THE OPENING YEAR

Federal Reserve Bank of Minneapolis
Annual Report 1973

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The Fifes and Drums of Old Fort Snelling are a proud adornment for this annual report and they were a colorful part of the dedication of our new plaza last August.

But more than that, historically, they symbolize the opening of the Upper Midwest to a dramatically changed commerce, economy and way of life.

Continued change is a feature of the Upper Midwest, and it is "change" on which we focused attention during the opening year of the new Federal Reserve Bank building.

The Bank was proud to sponsor and participate in discussions that relate vitally to Upper Midwest life: financial services—recent changes, needed changes; planning the region's future; regional economic policy; the world perspective for our problems and hopes.

In the midst of all of this, we moved to a new building that many of you have seen and we hope more of you will see.

To those of you who joined with us in marking this special year—thanks, it was a good beginning. But these important issues deserve wider attention and concern. We hope that the highlights of conferences included in this report, and the related proceedings publications that are available, will stimulate a continuing dialogue.

Bruce K. MacLaury

Bruce K. MacLaury
President

District bankers touring new facilities

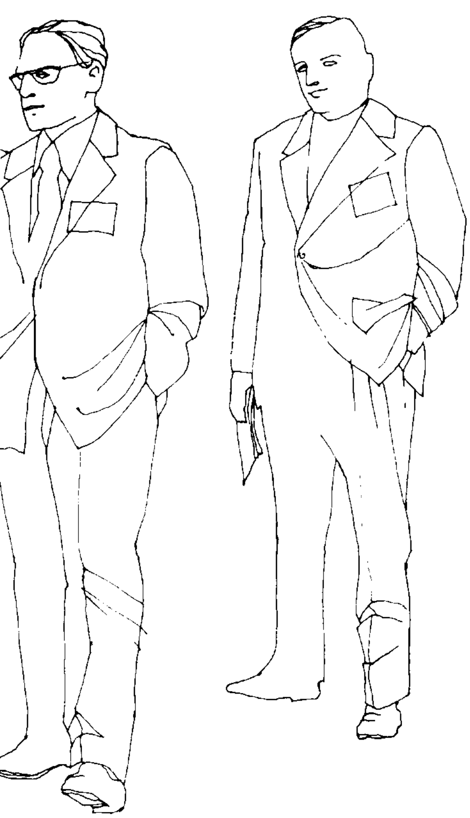
Opening the New Bank

The largest move of valuables ever conducted in the Upper Midwest started at 2:00 a.m. on Saturday, July 28. On that morning the Federal Reserve Bank of Minneapolis began its move to new quarters at 250 Marquette Avenue. Valuables, including currency, coin and securities totaling nearly five billion dollars were moved first. Nearly all valuables were in place by 6:30 a.m. except part of the coin supplies that continued to be moved throughout the morning.

Spring Valley Tribune, 7/30/73

"It's exciting to occupy a unique new building — the world's first completely 'suspended' office structure. It's a remarkable identification for the Federal Reserve Bank of Minneapolis. But the Minneapolis Fed is a lot more than just our new building — you and I are the ones who make this structure a living reality. As the Fed enters a new era, we will be the ones who assure our reputation of service to the Upper Midwest community."

Bruce K. MacLaury
Message to Staff
Employee Open House, 8/26/73



"But in a broader sense all of us can feel we were a part of the Ninth District's progress which developed the need for a new bank, and might say with pride . . . I own a small piece of this rock."

Joyce A. Swan
Director Emeritus, 9/7/73

"It is our hope that the people of this community will share with us our pride in our new building and find pleasure in the use of the plaza."

David M. Lilly
Chairman, Board of Directors
8/9/73

"I'm delighted that you've all now had a chance to look us over in our new garb at the Federal Reserve. I'd be less than honest if I didn't say that we were very proud of our new home.

"But if there's any pride on our part, it's certainly not personal. We are simply the heirs to a tradition of innovation and sense of quality that have been the hallmark of the Ninth Federal Reserve District for many years. Rather, my pride is on behalf of my colleagues, past and present, who had such evident foresight and imagination in the conception of our new building. And I'm glad to be part of an organization, especially a public organization such as the Federal Reserve, that agreed to let this bank strike out in new directions rather than pile one stone on top of another as is so often the case in public architecture."

Bruce K. MacLaury
Bankers Open House, 9/8/73

A Plaza for Everyone

The new building's design provides virtually the whole of a city block as a space for people to enjoy, in festivities or in contemplation. At the time of its opening, these thoughts were expressed:

