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Chapter Title: Characteristics of Banking Units and the Availability of Banking Facilities

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System and the Federal Deposit Insurance Corporation, should be sought in connection with all phases of the work.

CHARACTERISTICS OF BANKING UNITS AND THE AVAILABILITY OF BANKING FACILITIES

Background

In retrospect most banking authorities agree that the fundamental weakness of the American banking structure, when the crisis of 1929-33 broke over it, was an excess of banking units and facilities. A persistent run of bank failures from 1922 to 1929 and a creeping concentration movement, manifesting itself in bank mergers, branch, chain and group banking, had diminished this surplus. Nevertheless, an excess of banking facilities remained the notable feature of the banking structure. As a matter of fact, banking laws, both Federal and state, which condition and determine that structure, were specifically framed with a view to preserving this feature. Differences in intent and effectiveness characterized banking law in different parts of the country, but did not materially alter the banking situation as a whole.

The disastrous run of bank failures precipitated by the crisis of 1929-33, the sweeping reorganization of banking facilities in 1933 and since, definitely changed the complexion of the problem from one of excess to one of dearth of facilities. Successive measures have been taken to remedy this condition, and changes in banking laws, moderately favorable to banking concentration, have raised banking standards; banking authorities have moved slowly in licensing closed banks and chartering new

ones; potentialities for banking profits have not been such as widely to attract new banking capital. Just as the prior surplus of banking facilities varied in economic and geographic regions, in urban and rural centers, so the present dearth is more acute in some areas and centers than in others.

Specific Problem

Public officials responsible for administering public policies of banking organization and active bankers interested in perfecting the banking structure are confronted with complex and difficult questions when they deal with the many aspects of the adequacy of banking facilities. Among the conspicuous gaps in materials available for their use is the absence of fully assembled and analyzed factual data that would: (1) suggest the minimum operating standards necessary for banks of different types and sizes in order to assure survival under average management and business conditions; (2) disclose the nature and sources of economies open to banks of different classes as well as identify the distinctive banking costs that may characterize banks of given types and size; (3) indicate the most effective composition of assets in relation to capital and deposit liabilities from the standpoint of profitability and capacity to withstand the tensions of variable business conditions; (4) provide a basis for judging the most effective size of banking unit in terms of community needs for credit and deposit facilities and of survival capacity of banks.

A research project designed to fill this important gap must be primarily analytical in approach and method. For this reason, it is proposed that the collection and assembly of new data essential for its conduct be made the special or collateral task of subsidiary and related studies in-

dependently undertaken in connection with the National Bureau's general research program in the field of financial organization, as for example, the proposed studies in the area of bank earnings and expenses. Such studies should be planned with an eye to the factual requirements of this investigation and be related ultimately to it at all stages.

There need be no delay in launching this study, however, because of any dependence on associated projects to provide working data. Some materials are already in existence and others are currently being collected in the course of special studies by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and several state banking departments.¹ Much pertinent information could only be obtained in accordance with specific needs directly from banking institutions and from Federal and state bank supervisory authorities.

The steps to be taken in this research and out of which it would take shape and direction are, tentatively:

[1] A thorough survey of the findings of various banking investigations with the double purpose (a) of discovering clues and leads for further research, and (b) of developing a setting and historical background;

[2] An intensive study of: (a) bank failures by size and location of bank; (b) the causes of bank failures as disclosed by the reports of the Federal Reserve Committee on Branch, Group and Chain Banking, by recent investigations of the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, by other official inquiries, and by studies sponsored by state bankers' associations;

[3] A special analysis of bank earning and expense

¹ See footnote on p. 76.

data by type and size of bank, based on materials provided by the preceding project, to determine why some banks of special types and within different size classes earn more than others;

[4] A special investigation of the extent of capital impairment, as a result of the crisis of 1929-33, among size classes and by charter and membership status in cooperation with the Comptroller's office, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and Reconstruction Finance Corporation.

[5] A parallel investigation of banking reorganizations and adjustments in capital structures of banks during 1933-35, by type and size of bank.

