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Internal Memorandum

Interview with Mr. Oliver Powell, President of the Federal Reserve Bank of Minneapolis

The Federal Reserve Bank of Minneapolis has just embarked on a new building program which will add something like eight new stories to the existing building. What they have is a pillared structure in a modified government Greek style. They will put a set-back structure on top of this to get themselves more much needed room. As it is, they are spread in three or four buildings about the town.

The fact of this construction meant that they had just finished compressing files and stored materials into half as much space as it had previously occupied. Therefore, anything which had to come out of the files came with great difficulty, and it was not possible to get as good a sense of the file system of this bank as it would have been at another time. The building program will take something like two years, and the really important thing is to convince them before the end of that period that historical files are important. Otherwise, those that have endured the process of compression may not also endure the process of spreading out into new space.

Aside from this difficulty, the bank was cordial, intelligent and very kind. The northwest seems to have kept its fine old men better than certain other sections of the country, and there were several of age and experience who had been thought of as possibly worth interviewing. Some of these I saw.

President Powell put me in the charge of Mr. M. E. Lysen, now on the organization chart of the bank as Operating Research Officer. He told me privately that Mr. Lysen had been at the bank a great many years and knew a great deal about it, but that he had certain personality difficulties which one had to understand. My own observation was that these consisted of talking too much and rather tending to get off the track, but this is so common among the various banks (among their older officials) that I could by no means consider it a new handicap. Mr. Lysen rather hesitated to take on the biographical research which I asked him to. I had to leave

about a dozen cards with him to fill out, but I think that this again is a matter of personality and that he will come through with them without any further difficulty.

The other person who was a constant source of information was Mr. Powell's secretary, Miss Bilsie. She had been secretary to previous presidents and was both efficient and knowledgable.

Mr. Powell himself talked for more than an hour to me about the district when I first arrived on Monday morning. His opening statement was that the northwest is now suffering from an agricultural depression, due to the fact that the government support of grain crops has been partially cut. The farmer's income is down, but the farmer's spending continues and their loans are up. He is not worried about it, but there is a quality of unease in his voice as he talks about it. Retail sales are up only 9% in the Minneapolis district, whereas they were up 15% <sup>elsewhere</sup> ~~last year~~. (This figure presumably is as over 1954). This he considers a sign of the times. It is his own opinion <sup>that the farmers</sup> have been spoiled by too heavy subsidies and that they ought to re-adjust their living scale to a reasonable profit, but he is not by any means under the illusion that they are likely to do so without considerable difficulty.

The Minneapolis district is mostly agricultural. There are plenty of mines. The big iron ore range is there, but these mines are owned in the east, and the ore goes east. Therefore the only income that stays in Minneapolis is the labor income, and that is shrinking because of automation being installed in the mines.

The great Mesabi Range, which was the source of the iron ore that pretty much built this country as it is, has almost run out. Within the last few years the companies have been carrying on explorations with an iron ore of lower grade and some dilution called Taconite. Hundreds of millions have been spent and are being spent on developing processes by which this low grade ore can be profitably turned into usable iron. The general belief is that the Taconite processes are going to work. Otherwise iron will be brought in from Labrador and from Venezuela, and this northern district will suffer greatly.

Copper is mined in northern Michigan and Montana, and Anaconda mines are now getting but low grade ore by a process of "block carving" of the mined territory by transverse tunnels. Once that is done, pressure is brought to bear from the top and the hole caved in. This breaks it up and makes it possible, or so Anaconda thinks, to handle the low grade ore with mechanical shovels. The company has blocked out ore for the next thirty years and thinks that there is that much left in the narrowing seams.

There is gold in South Dakota mined by the Homestake Company. This is the largest gold operation in the United States at the present time, a curious commentary on the loss of gold operations which were once so valuable in Nevada and California.

I was told that wild Bill Hickokk, a famous frontier character, and his silent counterpart, Calamity Jane, belonged in this district. They had operated around Deadwood in one of the Dakotas.

As for manufacturing, Minneapolis Honeywell has now gone in for electronics. Minnesota Mining is located in St. Paul and doing many other things besides Scotch Tape. General Mills has now gone into the packaged food industry and is also working in the non-milling end of grain processing.

In 1954, the Minneapolis district was doing very well, but it is now lagging, though the figures are not yet in bad shape. A few weeks ago 3% of the resources were outstanding, but this included 1/3 of the loans. Lendings to country banks are heavy as they were in 1920. In that year, \$124,000,000 was loaned by the Minneapolis Federal Reserve, of which \$24,000,000 had to be borrowed from other Federal Reserve Banks.

#### Par Clearnace

The Minneapolis district tried in the 1920's to put all banks onto the par list, and, like Atlanta, it got into law suits and arrogance for its pains. The experience taught the Federal Reserve people not to go at things hammer and tongs. At the present time Richmond absorbs a great deal of "float" in an effort to put banks in that district on the par list and keep them so. The south absorbs the exchange

charges, but in the north the banks charge these back to the sender of checks.

