

THE FED'S ROLE IN THE NINTH DISTRICT -  
A FIRST LOOK

Bruce K. MacLaury, President  
Federal Reserve Bank of Minneapolis

I'm delighted to have this opportunity to meet with you today. I very much appreciate your having taken the time to come over so that we can begin to get better acquainted. So far as I'm concerned, that's what this trip is all about - getting to know some of the bankers of South Dakota, and through them, some of the problems and concerns of the state and its people.

I'm sure that every one of you will do his best to help me become more familiar with the vast region that comprises the Ninth District - and this is presumably one of the reasons you are here. But I suppose that you're also here to find out just what kind of bird it is that has been plucked out of its natural habitat on the East Coast and set to roost in the Fed of Minneapolis. All I can say is that if we play our cards right, both of us ought to be able to get some answers to our questions!

Let me say at the outset that I've already become acquainted with two very fine South Dakotans through their association with the Federal Reserve: Tom Reardon, Chairman of the Board of the Western Bank in Sioux Falls, who is serving this year as the District's representative on the Federal Advisory Council; and Dale Andersen, President of the Mitchell Packing Company, who is currently a director of the Minneapolis Bank. Both these gentlemen are doing a fine job as representatives of this state and this region in bringing their long experience to bear on the important decision-making processes that cumulatively result in the formulation of monetary policy. And both of them have been most helpful to me personally -

I am already the wiser for their counsel, and I know I shall be turning to them many times in the future for information and advice.

While I am anxious to get to know the Ninth District just because it is a new area of the country for me, I also need to become familiar with it as an economic region if I am to be able to help plan intelligently for the role that the Federal Reserve Bank of Minneapolis can most usefully play in furthering the interests of the region, within the broader context of the System's national concerns.

No one comes to a job such as the presidency of the Minneapolis Fed without bringing his own heritage of views of the world, and without in turn inheriting a concept of the way the regional Federal Reserve Banks ought to fit into the scheme of things. In this latter connection, I am particularly fortunate in having had predecessors in this job who were both farsighted and imaginative, and who left me a legacy of good will and respect that I hope to be able to pass on in turn to my successor.

If there is a single word that I have heard used to describe the role that the Minneapolis Fed has played in recent years, that word is "catalyst". There are clearly limits to what the Fed as a public institution responsible to Congress can do by way of expenditures on projects within the District. But there is no similar limit on the mental resources that can be focused on the problems of the day, or on trying to foresee what will be the problems of tomorrow. Because Hugh Galusha came from the District, he had an intimate familiarity with the region that I can hope only gradually to acquire. But in so many ways, he set out markers along the path that serve as guides to the directions he felt should be followed. And I find myself more than content to be following in his footsteps as I develop, with your

help, my own ideas of how best to proceed in the months and years ahead.

But before I can legitimately ask for your help, I think it's only fair to let you know a bit about the point from which I begin. For this reason, I'd like to spend a few minutes outlining the profiles of South Dakota, its people, its economy, and - closer to home - its banks, that constitute the landscape as I see it. I know that most of what I will have to say will be well known to you - even if you don't have the statistics on the tip of your tongue, you will know the facts and their implications because they are part of your life. But for me at this stage, they are a conception - and I would hope that you will correct me where you think they add up to a misconception.

In the first place, I am well aware of the importance of agriculture to the economy of South Dakota. This is evident whether one looks at the figures on population, on employment, or on income. For example, nearly 30 percent of the workforce is employed in the agricultural sector in this state, compared with a national average of only 4.6 percent. The other side of this same coin, of course, is that only a little over 6 percent of the workforce is engaged in manufacturing. This is no surprise. But what may surprise you a little - as it did me - is that next to agriculture, the largest "employer" in the state is government, including within this term federal, as well as state and local jurisdictions. Whether this is good or bad depends, I suppose, on one's views as to the value of the services provided by these various levels of government. And certainly, the verdict will vary depending on whether one views the matter primarily as a taxpayer, or as one who benefits from the income generated.

The next point that struck me in connection with a first look at the

figures was that while agriculture accounted for nearly 30 percent of the employment, it accounted for only about 17 percent of the state's personal income. I question whether the disparity can be as large as that comparison would imply, but I have little doubt that the widely recognized problem of low farm incomes is a major factor explaining why per capita income in South Dakota is only about 80 percent of the average for the nation as a whole.

I am also aware of the very substantial population shifts that have been taking place within the state over recent years, shifts that are related in a quite direct fashion to the changing profile of agriculture. One striking indication of this change is the fact that the number of farms in the state has declined from 72,000 in 1940 to only about 46,000 today. Moreover, the rapidity of this decline has accelerated in each of the three decades within that 30-year span.

Paralleling this shift away from the small farm has been the substantial movement within the state from rural to urban areas (i.e., areas having at least 2,500 inhabitants). While the majority of the state's population - some 55 percent - is still located outside urban areas, the proportion living in towns and cities has nearly doubled over the same 30-year span - from 25 percent in 1940 to 45 percent today.

I am fully aware that there is probably no quicker way to lose an audience than to spew forth an endless list of dull statistics. I have been on the opposite side of just such a torrent on enough occasions to know that the impact fades quickly, and only the monotony remains. But you know far better than I that behind these numbers lie sharp - and unsettling - changes in the pattern of life in the state and in the region.

It is commonplace to say that change can be painful, perhaps all the

more painful if there seems to be an inevitability about it that the individual is not able to do much about. But while it may not do very much to alleviate the problems of adjustment, there is nevertheless a need for a clear recognition of the patterns of change that are going on around us, whether we like them or not. Thus I hope you will correct me if I am wrong, but I start out with the impression that the rapid pace of technological changes in agriculture are causing shifts in population, income, and economic opportunities, and that these changes are mainly responsible for the decline in population in rural communities, and in the state itself. This is not a very profound conclusion, I'm afraid, but it is a fundamental one.

