

Talk by  
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at the  
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**LOOKING TO THE FUTURE OF THE FEDERAL RESERVE BANK**

## LOOKING TO THE FUTURE OF THE FEDERAL RESERVE BANK

I am very happy to see so many of the bankers of this Ninth Federal Reserve District here today to view the new building and to celebrate its opening. I hope to see each of you in Minneapolis on many future occasions when we can visit in somewhat more leisurely fashion than has been possible this week end. I also want to visit with you in your own banking offices as I get around the district. Given the size of the Ninth District, this obviously will take some time, but I hope not too much time.

The Federal Reserve Bank of Minneapolis has a great tradition of service to the Ninth District community, a tradition which I hope can be continued for a long time to come. Two of my predecessors as president of this bank are here today, Oliver Powell and John Peyton. I know them and their work quite well. They set high standards of performance for themselves and for this bank. Those standards will be hard to equal, but our efforts will be bent in that direction.

I know that I do not have to tell you people that John Peyton set the stamp of his character and personality upon the Minneapolis Bank and that this was reflected in the work of the bank throughout this district. Oliver Powell further molded this institution into a major force in this community, and in addition is more responsible than any other individual for the beautiful new building which we have here. This marks in very tangible fashion his great contribution to the Minneapolis Bank, a contribution that runs far beyond the new building, impressive as it is, into many facets of economic and banking life in this area.

The theme of this Conference is economic development, as you can tell from your program. My purpose in speaking to you is to tell you something of the work of the Federal Reserve Bank of Minneapolis and of the role it has played and will play in an expanding Ninth District economy. This theme of economic development is one that always has engaged me. It interested me in the St. Louis District, from whence I came, and it holds equal and even growing interest for me in the Minneapolis District.

The size and scope of activities of the Ninth Federal Reserve District are impressive enough to long-time residents of this area; to a newcomer they are even more imposing. The 412,000 square miles stretching from the Soo to the western border of Montana comprise a tremendous area with a broad natural resource base. Upon this base, a relatively sparse population has built the Ninth district economy. Even to a newcomer the importance of agriculture in the regional economy is immediately apparent, and this district naturally is classed as an agricultural district. But the mining, petroleum, and lumber activities also are of key importance to the area and they, with the city concentrations of manufacturing, trade and transportation, share with agriculture the credit for the pattern and level of the district income structure. Future economic growth in this region naturally will depend upon how well we utilize our resource base and how well the people of the Central Northwest can work to develop new and expanding economic endeavor.

Before going further with this theme and the part of the Federal Reserve Bank of Minneapolis in it, let me talk for a bit about the bank in general and its work. While I am new to the Ninth District and consequently am not yet familiar with all of the details of this bank's operations, I am, of course, familiar with the general functions of a Federal Reserve Bank. And I might tell you something here that you probably already know or at least suspect. While each of the Reserve Banks does roughly the same kind

of work and has about the same functions as all of the others, each bank is convinced that it has the best people, the best district, and does its work better than any of the others. Thus we compete for efficiency marks among ourselves.

Now I always have known that the best Reserve Bank is located on the western shore of the Mississippi River. For a long time, however, I was confused as to its exact location and thought it lay about 500 miles south of Minneapolis. I now am straightened out and realize that the best Reserve Bank does lie on the ~~Lower~~ <sup>Upper</sup> Mississippi but obviously is located in Minneapolis.

The key function of a Federal Reserve Bank is to participate with the Board of Governors and the other eleven banks in formulating and carrying out national monetary and credit policy. This is the primary function of any central bank. The major difference between the Federal Reserve System, the central bank of the United States, and most other central banks is that the System is organized along regional lines with a Federal Reserve Bank in each of the twelve districts. To my mind this regional organization is one of the great strengths of the Federal Reserve System for it permits the evolution of a national monetary policy framed with appreciation of regional differences.

Each of the Reserve Banks attempts to keep itself informed as to the structure of the district economy and its credit institutions, as to current developments in its district, as to the impact of district developments upon the national economy, and as to the impact of national developments, programs and policies upon the district economy. Against this background of information and understanding the representatives of the Reserve Banks and the members of the Board of Governors discuss and consider the national economic and credit situation and thus formulate national monetary policy. I do not mean to imply that such policy is slanted toward one region as

against another; it is not. It is formulated, however, with awareness of, with sensitivity for, the facts of regional developments.

The Reserve Bank people who spend much of their time in carrying out this important function are the management, the economic research staff, and the credit-discount staff. The directors of the bank and its branch make substantial contributions to this function through their intimate knowledge of business, agriculture and credit developments. You bankers help us with this work through your occasional visits to Minneapolis and Helena and our visits with you in your home areas when you also make available your knowledge of local conditions.

Closely allied to the Reserve Bank's function of participating in the formulation and carrying out of credit policy is its important function of bank supervision, performed by its examination people. This function, of course, is shared with the national bank, the FDIC, and the State bank supervisory people. Working together and with the cooperation of you bankers, this function makes for a strong regional banking system, which in itself is a necessity for sound economic development.

But a Reserve Bank does many other things besides work with credit policy and bank supervision, and these other functions also are common to most central banks in other countries. It provides a variety of services for the government and for the commercial banking system. In a very real sense, the services it provides for the commercial banks are services in the interest of the whole district economy. As a matter of fact, this is the basic reason for so performing them.

The Federal Reserve Bank of Minneapolis acts as Fiscal Agent of the United States in this Ninth District. It accepts deposits for government agencies and pays government checks. It handles the details of regular Treasury financings and does a lot of the work in connection with the Savings

Bond program. In general it may be said to be the regional banker for the Federal Government and to perform a lot of other services for the government and its agencies.

