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Gentlemen - "The Congress shall have power to coin money, regulate the value thereof, and of foreign coin." That phrase occurs in Clause 5, Section 8, Article I of the Constitution. That brief sentence is the authority for our whole national banking edifice, including the Federal Reserve System. At the outset, I want to stress that constitutional authority, even though it's old-fashioned, perhaps, to rely on a constitutional base. This section of the Constitution grants a plenary power to Congress, a power that the Supreme Court of the United States is reluctant to review. It's been a long, painful, judicial history starting with *MacCulloch vs. Maryland*, which proceeded through the Civil War cases which involved greenbacks, and finally climaxed in the gold clause cases of 1935. The constitutionality of the Federal Reserve Act has never been questioned by the Courts, and when the Supreme Court had the opportunity to review a controversy in which a question of this nature was of prime importance, it refused. The right of Congress to legislate the framework of national banking is generally regarded as absolute and not subject to any of the normal safeguards of judicial review.

I say this is important to remember because we're in a time of tremendous change. The banking industry is in a ferment. John Chisholm, in his first talk, spoke of returning to Rochester and a normal banking career. I happened to follow him that day and I chided him. There is no normal banking career. Normal banking disappeared, if indeed it ever existed, in 1929. Perhaps we have always had change; but the rate of change has been drastically accelerated.

You're all aware of the old principle of physics -- "for every action, there is an equal and opposite reaction." There are two primary action forces operating on the banking industry -- competition and the market place. They operate on banks just as they operate on every other element of our society, including governments. There are two reactive forces -- the voluntary response by the individuals involved, and secondly, the social-political responses by legislatures, Congress, and the many regulatory agencies they can spawn when it is necessary to fill a vacuum caused by the failure of individuals to act.

What are some of these areas of change acceleration? First, and perhaps foremost, is the increasing sophistication of your customers. Customers are demanding a broader range of services -- not only unprecedented types and quantities of credit, but entry into entirely new fields of service. Partly this has come about by the age of the computer, and partly because of the tremendous expansion that has taken place in every segment of our economy, which has made this the era of the expert. Then there are the changes in a bank's money mix; a shift of emphasis to time deposits from demand deposits, with its high cost; the emergence of the Federal Funds Market; even international considerations. Who would have thought, even ten years ago, that banking in Sleepy Eye might be affected by another pound sterling crisis? But it can be, and it may be, if that crisis is not averted, and monetary policy in this country has to be adjusted to reflect that crisis.

What does this mean to the dual banking system? As a preliminary inquiry, what is the status of the dual banking system in the Ninth District? There are these basic facts: (1) there are 1,342 insured banks in the Ninth District; (2) of these 1,342 banks, 973 are state banks, 369 are national banks. At that the state chartered banks might say "Hurrah! The dual banking system is safe. We have the majority of the banks." But then start looking at the numbers behind those numbers, and there are these disturbing facts:

Out of these 1,342 banks, 1,171 of them are under \$10,000,000 in deposits;

926 of them are under \$5,000,000 in deposits, with average deposits of slightly more than \$3,000,000;

494 are members of the Federal Reserve System, and 597 nonpar;

The average of all member banks is \$13.3 million; the average of all nonmember banks is \$3.5 million;

In terms of capital, it is necessary to go almost to 1,000 banks before the average capital reaches \$231,000; the member banks, which include, of course, all of the national banks and some state chartered banks, have an average capital of \$1,108,000.

Growth is being forced on banking in this district, as it is being forced on banking everywhere -- as, indeed, it is being forced on all areas of our society. We hear so much about these trends in agriculture, because of the attention agriculture receives in this District -- facts like young men are leaving the farms; the shrinkage in the number of units by some 30 per cent since the Second World War; the increasing amounts of capital required. As an industry, there has been nowhere near the attention paid to the parallel trends in banking in our District.

What do these trends portend? First of all, banking is going to get bigger. It's going to get bigger because there are vacuums being created in the marketplace in which you have to operate. Unless banking gets bigger, it is going to continue to lose to other branches of the credit industry, for the demands of the customer will be met. How will banking get bigger? There are a number of ways it can happen, singly or in combination. It can be via branch banking; or more small bank holding companies; or cooperative pooling arrangements among smaller banks, so that they can afford the higher cost services that customers demand, as well as the higher cost equipment that is necessary to keep banking costs under control; or stronger correspondent relationships; or a growth of competing credit institutions that may or may not have support from the government; or, finally, and this is horrible for some of us to contemplate certainly, through direct government loan programs.

A second trend is that nonpar banking will gradually disappear. Let me emphasize, the Fed has no right to interject itself into areas of personal choice, like being par or nonpar, nor do we have any right to prescribe outside of our legitimate areas of interest the direction the banking industry should take. On a districtwide basis we have a direct responsibility, though, to serve as a catalyst, so that this development takes place in an orderly, voluntary way, to assure that our banking system evolves at the same rate as

the rest of the economy. Whether an individual nonmember bank is nonpar is not a matter of concern to us; but we are concerned that banking performance in this District be continued above par.

I don't know what's going to replace earnings that may be lost along the way, but I know this much -- I spent 23 years fighting for small business which has given me a tremendous faith in the capacity of American businessmen to do what has to be done. The inventiveness, the willingness to innovate, the willingness to try new things, can and will carry bankers through.

Above all, please don't spend your energies fighting among yourselves. If ever there was a time when the banking industry required solidarity, it's now.

I have had to read a number of economic tracts in my attempt to learn something about monetary economics, because I started this job with a wholly virginal mind. In this pursuit, I have encountered words I've never seen before. Usually I can decipher the meaning of the word by reading the sentence before and the sentence afterward, but one I was unable to make any sense of. It was "exogenous". While I was looking for it in Webster's unabridged, I found another word, "exophagous", and this word delighted me. This is the word bankers throughout our District should adopt as their slogan, because it means "do not eat members of your own tribe". This is something we should remember, because only by voluntary cooperation -- only by sticking together -- only by working voluntarily and cooperatively to adapt banking in Minnesota and other areas of the District to this rapidly changing world, will the dual banking system survive. Any time an industry does not move to solve its own problems, legislatures and Congress will move to solve them for it; and no bill ever passes the legislature, no bill ever passes Congress, in a form that is wholly satisfactory. Even bills initiated by associations are dangerous, because you expose yourself to all of your enemies. Those of you who have followed the course of federal legislation,

and have seen what special interests attempt to tack on even the most innocuous bill, are aware of this problem.

The dual banking system is worth fighting to save. The loss of the dual banking system would be a destruction, I believe, of the viability of our banking system. Most of us here today believe it is important to save. This means it is important for bankers to think about how and then act individually, before society, because of our failure, starts asking why.

I want to leave one question with you. Assuming you believe the dual banking system is worth preserving, ask yourself just this one question: what am I going to do to help preserve it?