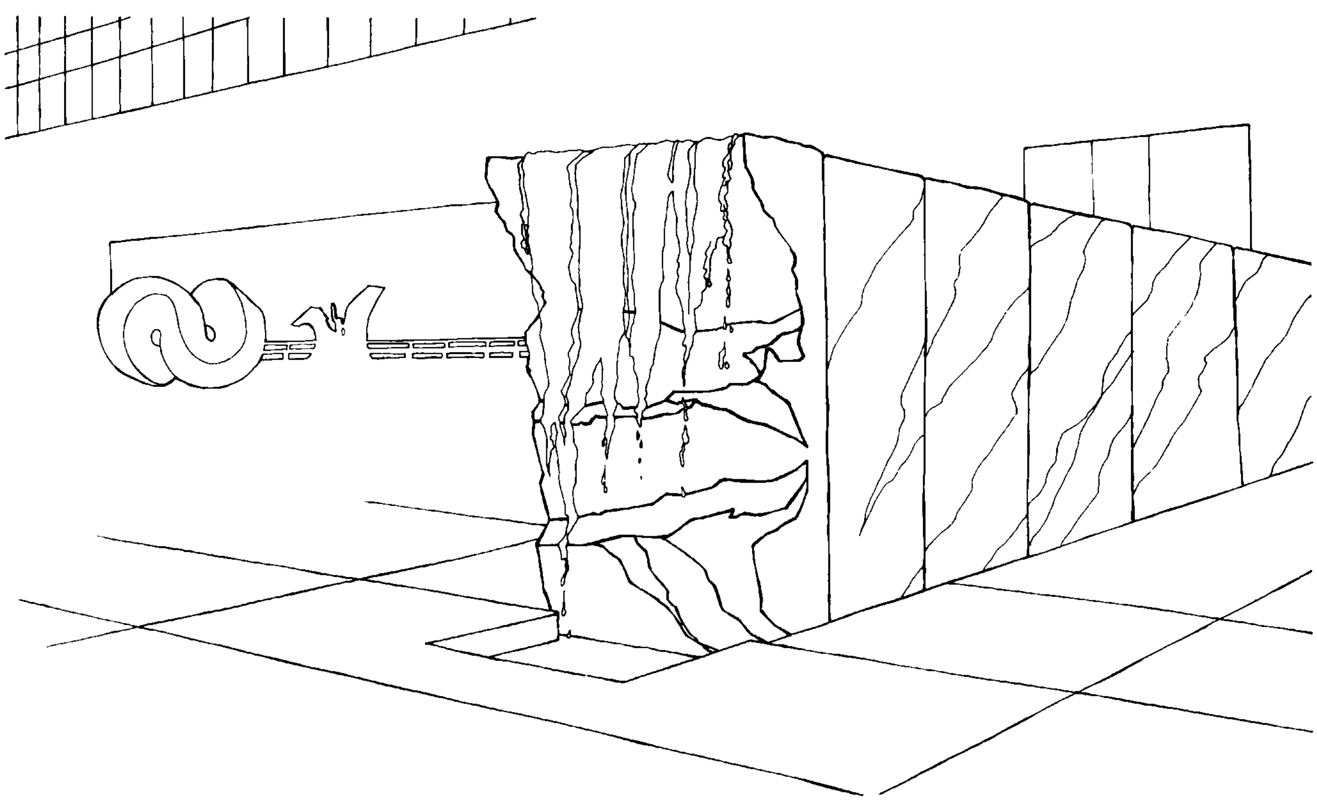
"This is a symbolic space, projecting from the strong geological base of the region. The uncovered granite mountain has been formed into a sloping plane and all the spaces below are symbolically carved into the mountain. There are sloping plazas elsewhere in the world and there is one quality common to all of them: the sloping plane encloses people and unifies people. Once you are on it, you are also in it. Besides people, there are textures and shade given by the trees, there are expressions of our culture today with imagination and beauty and symbolism in the sculptures, there are seats everywhere if you want to sit. But as you move on the plaza you will develop an ever-changing relationship between you and the different parts and objects on it.

"I do hope that this space will become the friendly stage for the many exciting activities and games urban people play in their city."

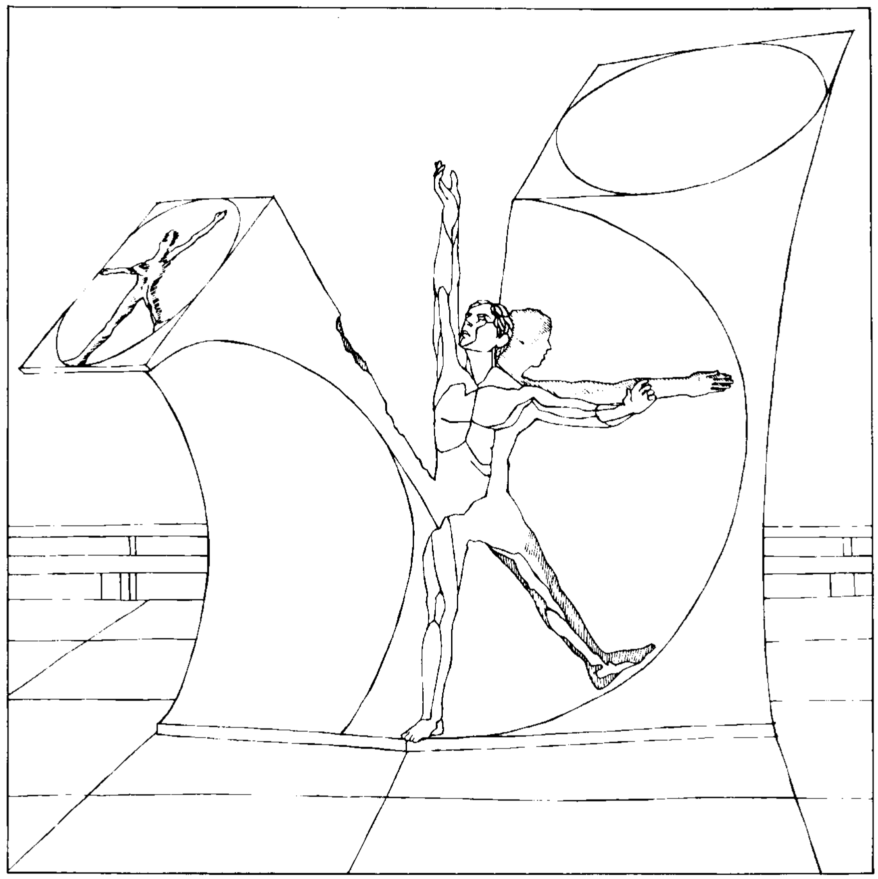
Gunnar Birkerts
Architect

"Just as my predecessors and colleagues tried to reach beyond the ordinary in conceiving, designing and constructing this space, I hope that you will view it as something more than just another office building and one more public gathering place. I hope you will catch its spirit, one so perfectly portrayed in Paul Granlund's sculpture — wherein I see man breaking free from the confinement of past molds to burst forth with a bold thrust into new life, new freedom, new creativity and new hope. May this same spirit guide our future endeavors, as a bank, as a community and as a nation, so that we may continue, with God's help, to reach for and to attain our highest aspirations."