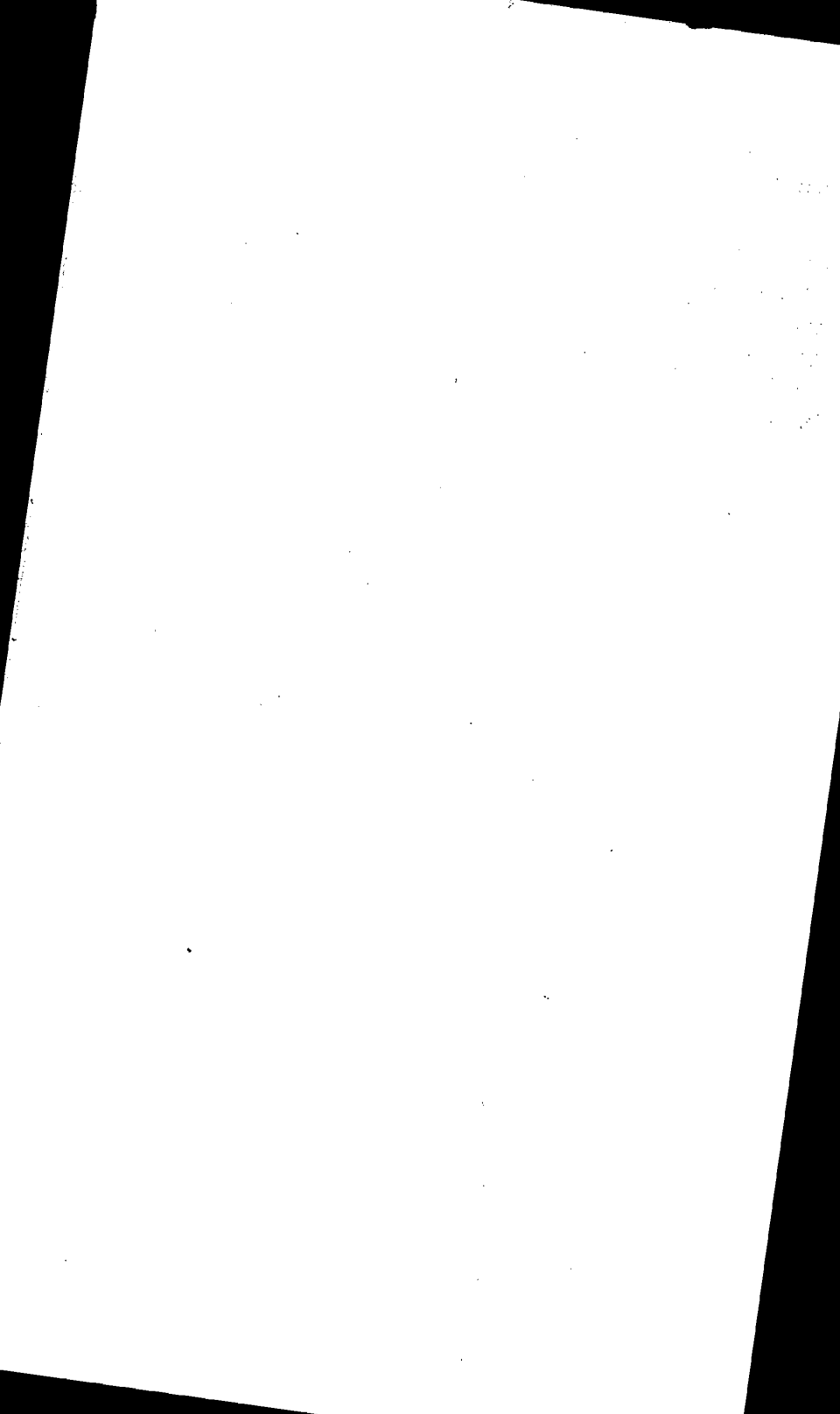
[6] A primary inquiry into the nature and sources of banking economies open to banks of different classes, together with a companion study of distinctive banking costs that characterize certain types and sizes of bank, based mainly on information gathered directly from banking institutions.

[7] An evaluation of the effects of varying economic conditions under which banks operate on the character of their activities, earnings and expenses, loss experience, etc., based largely on the findings of bank type studies recently completed or now in process, and also on studies of state banking developments sponsored by several state bankers' associations.

