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SECTION C

Other Illustrative Projects

PROJECTED STUDIES OF BANK EARNINGS AND EXPENSES

EARNINGS of banks must consistently cover expenses if an effective and stable system of banking facilities is to be maintained. From 1922 to 1933 an increasing number of banks failed to preserve the necessary balance between income and outgo, at least a balance adequate to absorb losses, and were consequently compelled to discontinue operations. During the drastic liquidation following 1929 banks generally suffered severe losses which had to be charged off against current earnings, reserves and capital. Even so, the allowances made for losses were admittedly insufficient. In the sweeping banking reorganization of 1933 stringent measures of capital rehabilitation had to be taken in all too many cases. Furthermore, as earning and expense reports for the last two years attest, unabsorbed losses in considerable volume were carried forward for adjustment under more favorable conditions.

Despite a general improvement in banking conditions, reflecting the effects of various monetary policies, banking reforms, widespread business recovery and a phenomenal growth of deposits, the difficulty of balancing income and outgo for many banks has been only moderately

alleviated. Earnings have been seriously affected by declining interest yields on marketable assets which banks have come to hold in increasing volume. In addition, slack demands for business and personal accommodation have confronted banks everywhere, and progressive concessions on interest charges to borrowers have been forced. While operating expenses have been severely reduced, thanks to the elimination of interest on demand deposits by law and Federal regulation of interest paid on time deposits, considerable resistance to further reduction apparently exists. As suggested above, moreover, some past losses remain to be absorbed, and reserves for future contingencies provided. This current struggle of banking institutions to cover their expenses out of earnings and to rehabilitate their capital and reserves imperatively challenges analysis, both by those interested in the practical side of banking and by banking theorists.

Published Data on Bank Earnings and Expenses

Data on bank earnings and expenses are made available from several sources. In general they consist of aggregates of earning and expense items of banks reporting to the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and several state banking departments. The data on national banks provided by the Comptroller are subdivided by states and reserve cities; those published by the Board of Governors of the Federal Reserve System are subdivided by national and state member banks and by Federal Reserve districts; and those supplied by the Federal Deposit Insurance Corporation are subdivided by all insured state banks and all insured non-member banks. For 1934 and 1935 the Federal Deposit Insurance Corporation has presented a breakdown of earnings and expenses

by size of deposit classes for insured state banks, member and non-member. In addition, the Board of Governors of the Federal Reserve System has recently released a comparable analysis for member banks, and the Comptroller has published similar data for national banks by principal geographic areas and Federal Reserve districts. Supplementing these data, significant operating ratios based on the composite earning and expense records and also broken down by size classes, have been published. Regional analyses are published by the Federal Reserve Banks of Boston, Dallas, Chicago, Cleveland, New York and Philadelphia, and data are available for a few individual states, as Kansas, Iowa, Georgia, Mississippi, for several years as a result of the cooperative efforts of the state banking department and the state bankers' association. Data for Kansas and Iowa are accessible for a longer period than for other states where the reporting of state bank earnings and expenses is relatively recent. The Kansas data, for example, run back as far as 1900; the Iowa data are available from 1924.

Adequacy of Data for Research Purposes

Published data on bank earnings and expenses are insufficient as raw materials for exhaustive statistical treatment. Since they are aggregates of earnings and expenses for groups and classes of banks, it is obvious that the variety of statistical combinations and manipulations grounded on them must necessarily be restricted, and that the range of highly significant questions on banking conditions and tendencies that can be answered by them is narrowly circumscribed.

Notwithstanding these limitations, the data do furnish a basis for certain types of study. Analyzed over a period of years, for example, they may disclose major tendencies

in bank earnings and expenses, for national and state member banks as a group, and subdivided by states and regions. For one thing, they are probably adequate for tracing the rise in interest on bank deposits which proved so embarrassing a feature of banking practice when crisis commenced to envelop the entire financial system in 1931. State bank data, where available, are useful for comparisons of state non-member bank earnings and expenses with those of member banks. In addition, national bank statistics afford materials for relating earning and expense trends as between reserve city banks and country banks. Provided that unpublished compilations of various banking authorities are accessible, differences in the course of earnings and expenses as between large and small banks may be traced. Local or statewide studies of bank earnings or expenses, as those under the auspices of bankers' associations, may supply corroborative evidence for the interpretation of trends.

In view of the limited extent and usefulness of the data as described, the possibilities for fruitful investigation of the many problems of bank earnings and expenses do not appear numerous. This judgment, however, is warranted only if supplementary facts are not obtainable. The files of the several public banking authorities would constitute one important source for additional facts; the records of banking institutions themselves another. Recent research activities sponsored by various bankers' associations, as well as the cooperation extended by individual bankers to independent inquiries in different parts of the country, testify to an eagerness on the part of many bankers to facilitate disinterested investigation of banking problems.