Bruce K. MacLaury
President



"This is a time of celebration and I think of sculpture as one form of celebration. Celebration may be a requisite to humanness. It may well be necessary for a sculptor, in order to remain human, to shape that which he holds true about himself—to draw lines, describe an arc, create a space, design an architectural form, to form clay or fabricate steel and to take time, as we are, in order to give shape to our meaning. The truth about ourselves, our values—as revealed in picnics, Fourth of July, solemn feasts, birthdays, bicentennials—are necessary to our survival as humans.



Human values are held or offered in trust, in hopes that others will fulfill that trust, and our history speaks of that continuity of our hopes and dreams. Hugh Galusha, together with many others, had dreams which are realized here in the architectural dimensions of Gunnar Birkerts' work. As sculptors accepting that trust, our hope is that your humanness will be served. You are the guests of honor at this celebration of our humanness. A token of our value as man is secure in the vault beneath the plaza; the five billion would only be a number without human imagination."

Paul Granlund
Sculptor

The Future of Banking

Current problems and pressures in banking were explored in depth at two conferences during the year to give better perspective on the future direction of banking. The Conference on Banking and Banking Regulation dealt with overseas and domestc activities of banking organizations and their regulation. Most of the discussion about domestic banking centered around the Bank Holding Company movement and the Federal Reserve's administration of the Act. The ideas raised were challenging and the suggestions controversial.

"The enormous importance of finance and financial services is clear, and has been for a long time. But the importance of profitability as the driving force behind a rational, innovative and efficient financial system is not universally appreciated...

"The growth of diversified bank holding companies is one of the most important forces now at work to unify the nation's capital markets. The bank holding company can overcome, in ways a bank cannot, impediments to flows of capital caused by geographic restrictions, size limitations, and limits on permissible activities. It can help to break down unequal access of various types of business, units of government, and consumers to financial expertise, contacts with specialized investors and professional fund-raising capabilities...

"The proviso that I have been leading up to is this: banking organizations, seeking profits in an atmosphere that assures vigorous competition, cannot be expected to act in the public interest unless they must pay the appropriate prices for the risks they take. Put another way, it is essential that the deck is not stacked in their favor by an explicit or implicit system that keeps risks from being properly appraised and weighed. This is a vexing problem for everyone concerned."

Samuel B. Chase, Jr.
Board of Governors of the Federal Reserve System

"Clearly a restructuring of the United States capital markets will be in the public interest. The first implication is increased competition and, to the extent that the market is more competitive, the consumer stands to get more efficient services at less cost...

"Another benefit, of course, is in the area of monetary policy. A bank holding company—sensitive to changes occurring and about to occur in the economy—can make its subsidiaries aware of such developments directly, and promptly.

"In view of the potential benefits, it is surprising that the Federal Reserve has not taken more advantage of the opportunity open to it for greater influence. Working with an ambiguous piece of legislation designed presumably to allow it great flexibility of action, the Federal Reserve still behaves as if it were only the central bank for the commercial banks' demand deposits...

"Despite the fact that mortgage banking and leasing are highly competitive industries, the Federal Reserve seems unwilling to allow bank holding companies to compete fully in these markets. The quest for profits and the threat of losses impose great discipline over executives. This kind of market discipline should be sufficient. Nonbank entities of a bank holding company should be allowed to stand or fall in their own industries unencumbered by bank-type regulation."

John R. Bunting, Jr.
First Pennsylvania Corporation

"...I find it difficult to understand the view...that long-term debt has no weight in considering the adequacy of capital of a bank. I admire the simplicity of the resulting definition of capital, but I seriously question our industry's future access to needed capital if the concept persists.

"The rationale escapes me. I have reviewed a number of studies of bank capital, and after peering through the hedges dedicated to tradition, I can find only the central function of providing protection to depositors against potential asset shrinkage due to bad credits or forced liquidation in adverse circumstances. Long-term lenders have indicated a substantial willingness to provide this protection at an after-tax cost substantially below that required by investors in bank stocks. The return on equity in a capital structure which includes long-term debt is therefore higher than it would be if equal capital were provided solely by equity. Increased profitability through the stratification of capital seems to me a worthwhile objective both for bank managers and for bank supervisors."

Thomas I. Storrs
North Carolina National Banking Corporation

"I am afraid that, in my view—which certainly is at variance with the views of Mr. Bunting and Mr. Storrs—bank holding companies enjoy a major competitive advantage over independent finance companies. This advantage lies in the capability of bank holding companies to raise money more cheaply because the investing public—and particularly, the rating agencies—believe that the ultimate solvency of the bank holding companies rests on the dedication of the Federal Reserve to maintaining the viability of the commercial banks in these holding companies. That dedication of the Fed is attested to by the history of Fed actions. As long as the Federal Reserve takes that obligation seriously then, I submit, holding companies enjoy a specific advantage over their nonbank competitors."

Daniel H. Brill
Commercial Credit Company

"It seems to me that a good deal of what we've been saying...relates, in part, to the price we're paying for the political process where we left much too much implicit in 1970 at the time the Bank Holding Company Act was amended and clarification was avoided. Congress left the clarification up to the Fed, and it seems to me the Fed left part of that clarification up in the air...

"In the absence of some clarification, the necessity for the Federal Reserve System to be engaged in affiliate regulation becomes a self-fulfilling prophecy, because, in the absence of any clarification, the public mind is somewhat confused and it does believe the Fed regulates the affiliates. The Fed continues to pass on applications which talk about the capital adequacy and capital structure not just of the bank but of the holding company and the nonbank affiliate, and that adds, I think, to the confusion...