Procedure

The qualifications for the person competent to conduct this project are manifestly (a) an extensive acquaintance with banking literature and statistics, (b) a thorough knowledge of banking and credit theory, (c) a working familiarity with relevant statistical techniques, (d) a

proved capacity for original, analytical research, (e) a demonstrated ability to cooperate with other research workers and agencies. Harmonious relations with the several banking supervisory authorities would need to be established and maintained throughout the investigation. Their special interest in the outcome of the study should afford ample justification for their unsparing collaboration and support.



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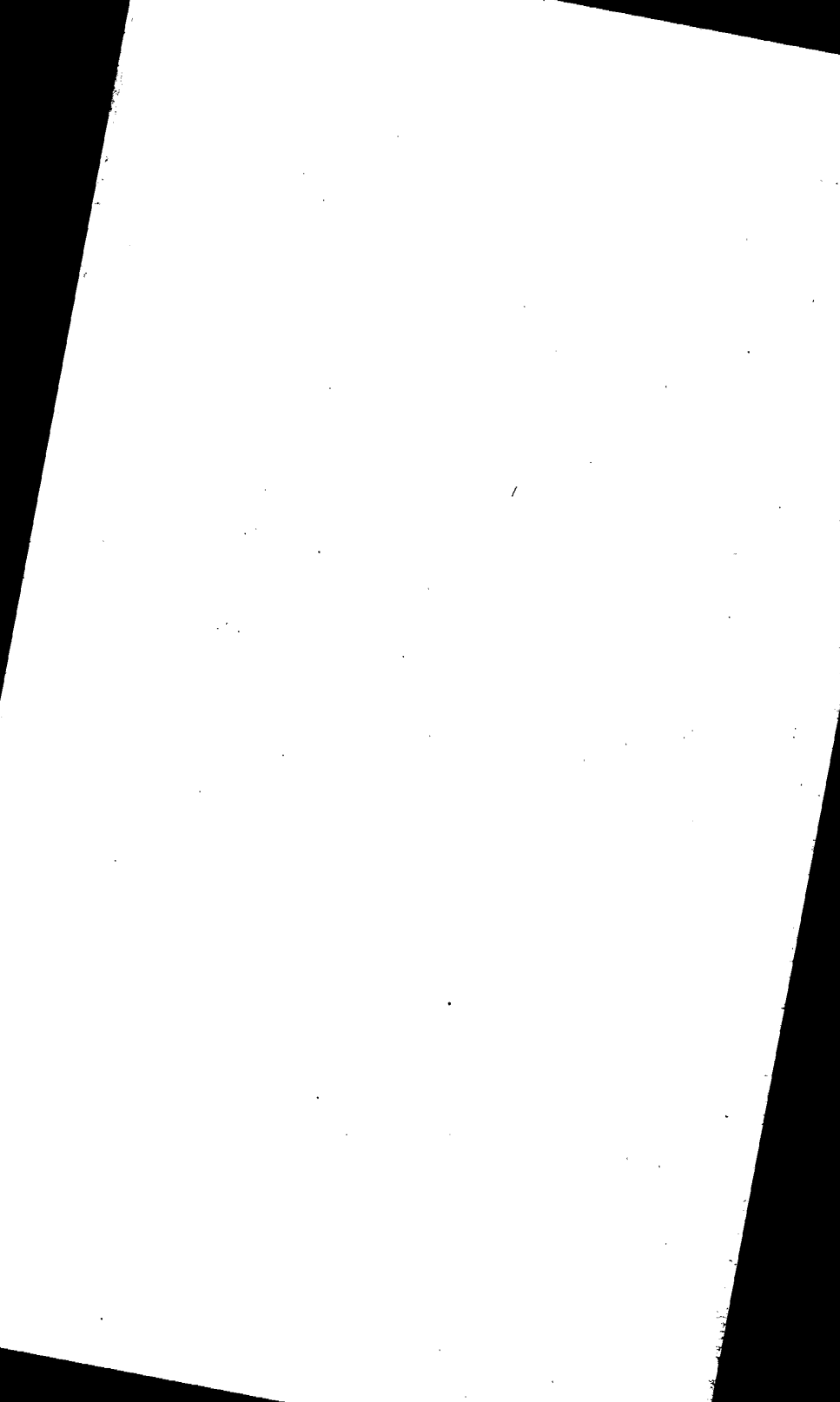
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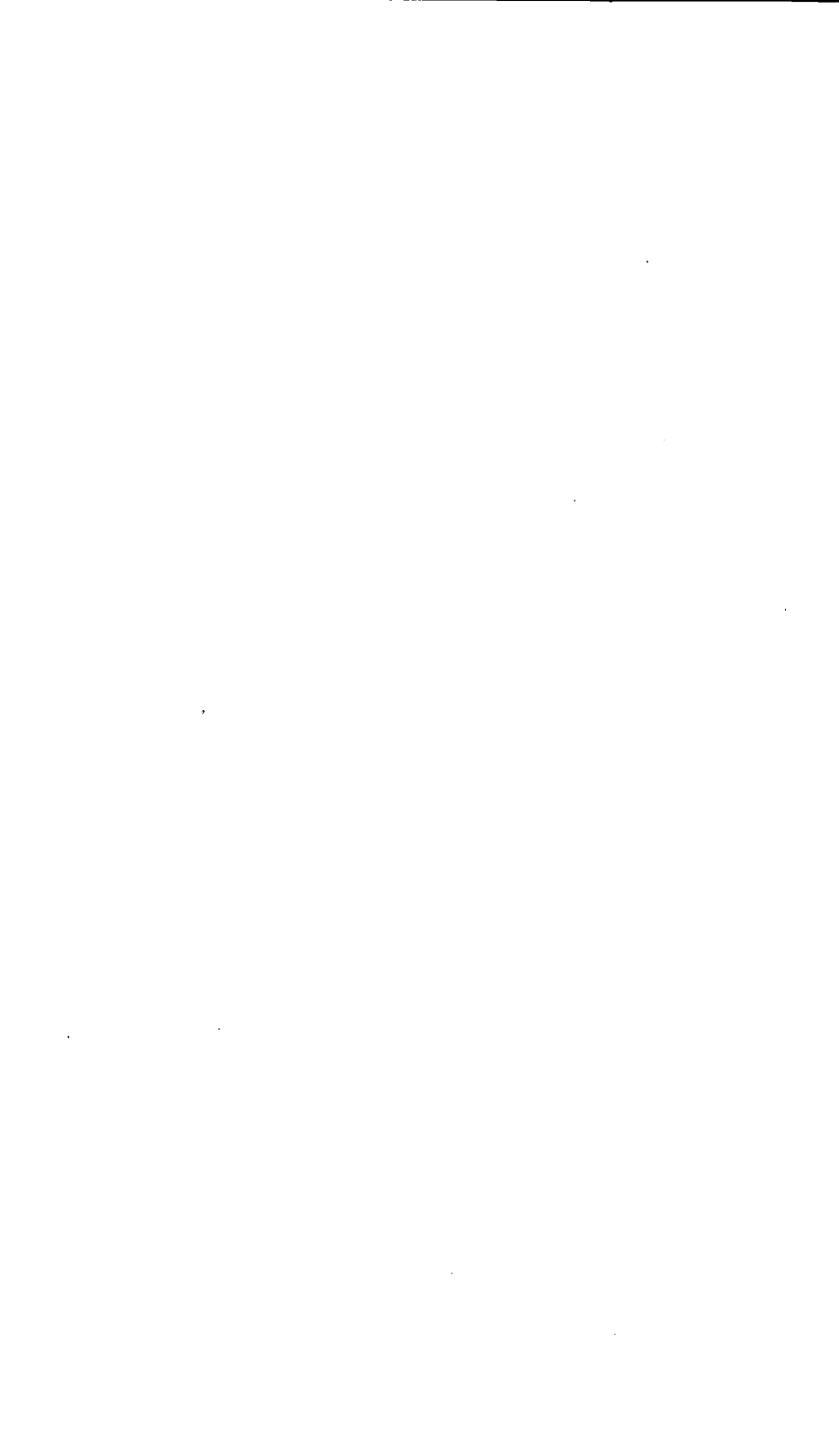