For the commercial banks, really for the public at large, it collects checks and noncash items, makes transfers of funds and handles shipments and receipts of currency and coin, to mention merely three or four important operating activities. The size and scope of this work deserve illustration by actual figures. Last year, in 1956, the Minneapolis bank handled 109 million checks with a total value of \$30 billion, made 54,000 fund transfers totalling \$23 billion, counted and verified \$436 million in currency and coin, and effected collection of close to one million noncash items.

All of these activities, of course, are carried on by people and we in Minneapolis are fortunate to have a loyal and devoted staff of officers and employees. To see that they operate well we have to have the usual internal staff functions of personnel, planning, public service, accounting, audit, maintenance and protection. All of these contribute to the smooth working of the whole organization; credit policy, supervision, and operations for government and the commercial banks.

As a newcomer, and consequently without any credit due for good performance of this bank's staff, I believe I can say objectively that the 700 people of the Minneapolis bank and its Helena Branch have done a fine job. For the past two years the work of the Minneapolis staff has been conducted under adverse conditions as the new building was being erected. During and prior to that time, almost equally adverse conditions resulted from operating in several locations around town. From this time forward, with ample good operating quarters, we should be able to do even better than in the past.

All of these activities, participation in credit policy formulation, bank supervision, and operations, contribute to economic development. They help maintain a healthy economic climate so that development can be fostered. They help maintain a strong financial system so that development can be financed. They help provide a far-flung financial payments system so that economic activity can be carried on freely and easily. Without these, economic development would be harder to achieve and would come more slowly.

But in addition, the Federal Reserve Bank can aid in development work in two other important ways. Through its research work it can provide information which is useful to those on the active side of economic development. By cooperating with various local and regional groups, those doing research and those doing active development work, it can also make a contribution. I want to spend the remainder of my time today discussing these two phases of Federal Reserve activity.

The research work of the Federal Reserve Bank of Minneapolis might be viewed as a four-part program. It consists of current data collection, analysis and interpretation of current economic activity, a longer-range research program, and dissemination of the findings of these three activities. Thus, we collect directly a lot of statistical information on banking, trade and production. With these data, plus other information we obtain from various sources, we make current economic analyses, as I noted in connection with our work in the field of credit policy formulation. We also engage in longer-run, more basic research dealing with various aspects of the Ninth District economy, its structure, its resources, its income. Finally, we disseminate this information through regular statistical reports, articles in the Monthly Review, special pamphlets or reports, and public speeches.

Let me talk further about the third part of this four-part research program: the longer-run, more basic research dealing with the structure, resources

and income of this district. This is the kind of activity that is of high importance to regional economic development and this research activity is really keyed to development as well as to credit policy.

The primary problem of economic development is how to maximize the return of capital and labor applied to resources. This means that there is a continuous search for new and better methods of resource use. Thus study of the Ninth District economy, its structure, its resources, its income pattern, fits neatly the needs of economic development as well as the needs of the Federal Reserve System's credit policy formulation.

I mentioned earlier that this Central Northwest area is one of sparse population applied to a broad, natural resource base, with agriculture, lumber, petroleum and mining being major activities along with the trade and manufacturing of the cities. This bank thus has studied various aspects of these key economic activities and has made the results of its studies known through publications and public discussions. ~~\*~~ It naturally will keep up this kind of work since it is useful in the process of credit policy formulation, as well as in economic development work.

There is one other area of research that I hope we can get into more fully in the future: The measurement of income in small areas of the district and the study of income flows and income patterns. Information of this kind would be most useful in the regular work of the bank and would be equally useful in economic development work. It would show up income differences among district areas; it would aid in showing what causes low income and help people plan projects for income growth; it would enable us to measure progress in income over time. Such information would serve as a kind of combination divining rod and measuring stick. Coupled with resource studies and studies of the economic structure of the district it would be of great help in framing development programs.

Pulp & Paper  
Taconite  
Williston basin  
... ..



I should make quite clear that when I talk about framing development programs I am not thinking of such as being laid out and handed down by government. Rather I am thinking about development programs to be devised and carried out by local and regional groups and organizations interested in development in their own localities and regions. This is the process by which most development has occurred in this country and, I believe, the process by which most future progress will come.

And this leads me to the other phase of Federal Reserve Bank activity which can aid in furthering economic development. I call this simply "cooperation" with the local and regional groups and organizations referred to above. By "cooperation" I mean being a good citizen or a good neighbor and taking part in the planning of local or areawide research and developmental programs. This is wholly practical on our part. While we want to keep and increase the position of the Federal Reserve Bank of Minneapolis as a focal point for information about the Ninth District economy, we cannot hope to make it the sole source of such information. We do not have unlimited staff resources nor are we possessed of all the talent in this district. We cannot be an action factor in development work; we do no direct promotion, we build no new plants, we operate no mines or farms. But we can spend some time in working with people who are studying development projects, who are doing basic research on the regional economy and who are doing direct promotion or engaging in new enterprise. We will benefit as much from their work as they will from ours; we will learn more about the district as we do this, and this knowledge will be useful to us in carrying out our basic job.

So I say to you today that the Federal Reserve Bank of Minneapolis hopes to continue its work in credit policy, in supervision and in operations on an efficient basis. It hopes to do this against the background of a growing Ninth District economy. And it hopes that it can look with pride at our own contribution to that growth as time goes on.