"More important—and this gets to something which was important and implicit in Mr. Bunting's paper, and which Mr. Storrs talked about indirectly—is the question of capital. Mr. Chase says in his paper, 'Furthermore, in the quest for profitability, bank holding companies can and do use their banking subsidiaries to strengthen the parent corporation and its nonbank subsidiaries at the expense of the strength of the bank.' I guess I am somewhat surprised that there are still those who feel that capital has much or anything to do with the strength of the bank."

Harry P. Guenther
Carter H. Golembe Associates, Inc.

"From the System's creation in 1913, it has been unlike many other regulatory agencies in that Congress has always been very concerned about the banking community running the central bank ...But it is no less important [today] that the System advocate the public interest and remain free of undue influence by the banking community...The goal is achieved by balancing equitably the inputs provided by a diverse group that includes banks, their competitors and customers, trade groups, Congress, scholars and others, and finally, one hopes, arriving at a rational 'policy.'

"In carrying out its work under the authority of acts of Congress, the Board tries to interpret the acts faithfully...Essentially we are simultaneously attempting to assure a stable financial environment and an environment that nurtures a strong, dynamic and innovative financial system. In this process the attitudes of Congress will remain a pivotal factor in determining the regulatory climate in which both regulators and bankers must coexist. I would therefore like to emphasize that many of the areas discussed at this conference do involve Congress."

Governor Jeffrey M. Bucher
Board of Governors of the
Federal Reserve System

The second conference was The Ninth District Examiners Conference and domestic banking was viewed from a different perspective. As part of the attention given to liability management at that conference, Associate Professor Thomas Harter of the University of Colorado spoke about "Debentures as Bank Capital."

"The commercial banker is kind of a paradoxical creature. He sits behind his loan desk and he tells his borrowers all the bad points of leverage, yet he is one of the most highly-leveraged business operations in the United States pushing to be even more highly leveraged...

"[Corporate] Debt is attractive to the banking industry because of the leverage that it offers and, in particular,...it magnifies the return on the equity base. The leverage, however, will cut both ways. As long as times are good, we get increases in the return on equity such as the 8% to 11% that was cited this morning; however, when we hit a period of adverse conditions we get a magnifying in the reverse direction...—the cost of servicing those debentures is eating up the earnings that should be absorbing losses...

"This causes net profits to take on much more of a cyclical nature than they otherwise would because of the fixed nature of the cost of the debt. The long-term debt should represent a capitalization of future incomes that the bank is putting on its balance sheets now...[Thus] they have increased their need for capital because they have already discounted their future earnings streams and that earnings stream is the first line of defense against the future loss potentials. They have eliminated that first line of defense, at least in part, and put it on the balance sheet *now* and want it counted as capital...They're using their future capital to meet their current need by capitalizing their future income in the form of long-term debt. The use of the long-term debt by the banking institution reduces that institution's potential use of more long-term debt in the future. And in so doing, it reduces their ability to generate capital when it is needed in terms of adverse conditions...

"If they allow long-term debt to be counted as a capital structure item and the banks go ahead and increase that portion of their capital base, the Federal Reserve System will have to do one of two things: They will *have* to provide some type of mechanism to guarantee the profitability of the commercial banks so that they can service that debt or they will have to allow more bank failures...

In another speech at the Examiners Conference, Professor Roy Schotland of Georgetown University spoke about "Ethics in Banking," in terms of five standards of conduct to be observed. After discussing lawfulness, fairness and efficiency, he proceeds to the other two "Standards" of responsiveness and progressiveness.

"Banks are insulated in many ways from competition, they derive substantial benefits—for many, far above what they pay—from governmental insurance and examination, and they have the authority and the responsibility of assembling other people's money and deciding who shall and who shall not be able to borrow such money. In the course of those decisions they are given unique access to confidential commercial or personal information. If the banker is a more respected member of the community than the fried chicken franchiser, it is not solely because he has been with us longer, but also because we have given him such an unusual authority and we rely so greatly upon his using it not only honestly and lawfully, but efficiently, without waste or extravagance in performing the middleman's function of getting some other people's money loaned to still other people.

"Responsiveness is an obligation because the central role and pervasive impacts of bankers in their communities make it almost uniquely important that they be sensitive to the communities' needs and desires, and that sensitivity is autocratic paternalism unless it is continuously shaped by the community and not merely by the banker or by the banker and a few other businessmen. In addition, bankers must be willing to explain to customers why a particular practice is followed and must be ready to consider that sometimes, *mirabile dictu*, the customer may even be right in questioning a practice. And when I speak of willingness to explain and readiness to reconsider, I mean not merely exhortation to employees to smile and be good listeners, I mean a serious system for handling complaints, questions, and suggestions.

"Progressiveness is an obligation which, I fear, we meet least well. Progressiveness is not merely frosting on the cake. If people in a system work honestly and efficiently by the rules of the system and try diligently to consider the needs and wishes of others in the system but do not give a top priority to watching for ways in which the system is not working very well, and ways in which the system must adjust to meet economic or technological or social changes, then that system's fate is doom, severely wasteful with injurious losses. Improvements and adjustments must be made and the question is whether the obligation of progressiveness is met and problems are coped with before becoming severe, or whether adequate attention is not given to needs until they reach the screaming or crying level.

"Unless we give fully as high a priority to change as we do to lawfulness and efficiency we will find on the one hand that many strands in our legal, regulatory web are blocking wise and efficient business conduct because of a vanished problem or fear of an earlier generation, while on the other hand we lack protection against new evils. Similarly, one generation's efficiencies will become the plodding antiquities of the next generation..."

Regional Economic Policy

Increasing attention and concern are being given to the need for planning and directing the future of regional areas, whether it be the Ninth Federal Reserve District, a particular state, or some region in a foreign country. To help put a focus on these concerns, the bank joined with the Minnesota Economics Association to offer a "Conference on Regional Economic Policy" for the academic community of the Upper Midwest. Also earlier in the year, the bank sponsored the Upper Midwest Council publication of "Recent Trends/Future Prospects" — a look at Upper Midwest population changes; and President MacLaury participated in the KTCA-TV Seminar on Minnesota's Future.

