $3,200.

But when we reflect upon the increase in our total funds from $2.45 million in 1946 to $6.4 billion today, we should not lose sight of the boosting effect upon these figures of the general state of currency inflation. The persistent loss in the purchasing power of sterling has been a disturbing feature of our operations in the postwar years.

CURRENCY INFLATION PAYS FOR WARS

It is a matter of historical record that currency inflation (a concealed form of capital levy) has been established as the recognized and inevitable method of paying for wars. But the persistence of these inflationary trends in times of peace, seriously affecting all phases of the national economy, has provided for building societies a problem which is not within their power to solve. It is a matter for government.

There can be no greater deterrent to the practice of thrift than the inflation of the past twelve years, during which the benefit derived by our thrifty savers has been more than offset by the fall in the purchasing power of their capital. However, whilst the investor has been suffering the effects of inflation, the borrowing member—the home owner—has the satisfaction generally of seeing a steady rise in the market value of his house. Consequently, in conditions like the present, let us not begrudge the investor the higher reward for his thrift and self-restraint which is now available to him.

TIGHT-MONEY POLICY INITIATED

In the early months of 1955 the British government announced its new monetary policy of credit restriction following an increase in bank rate from 3½% to 4½%. Building Society sentiment, notwithstanding the anticipated adverse day-to-day effect of the implementing of the policy, was ranged solidly in support of the measure. Hopes were high that the period of restriction would not be of long duration.

The commercial banking system naturally became the most important instrument for implementing the government's policy. Overdrafts became more expensive (normally 1% over bank rate), more difficult to get (Treasury Capital Issues Committee approval is required for loans exceeding $28,000) and in many cases existing overdraft limits were scaled down.

The earliest impact of the new measures upon our operations was an increase in the ratio of withdrawals to gross investment inflow. In 1954 this ratio was 55%; in 1955 it moved up to 67% and in 1956 to 77%.

In the newly created tight-money conditions, building society interest rates were out of line with those available in other savings and investment media. In accord with the recommendations issued by the Building Societies Association, rates paid to investors and charged to borrowers were raised. The present general rate paid on investments is 3½%, free of income tax to the investor but not free of the surtax applicable to the $5,600-plus income groups. Such a rate necessitates charging not less than 6% on mortgages.

The 2½% difference remaining in the hands of the societies is applied as follows: Taxation takes 1.7%. This includes the investors' income tax to which I have just referred; the income tax upon the societies' surplus for the year; and the profits tax, relief from which societies are at the moment pressing, with strong Parliamentary support. Expense of administration is 0.55%, leaving a meagre 0.25% for addition to reserves.

The narrow margin that has been a feature of our accounting over the last few years of rapid expansion of assets has caused a steady fall in the reserve ratio of most societies. The average for all societies fell from 5.6% in 1950 to 4.6% in 1956. It is our fortunate experience that a call upon reserves to meet mortgage losses is a rare occurrence; such losses are met out of surplus as they arise. But the importance of maintaining strong reserves has in recent years been underlined by the fall in the market value of the trustee securities in which our surplus funds must be invested.

The upward adjustment in investors' interest rates, whilst checking the outflow and attracting new inflow, retarded the rate of asset growth in 1956. New loans last year were 278,000 in number and $950 million in amount, the average loan being about $3,400.

THE WISDOM OF LIQUIDITY REGULATION

The past two years of credit restraint have furnished adequate evidence of the wisdom of the 7½% liquidity regulation which is a condition of membership of the Building Societies Association. But most societies have maintained liquid funds substantially in excess of this basic minimum, and these funds stood the societies in good stead when the monetary restriction policy caused an upsurge in withdrawals caused by heavy outstanding "pipe-line" commitments for new mortgages.

The general move in Great Britain to a higher level of interest rates resulted, as I have mentioned, in a substantial fall in the market value of government securities which comprise a popular form of investment for a society's surplus funds. This depreciation has been so severe that societies, knowing that ultimately par value will be reached as redemption dates approach, have not in the main been disposed to face the capital loss involved in realisation. Thus has part liquidity been frozen.

Throughout the period of scarce and dear money the demand for home loans has continued strong—much in excess of the capacity of building societies to meet. Most societies have therefore prescribed mortgage quotas for their branches in order to keep mortgage outflow within the limits of available resources. The historically high rate of interest (6%) has not operated to check demand noticeably. And now, with the Rent Act of 1957 coming into operation and taking large numbers of houses out of rent and possession control, we find an intensification of demand from tenants who have become disposed to purchase the houses in which they live.

Reference to building society branches leads me to comment upon the absence with us of any restricting factors in the establishing of branch offices. Many of our larger societies have networks of branches covering the whole of the United Kingdom. This facility, which you do not have, has enabled us to create units of a size which, by reason of your legal restrictions, your associations are not likely to be able to attain.