Mr. Powell recalled the first state bank of Hugo and the legal case which resulted from its process. This was taken by the Board as a System case, and Newton D. Baker was engaged as special counsel to plead it. It was decided in favor of the Federal Reserve Bank of Minneapolis.

Par clearance is strictly a country bank problem and more generally a small country bank.

South Dakota recently passed a law saying that banks in that state had to pay at par all checks drawn for \$10 or less. The Federal Reserve Bank however could not separate checks that way and was forced to say that this would not work.

As for other states in the district, Wisconsin has a par clearance law, Michigan is all par clearance. Montana went par clearance voluntarily. Minnesota and North and South Dakota are the states with non-par banks.

At the present time the question is static. Sporadic attempts have been made to substitute service charges for clearance charges, but the public pressure is not great enough to force this, and the banks keep both charges out of <sup>a</sup> combination of greed and inertia. This is particularly bad in North Dakota.

The Federal Reserve Board expects that time will correct this all over the country but is putting no pressure on the offending banks at the present time. The Federal Reserve Bank does not handle non-par checks except when they are drawn for the Federal Government. At that time the drawee bank must pay. Under that circumstance, of course, the nuisance value rises.

Mr. Powell was very philosophic on this subject. He said that the small towns were isolated; banking in them was a monopoly and that the effort always was to keep the number of banks down and the existing banks prosperous. Under those circumstances, it was understandable that the smaller and less modern of them should cling to the exchange charge, which makes them non-par clearance banks.

There has been a recent attempt to get a par bill through the Minnesota legislature, but it died in committee. The Minnesota Bank was surprised and regretful. They thought that the bill was going to pass. If it had come to the floor they think it probably would have passed, but the explanation is that small country bankers got at a representative on the committee and managed to block it. This makes it sound as though par clearance would become an actuality there through state law before very long.

Mr. Powell spoke at length about the conditions peculiar to Minnesota. He said that partly as a result of the depressed years bank holding companies grew up and now have the large share of business. It should be noted that these holding companies are not like those in California and apparently they do not result in branch banking, although that looks at first sight as though this was their reason for existence. The holding company banks are mostly par banks and member banks, but in North Dakota there are some non-par, non-member banks which belong to holding companies. Technically speaking, this is, in effect, an evasion of the law existing against branch banking. The holding companies move their managing officers about from ~~owned~~ bank to owned bank, but it makes them resign from one before they are appointed to another. It is a most successful device. All the member banks in these holding companies are big banks.

The holding company structure was started in Minnesota in 1929 as a policy of desperation so that banks in difficulties could stay afloat. They had lost over half the banks in the district, and the number had dropped from 33,00 down to 1600. Minnesota went through so tough a period in the 20's that 1933 seemed mild.

One of the basic difficulties was that the Federal Reserve Bank could not loan on general industrial paper. It was supposed to deal only in short-term commercial paper (the acceptances of which Mr. Warburg was so proud), and then in government bonds during World War I. Real estate and corporate bonds, which constituted

a large part of the paper in the vaults of member banks could not be used for borrowing at the Federal Reserve Bank.

The lesson of this whole period to the Federal Reserve System was that a central bank should be able to lend on whatever member banks loan on. The Act was corrected to make this possible, but not until the great number of failures in agricultural districts which distinguished the 1920's.

Asked whether there was anything peculiar about the currency usage in this district, Mr. Powell said that it was by and large not a silver using district, with the exception of a Montana region. Silver dollars are popular in Helena, Montana, whereas currency was not popular until very recently. During the second World War, the Helena district tried to get member banks to use currency in place of silver dollars in order to cut down on the transportation fees for silver, but there was such a furor that they dropped the idea. Even now currency is less popular in the Helena district than is silver.

Another detail which has its points is the fact that during the period when slot machine laws were widely enforced, nickels which had been in current use in slot machines piled up in the Federal Reserve Banks.

As for the population of the ninth district, Mr. Powell said that it was mainly German, Irish and Scandanavian with some Finns and many south Europeans in Montana, but not so many in Minnesota.

Reverting to the agricultural difficulties which have come about with decreasing farm prices in the present period, Mr. Powell said that the farmers were developing modern agricultural practices and that he thinks they will manage to re-adjust their cost and income needs so that they can live with a lower price level.

He also said that oil is now being developed in Montana and North Dakota. The Bank has recently issued special reports on the Missouri Basin, on Taconite, and on the Williston district.

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Post Script

Mr. Powell talked at some length of working on a study of closed banks during depression days. He said that he had gone at some length into the question of how far management had been at fault. His studies were subject to cutting by the Board. In an expurgated version, they appear as volume 8 of the 1931 report of the Federal Reserve Committee on Branch, Group and Chain Banking. Mr. Powell is searching for his original copies of the study and will send them if he finds them.

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