"If you examine the impact in the small rather than in the large (and it takes an awful lot of patience to do that), you can identify people and places that have been positively affected by programs and projects in regional policy...

" 'How' is the major issue. How do you do it? Analytically, it boils down to a very sharp choice between the direct inducement of industry by subsidy versus the indirect inducement to industry by subsidy to the local infra-structure — that is, building a dam or an access road or a water and sewer system, or an industrial park...

"We are now saying that we ought to put the remedy where it has the best chance of taking hold and where it will spread a healing effect on those areas for which we have defined the problem. The term which captures all this, of course, is the 'growth center'...

"Since we are spending so much more through public budgets on public works, it is almost as if you could forget the original concern about regional economic depression and say we need regionalism to effect a more rational and desirable distribution of infra-structure spending."

Benjamin Chinitz
Brown University

"We maintain that Government expenditures on regional policy, unlike most other forms of public expenditure, bring about an increase in the overall utilisation of labour resources (i.e. an increase in productive potential) which is beneficial to the whole economy in terms of increased employment and output. Further, we believe that the real costs associated with the United Kingdom's regional policy expenditures in the last decade have probably been negative. Expenditures on regional policy should therefore not be regarded as competing with other public or private expenditures; and increases in such expenditures do not necessarily require sacrifices either in terms of other public expenditure or in terms of higher taxation. On the contrary *all* regions may enjoy an increase in real disposable income because general taxation is lower (or public expenditure higher) than would have been possible in the absence of regional policy...

"Finally, the view is frequently expressed that a solution to the regional problem lies in an unprecedented and sustained increase in the rate of growth of the national economy. Under such conditions it is argued that regional policy expenditures would be superfluous and wasteful. We would argue that such a sustained expansion is constrained by the pressure of demand in the fully employed areas (and by the balance of payments) and that it is in precisely such periods of expansion that an active and effective regional policy is needed to divert the pressure of demand to Development Areas so that additional resources are brought into use to make the general expansion more easily sustainable."

Barry Moore and John Rhodes
University of Cambridge

"In 1965 there was a reorientation of Swedish regional policy away from subsidies to labour mobility to a scheme of subsidies to mobility of investments in manufacturing. According to the Location Policy Act, investment — mainly in manufacturing — in the forest counties should be subsidized through a system of low interest loans and significantly reduced repayment schemes...

"A country like Sweden, with an extended and narrow geometrical shape, naturally develops large income inequalities due to the differences in communications costs between different parts of the country. Such a country should have an integrated communications and location policy counteracting the strong tendencies towards stabilizing interregional differences in the standard of living...

"Our research shows that the most efficient ways to increase the relative role of the sparsely populated and dislocated areas are unbalanced transportation investment plans increasing the intraregional transportation system efficiency in these areas and scheduling reforms in the same areas to decrease the intraregional time costs of transportation.

"The implementation of an industrial development cluster policy to further the development of a number of "Metropolitan alternatives" is a complicated political problem. An industrial clusters policy has to be more centralized politically than the ordinary market guided planning of investments in Sweden

(Continued on page 10)

"If you look at the world as a region—which is what I'm supposed to be talking about—it is a region with inputs of energy and not much else, which has clear implication for the future. It is that the energy problem is ultimately soluble, simply because of the good old sun. The whole biosphere doesn't use a fraction of 1% of the sun's energy and it's obvious, therefore, that the energy problem is soluble. The materials problem perhaps isn't, and that I think is a tougher one. Although if we had energy, we can recycle materials...

"One of the things I've been worrying about lately is ecosystem. What is an ecosystem? Of course, it's a region. A region is an ecosystem, something which is sufficiently isolated from other things to exist, or at least to be classified...

"I've been thinking about the period of evolution. I've been giving some lectures this fall in Bloomington, Indiana, on the question as to how far the Darwinian kind of models can be applied to society. One of the interesting things in the Darwinian model is the importance of reproductive isolation; regionalism, in other words. That is, that if you don't have regions, everything kind of slurps down to equilibrium and then evolution comes to an end. The trick is that without diversity there is no evolution, only some kind of ecological climax, that is, equilibrium in which all mutations are adverse and anything that can happen is bad. So without the isolation of regions, we wouldn't have had any biological evolution and, I suspect, we wouldn't have had all that much social evolution either.

"A case in point is what I sometimes call creeping Wichitazation. As I was driving into Nairobi from the airport a couple of years ago, I looked at the skyline, and I said, "Oh Lord, we've landed in Wichita by mistake." I took my son up the Post Office Tower in London to show him London and we couldn't see St. Paul's through the skyscrapers. And now Tokyo looks like Dallas, Johannesburg looks like Dallas, everything looks like Dallas, if it isn't Wichita. You get the feeling that we travel faster and faster to places that look more like what we left behind. So there really isn't much point in going anywhere...

"There are enormous dangers in this deregionalizing of the world—particularly biological dangers and I suspect cultural dangers also. In a sense, just as the gene bank is being depleted by extinction, the culture-gene bank is being depleted also. Now this isn't quite as serious perhaps as it seems because the great difference between biological evolution and social evolution is sex. That is, whereas the biological world never developed more than two sexes—there are some doubtful cases in the plants and in the human race—the social world is multi-sexual. If you think of the genetic base of the social world as the knowledge structure it is—that is, the cognisphere, we can make artifacts and organizations by bringing together parents from all over the lot... The clear implication, of course, is that the knowledge structure could reproduce itself easily. If the whole world were destroyed today, except Australia, we'd have it all back again in 200 years. One university is enough. That's all; one university could be the gene of the whole new modern world—particularly if it had a Xerox machine. After all, the first Xerox is DNA and so that sort of encourages me...