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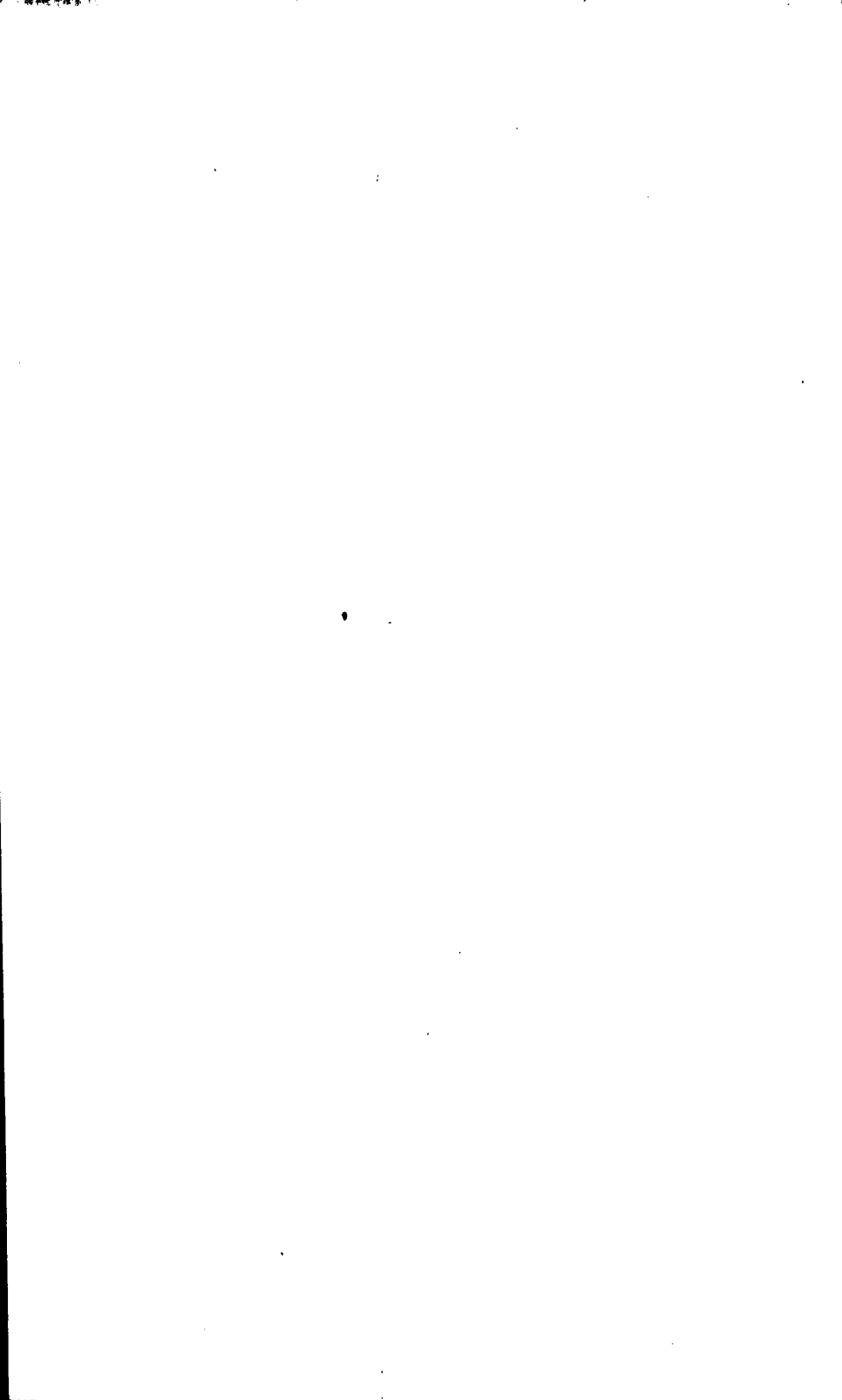
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CONTENTS.—v. 1. Report of the Explanatory committee on financial research of the National bureau of economic research.—v. 2. Inventory of current research on financial problems.

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