THE OUTLOOK FOR FUTURE GROWTH

It is estimated that about 30% of the houses in the United Kingdom are owner occupied. When we reflect upon the possibilities for the future development of our business we are greatly encouraged to know that in the United States over 50% of your houses are owned by their occupants.

The hopes which we entertained in the summer of 1955 for the achievement of quick success by the government in the anti-inflation campaign have not been realized.

A combination of adverse factors—the Middle East crisis, the continuing balance of payments problem, the heavy demand for capital by industry and the pressure of higher wage demands not covered by increased production, more recently intensified by speculation against sterling, causing an added drain upon our slender gold and dollar reserves—imposed upon the government in September of this year the necessity of reinforcing its monetary control policy. Shock treatment by way of an increase in bank rate to 7% was employed.

Building society interest rates have again been highlighted, but at the time of my departure from London the rates of 3½% for investors and 6% charged to borrowers were being held unchanged. Prompted by a consideration of the mutuality features

of our business, there is a considerable volume of opinion against a further increase in mortgage rates. In many accounts, by operation of the interest variation clauses in mortgage contracts, rates have been raised by stages over the last three years from 4% or 4½% to 6%, imposing an appreciable additional burden upon many home-owner members. In the absence of a further increase in the mortgage rate it is impossible for the yield for investors to be improved.

Some of the smaller societies, no doubt under the spur of their own individual experiences, have already moved to somewhat higher interest rates. But there is a great measure of support in the larger societies for the proposal that rates not be increased unless, on the higher general level becoming established on an apparently long-term basis, the course of events impels them to act.

In the meantime results disclosed to the end of September reflect the continuing popularity of the building society investment medium and justify a forecast of an accretion of assets for the year 1957 of some $550 million, as compared with a $460 million increase in 1956.

We have noted with interest the steps presently being taken by your League to secure power for your associations to make larger advances supported by additional security in the form of insurance to cover the "top 20%," as you describe it.

LOCAL AUTHORITY GUARANTEE PLAN

In the United Kingdom this type of business is written by many of the leading insurance offices. Many of these companies in the 1930s had an unfavourable experience probably arising out of a lack of care in the selection of risks. The lessons of those days having been learned, I have no doubt that in the postwar years the results have been quite favourable to the insurers. My predecessor in office, Frank Lumb, when in 1955 he addressed you in convention, described in some detail the alternative guarantee plan in use with us.

I refer to the Local Authority guarantee plan of permitting loans up to 90% and in certain circumstances up to 95% of the cost or valuation of the house. Losses resulting from the excess lending are shared equally by the National Exchequer, the Local Authority and the Building Society. This has proved a most useful plan with the particular advantage to the mortgagor of not being required to make any payment by way of premium. Over 30,000 loans have been made under this plan and losses recorded to date are negligible.

Our two guarantee plans—insurance and local authority—are operated side by side and have proved of the greatest value to societies by enabling them to help towards home ownership thousands of credit-worthy citizens who have been unable to accumulate by their own saving the 20% to 30% normal personal stake.

So far as I am able to understand the details, your draft plan providing for the creation of the Home Loan Guarantee Corporation appears to be soundly conceived. If and when enacted, the proposals are likely to prove of great and lasting benefit to your associations and most especially to many of those prospective home buyers you desire to serve.

Stimulated by the keen competition for funds from other savings media and from hire-purchase-finance houses, and by our inability through limitation of our resources to meet the strong demand for home loans, our societies are at present striving to increase their investment membership and their investment income. Many offer incentives in the form of slightly higher than normal interest rates to regular savers of comparatively small amounts.

On the initiative of the Building Societies Association, a collective advertising campaign has recently been launched with wide support and with the objective of broadcasting information to the public on the benefits of building society membership.

A SATISFYING BUSINESS

We look forward to the day when normal monetary conditions will be restored so that after this period of enforced consolidation there may be a further surge forward in the volume of business transacted. We, like you, have the satisfaction of knowing that we are providing a service in great public demand at a price considered fair and reasonable and with an ever increasing degree of efficiency. It is a service which contributes immeasurably to the contentment and security of our members and which must inevitably promote political stability and peaceful intention amongst those who adhere to our principles.

It is a real honour for me to represent the United Kingdom in this assembly of representatives of the United States. May your League and our Association, together with our respective member organizations, ever be united in our conviction of the stability and peace-promoting influences of home ownership.

I believe it to be a fact of great significance that our two great English-speaking nations have over the last century developed the principles of home ownership through thrift to a far greater extent than have any of the other nations of the world.

Your President and our Prime Minister have recently joined in a Declaration of Common Purpose. You in your savings and loan business and we in our building society business have for long had a common purpose which I hope we shall be privileged to develop in the years ahead in ever increasing measure.