"On the other hand I worry about the optimum degree of regionalism. You can have both too much of it and too little, and with all the modulization of the world, it has faults which underlie the social structure. Living on the earth is a little like living in San Francisco, isn't it? Last week we heard the San Andreas Fault go "eeek" and it was pretty scary and also cost a billion dollars. We certainly can't be wholly optimistic about the future of the world as long as these extraordinarily dangerous faults exist in it, particularly in the international system...

"I'm all for austerity, especially for other people, but I wouldn't put all my eggs into this basket. The other basket is knowledge, essentially the continued increase in human knowledge. While there are limits to the growth of knowledge, fortunately, they're a helluva long way off. All the evidence is that we only use 10% of the human nervous system and that this is a vast mind, a huge resource that we've hardly scratched, but I think we'd better hurry up on it a little."

Prof. Kenneth Boulding
University of Colorado
"The World as an Economic Region"
Conference on Regional Economic Policy

(*Continued from page 8*)

of today. This is an immediate consequence of the need to calculate interdependent profitabilities of indivisible investment projects in the activities belonging to a development cluster. All the dominant political parties in Sweden have preferred the decentralized market system of investment decisions. They have at the same time adopted the principle of industrial development cluster policy in order to further a more decentralized pattern of economic development. It is almost impossible to predict how this fundamental conflict of goals could be resolved within an unchanged economic and political structure of the Swedish society . . ."

Prof. Ake Andersson
University of Gothenburg

"However one may applaud, or be distressed by, the variety of projections of Minnesota's future, we do need to be aware of the trends. And the point is: do we like these trends? Is this where we *want* to go? And just as important, what can we do about it? Projection studies indicate that the broad trends in major land use and population changes during the period ahead are probably inexorable. Forces pushing development in a particular direction at any point in time do indeed tend to be strong. They encompass not only economic incentives, but legal and political frameworks, and even social outlooks of a population. This cumulative momentum of the past is not something easily diverted. Such forces are not only strong, but often subtle and therefore difficult to come to grips with.

"Nevertheless, we don't need to accept any given course of events as inevitable: the question is really one of benefits versus costs: how much are we willing to *pay* to shape our future. In certain situations, there may be little cost at all. Most of us think of laws or regulations that are still on the books long after their original purpose has passed the scene. Such anachronisms stand in the way of efficient progress, and their removal can in fact mean savings. I'm thinking of building codes, for example, or local government boundaries that no longer make sense.

"Another way to improve our environment at less cost than might appear is through the use of public policy to compensate for the failure of the market pricing system to incorporate *all* costs of a particular product or service. By now, many laymen are familiar with the concept that economists call 'external diseconomies,' that is, the costs of cleaning up the air or the rivers, of barring noise around airports or congestion in the city, of paying cleaning bills around factories, costs that fall on someone other than the polluter. When public policies require those who pollute to bear these costs, we are simply redistributing the costs in a more equitable fashion, not increasing them for society as a whole.

"But not all attempts to guide our own destiny will be inexpensive. For example, we may decide that it pays to subsidize the output of certain industries or crops, or advocate an economically inefficient location for a particular plant simply because we believe the social benefits outweigh the additional cost. As a generalization, I think we must assume that the greater the change required to divert the natural unplanned course of events, the higher the price we are going to have to pay to bring about the change. For example, to divert population growth from metropolitan areas to out-state districts in meaningful numbers will probably require *costly disincentives* for locating in the metropolitan area, together with *costly* incentives to settle elsewhere. In saying this I mean no disrespect for our out-state communities. I simply mean that past population trends, and projections for the future, reflect a concentration of population in and around metropolitan areas; to change this trend in a meaningful way would probably require costly countermeasures.

"At this broad level of generalization, I would argue that the state should concern itself with three issues: 1) the distributional patterns of population changes, 2) a more equitable distribution of gains from growth among the state's present population, and 3) insure that increases in living standards today are not at the expense of quality of life tomorrow. These are easy principles to enunciate, but harder to specify and even harder to implement.

"What we mainly lack is sufficient effort to integrate views on each one of these particular areas into an overall framework to guide the state's development. Buckminster Fuller is fond of saying "whenever I draw a circle, I immediately want to step outside of it." We too must step outside the small circles we draw around our special spheres of interest and attempt to see the *whole* picture, with all its many interrelationships. It's not an easy thing to do, especially for a people who historically have resisted planning in the name of too much government, who pride themselves on personal freedom and independence. But again times change, and interdependence in all aspects of life is now at least as important an organizing principle as independence was to our forebears."

Bruce K. MacLaury
Federal Reserve Bank of Minneapolis

The Role of the Central Bank

The dedication ceremonies of the new building brought many of the district's bankers in to hear Chairman Arthur Burns and Louis Rasminsky, former Governor, the Bank of Canada. Their remarks put particular focus on the unique role and obligations of the central bank in both domestic and international economic policies.

"The Federal Reserve was endowed by legislative mandate with a substantial degree of independence within government. Freedom from the daily pressures of the political process has given the Federal Reserve the opportunity to make the hard choices that continually confront those who are responsible for economic and financial policies. Over the years, the Congress has significantly enlarged the duties and responsibilities of the Federal Reserve System. The stature of our central bank has therefore grown within the counsels of government and in the minds of our people. Nowadays, the people of America expect the Federal Reserve to use its great powers to thwart—or at least to moderate—business recessions, and they also look to the Federal Reserve as the ultimate defender of the purchasing power of their currency.