Let me now turn for a moment to a quick look at the profile of banking in the state. Again, I hope you will accept these comments for what they are - a first impression which inevitably must be superficial and subject to correction.

As one would expect, the structure of banking reflects quite faithfully the economic environment in which it developed, and in which it operates today. Small banks were formed to serve the needs of the rural, and largely isolated, communities scattered across the state. Today, despite the rapid developments in transportation and communication, and despite the growing urbanization to which I referred earlier, the impression one gets is of a large number of relatively small sized banks. I should underline the word "relatively", since the basis on which I arrive at this impression is the fact that 60 percent of the deposits in South Dakota are found in banks with total deposits of less than \$5 million. By the same measure, other states in the Ninth District range between 40 and 53 percent, while for the nation as a whole, only about 35 percent of the deposits are held in banks of less than \$5 million.

One other characteristic that seems to me to provide an insight into the structure of banking in South Dakota is the heavy concentration - again in relation to the rest of the Ninth District and the nation - on farm loans. In fact, farm loans constitute more than 40 percent of the total bank loans in South Dakota, a number that is more than double the average for the District as a whole, and eight times the national average. In a very real sense, of course, this concentration on agricultural credit can be read as just what the doctor ordered, since it conforms closely to the profile of economic activity in the state. But it probably also implies that banks as a group are having to face up to the same kinds of stresses that are created by the persistent changes that are taking place in the South Dakota economy that they serve. And quite apart from the problems associated with changing structure, I am sure that there must be special problems for banks serving agricultural communities of which I am only vaguely aware.

These comments will give you some idea, I hope, of the basic facts and impressions with which I start. Perhaps the next thing to make clear is that I have no illusions that I personally, nor for that matter the Minneapolis Fed as an institution, will greatly change the course of events. But we do have an obligation to try to understand the major elements in the changing picture, and to try to find constructive ways of reacting to change.

In the past, for some reason, the relationship between developments in the financial sector and the larger question of regional development was not given a great deal of attention. But beginning in the early 1960's, the Minneapolis Fed began to expand its commitment to serve a catalytic role in the economy of the Ninth Federal Reserve District, and to increase our research efforts in the general area of regional development.

This has been a continuing process that is still going on. For example, only last year, our research department was reorganized partly with a view to setting up a separate regional research section to upgrade the analysis of current economic developments within the region and to expand our efforts in the area of basic research.

At the same time that we have been increasing our own efforts within the Bank, we have been cooperating with other groups with similar interests in order to pool resources and avoid overlapping efforts. For example, the Bank has been an active supporter of the Upper Midwest Research and Development Council over the past decade as it sought to develop a statistical framework on which to base regional economic analysis and policy recommendations. Similarly, the Bank has played an active role in sponsoring the Upper Midwest Agricultural Credit Council. As many of you undoubtedly know, the seventeenth annual convention of this council took place in June, once again providing a forum for the discussion of new ideas and mutual problems in serving the credit needs of rural communities in the Upper Midwest. And I should also mention that the Bank has undertaken a research program, in conjunction with the Department of Agricultural Economics of the University of Minnesota, in the area of agricultural capital markets.

Since I have been on the job only about one month now, I am only beginning to become familiar with the many ways in which the Bank has tried in the past to play a constructive role in the common effort to seek solutions to regional problems. But I can tell you that I have every intention of carrying on the tradition that has been established in this area. Naturally, the nature of the Bank's response to the needs of the day must change as the nature of the problems change.

And here is perhaps the most important point - if we are to remain relevant and responsive to those needs, we must rely on candid and constructive comments from people such as yourselves. I hope you will find that I have an open mind, and that I am not easy to offend. By the same token, I hope that I can always feel free to speak my mind, and that my comments will be taken in the only spirit in which they are intended: as an effort to seek useful solutions to common problems. But that is still some time ahead - I first need to find out where I am before I can possibly know the direction in which I may want to go.

In closing, let me mention a few of the directions in which I think the Fed ought to be looking in its effort to continue to play a constructive role. Perhaps closest to home, in terms of the original mandate of the Federal Reserve System, is the need to move further in the development of an efficient payments mechanism. This may sound rather prosaic as a goal, and yet our predecessors knew the value of tying the nation together through the links of speedy transfers of funds. This is as true today as it was in 1914, and I am pleased at the progress that has recently been made in this area in the Ninth District. Most of you are familiar, I'm sure, with the mandate the System has taken upon itself to proceed on a shortened time schedule toward expanded same-day clearings within metropolitan centers, toward experimentation with regional clearing centers, and toward greater use of electronic transfer of funds nationally.

It seems to me that the Fed should also continue to concern itself with the balance among credit flows to various elements within the region. I recognize that this subject can quickly lead to difficult and unresolved questions concerning the allocation of credit during periods of stringency,

and the extent to which policy-determined incentives ought to be substituted for market forces. But the difficulty of the question in no way diminishes its importance, and I think it is significant that the Federal Reserve will soon be reporting the conclusions of its own study of the impact of tight credit on the availability of mortgage financing.

There is also a role for the Fed to play in assessing the quality of financial services provided to the consumer. The Congress has already assigned to the Federal Reserve responsibilities in the area of so-called truth in lending, and in fair credit reporting - about which you heard earlier today. But apart from the regulatory aspects of the matter, and without assuming an interventionist stance, I think we might usefully explore areas in which services could be provided to consumers that may have been overlooked, or not fully developed.

Finally, there is the area of economic research on matters of concern to the region. I have already said enough on this point to give you an idea of what we are trying to do, and for now I leave this as a matter of unfinished business.