"To earn the confidence of the American people, the members of the Federal Reserve family have observed rules of conduct such as animate our great universities and our courts of justice. We have sought to foster a spirit of freedom and objective inquiry in the field of economic analysis. Our staff in Washington and the staffs of the individual Reserve Banks are encouraged to analyze economic and financial problems in the spirit of science and to express their findings freely. The Directors of our Reserve Banks, who are drawn from every region and practically every branch of business in our country, provide a constant stream of up-to-date information on business and financial developments. When the Presidents of the individual Reserve Banks meet with the Federal Reserve Board, as they do at very frequent intervals in our nation's capital, they have at their disposal a system of economic intelligence that cannot be matched by any organization or agency in our country or, for that matter, anywhere else in the world.

"Concern for the general welfare, moral integrity, respect for tested knowledge, independence of thought—these are the basic assets of the Federal Reserve. They are the foundation on which our nation's monetary policy is constructed.

"The Federal Reserve must, of course, account for its stewardship to the Congress and to the general public. We do so through news releases, publications, public addresses, and testimony before Congressional committees. The information that our central bank discloses about its myriad activities vastly exceeds, both in promptness and detail, that of any other central bank. We do, of course, withhold for a time information that could cause embarrassment to a foreign government or that might enable the more alert members of the financial community to gain an early and unfair advantage over other citizens by becoming privy to the precise plans that the Federal Reserve has set in motion. Even here, once the need for delay in reporting has passed, full disclosure is made by the Federal Reserve, so that the Congress and the interested public may be in a position to appraise the System's policies and actions, and so that we ourselves may benefit from outside review and criticism."

Arthur F. Burns, Chairman
Board of Governors of the
Federal Reserve System

"The responsibility for attaining a reasonable degree of international payments equilibrium falls of course on creditor as well as on deficit countries. One is entitled to expect the creditor countries to remove impediments to their imports of goods and services and to follow policies which keep their economies operating at a high level of activity. I do not feel, for my part, that one is entitled to expect them to embrace inflation, or to tolerate it, in order to help restore international equilibrium, and one of the difficulties in the present situation is obviously the world-wide nature of the inflation. It seems to me that what one is, however, entitled to expect is that the creditor countries should seek to control inflation by methods which do not offset the efforts of the deficit countries to bring their own balance of payments under control. To put the matter concretely, the impact of the very high level of short term interest rates in the United States on your balance of payments is less than it would be if Germany, in attempting to control her inflation, placed more emphasis on a restrictive fiscal policy than on a restrictive monetary policy, for in this case German interest rates would be lower and there would be more tendency for short-term funds to be repatriated to the United States. An appropriate mix of policies is just as necessary in the international field as it is in the domestic field and this is one of the most difficult problems that has to be tackled in connection with the current efforts at international monetary reform.

"So much for the international constraints on the use of monetary policy. What I have just said brings me to the second major constraint on monetary policy. Monetary policy is only one of a pair of twins which influence the total level of spending in the economy, the other of course being fiscal policy, which affects the total level of spending in the economy through changes in the amount of tax revenue taken from the private sector, through government expenditures and through the important lending activities of the Government. Monetary and fiscal policy are sometimes discussed as though they were completely separate. They are by no means the same thing but fiscal policy exerts a strong influence on monetary conditions because it is fiscal policy that determines the amount of borrowing that the Government must do and this, together with the way in which the Government debt is managed, can have an important effect on the liquidity of the banking system, the money supply, and on credit conditions generally. For example if, in an inflationary situation, the total borrowing requirements of the Government together with those of the private sector are rising very rapidly, the central bank may find itself in the position of having to choose between allowing the money supply to rise more rapidly than it would like to see or allowing interest rates to rise more, or more rapidly, than it would otherwise consider appropriate.

"The moral of all this is that one must constantly seek to coordinate fiscal and monetary policy and to obtain that combination of the two which produces the influence on total demand and on the level of interest rates which is most appropriate to the country's domestic and international position.

"This is easier said than done, and it is a constant complaint of central bankers that in the task of controlling inflation governments all over the world rely too heavily on monetary policy and do not see to it that an adequate share of the burden is assumed by fiscal policy. There are no doubt important technical reasons for this, including the greater flexibility of monetary policy as compared with the tradition of an annual budget. But it is difficult to escape the conclusion that the unpopularity of anti-inflationary policies provides a large part of the answer."

Louis Rasminsky
Former Governor
Bank of Canada

The full text of individual speeches and copies of the proceedings of the various conferences used in this report are available free of charge. Direct your requests to:
Office of Public Information
Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55480

Federal Reserve Bank of Minneapolis
Financial Statement

Directors & Officers

Helena Branch Directors & Officers

Statement of Condition

December 31

Assets	1973	1972
Gold Certificate Account	$ 114,240,000	$ 77,902,000
Special Drawing Rights Certificate Account	7,000,000	7,000,000
Federal Reserve Notes of Other Federal Reserve Banks	26,688,000	27,004,000
Other Cash	10,455,000	5,053,000
Loans to Member Banks	9,900,000	1,650,000
Securities		
Federal Agency Obligations	40,284,000	25,684,000
U. S. Government Securities	1,631,304,000	1,367,269,000
Total Securities	1,671,588,000	1,392,953,000
Foreign Currencies	102,000	4,416,000
Cash Items in Process of Collection	399,797,000	456,607,000
Bank Premises	35,547,000	29,789,000
Other Assets	49,875,000	18,399,000
Total Assets	$2,325,192,000	$2,020,773,000

Liabilities		
Federal Reserve Notes in Circulation	$1,171,138,000	$1,040,588,000
Deposits		
Member Bank Reserve Accounts	618,713,000	548,820,000
United States Treasurer-General Account	89,442,000	52,474,000
Foreign	5,980,000	6,670,000
Other Deposits	8,519,000	6,157,000
Total Deposits	722,654,000	614,121,000
Deferred Availability Cash Items	368,441,000	315,389,000
Other Liabilities	23,663,000	14,409,000
Total Liabilities	2,285,896,000	1,984,507,000

Capital Accounts		
Capital Paid In	19,648,000	18,133,000
Surplus	19,648,000	18,133,000
Total Capital	39,296,000	36,266,000
Total Liabilities and Capital Accounts	$2,325,192,000	$2,020,773,000
Ratio of Gold Certificate Reserves to Federal Reserve Note Liabilities	9.8%	7.5%

Earnings and Expenses

For the Year Ending December 31

Current Earnings	1973	1972
Interest on Loans to Member Banks	$ 1,792,000	$ 168,000
Interest on U.S. Government Securities	97,100,000	73,638,000
All Other Earnings	248,000	242,000
Total Current Earnings	99,140,000	74,048,000
Current Expenses		
Operating Expenses	19,281,000	16,738,000
Assessment for Expenses of Board of Governors	1,024,000	802,000
Federal Reserve Currency	842,000	555,000
Total Current Expenses	21,147,000	18,095,000
Expenses Reimbursable or Recoverable	(893,000)	(833,000)
Net Expenses	20,254,000	17,262,000
Current Net Earnings	$ 78,886,000	$ 56,786,000
Surplus, January 1	$ 18,133,000	$ 16,895,000
Current Net Earnings	78,886,000	56,786,000
	97,019,000	73,681,000
Payments to U. S. Treasury	(74,485,000)	(53,401,000)
Dividends Paid	(1,148,000)	(1,051,000)
Net Profit or (Loss)	(1,738,000)	(1,096,000)
Surplus, December 31	$ 19,648,000	$ 18,133,000

*Volume of Operations**

	Number		Dollar Amount	
	1973	1972	1973	1972
Loans to Member Banks	995	168	$2.381 million	$303 million
Currency Received and Counted	109 million	98 million	777 million	706 million
Coin Received and Counted	320 million	311 million	39 million	37 million
Checks Handled, Total	528 million	471 million	135 billion	117 billion
Collection Items Handled	.7 million	.8 million	2.3 billion	1.8 billion
Issues, Redemptions, Exchanges of U. S. Government Securities	6.8 million	6.3 million	22.7 billion	19.0 billion
Securities Held in Safekeeping	383,962	366,235	4.1 billion	3.2 billion
Transfers of Funds	440,063	358,310	404 billion	336 billion

*All figures are for Minneapolis and Helena combined.

Federal Reserve Bank of Minneapolis

Directors

Bruce B. Dayton, Chairman and Federal Reserve Agent
James P. McFarland, Deputy Chairman

Class A — Elected by Member Banks
Roy H. Johnson, President, *1974*
First National Bank, Negaunee, Michigan

David M. Smith, President, *1975*
First National Bank, River Falls, Wisconsin

Charles T. Undlin, President, *1976*
First National Bank of the Black Hills
Rapid City, South Dakota

Class B — Elected by Member Banks
John H. Bailey, President, *1974*
The Cretex Companies, Inc., Elk River, Minnesota

David M. Heskett, President, *1975*
Montana-Dakota Utilities Company, Bismarck, North Dakota

Warren B. Jones, Secretary-Treasurer, *1976*
Two Dot Land & Livestock Company, Harlowton, Montana

Class C — Appointed by Board of Governors
Bruce B. Dayton, Chairman, *1974*
Dayton Hudson Corporation, Minneapolis, Minnesota

James P. McFarland, Chairman, *1975*
General Mills Inc., Minneapolis, Minnesota

Howard R. Swearer, President, *1976*
Carleton College, Northfield, Minnesota

Member of Federal Advisory Council
George H. Dixon, Chairman and President
First National Bank, Minneapolis, Minnesota

Officers

Bruce K. MacLaury, President
Maurice H. Strothman, Jr., First Vice President

Sheldon L. Azine, Assistant Counsel
and Assistant Secretary
Earl O. Beeth, Assistant Vice President
Melvin L. Burstein, General Counsel
Frederick J. Cramer, Vice President
Ralph J. Dreitzler, Vice President
Leonard W. Fernelius, Vice President
Lester G. Gable, Vice President
Thomas E. Gainor, Vice President
Roland D. Graham, Senior Vice President
Albert R. Hamilton, General Auditor
Richard C. Heiber, Assistant General Auditor
Douglas R. Hellweg, Vice President
William B. Holm, Assistant Vice President
Ronald O. Hostad, Assistant Vice President
John D. Johnson, Assistant Vice President
Ronald E. Kaatz, Research Officer
Arthur I. Lee, Assistant Vice President
John A. MacDonald, Senior Vice President
David R. McDonald, Vice President
Clarence W. Nelson, Vice President
and Director of Research
John P. Olin, Vice President and Secretary
Michael J. Pint, Assistant Vice President
Ruth A. Reister, Assistant Vice President
and Assistant Counsel
Charles L. Shromoff, Assistant Vice President
Herman M. Slind, Accounting Officer
Richard B. Thomas, Assistant Vice President
Clement A. Van Nice, Senior President
Joseph R. Vogel, Chief Examiner
Robert W. Worcester, Vice President

Helena Branch Directors

William A. Cordingley, Chairman
David G. Drum, Vice Chairman

Appointed by Board of Directors
Federal Reserve Bank of Minneapolis
Robert I. Penner, President, *1974*
Citizens First National Bank, Wolf Point, Montana

John Reichel, President, *1974*
First National Bank, Bozeman, Montana

Donald E. Olsson, President, *1975*
Ronan State Bank, Ronan, Montana

Appointed by Board of Governors
David G. Drum, President and Chairman, *1974*
Montana Beef Industries, Inc., Billings, Montana

William A. Cordingley, President and Publisher, *1975*
Great Falls Tribune, Great Falls, Montana

Term expires December 31 of indicated year

Helena Branch Officers

Howard L. Knous, Vice President
Bruce J. Hedblom, Assistant Vice President