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Minneapolis Bankers  
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Thank you, Paul. We appreciate very much having you with us today. I know that everybody here enjoyed your remarks very much.

We are very delighted that the newly elected president of the Minneapolis Federal Reserve Bank could be with us today, and I hope that before the day is over many of you will have the opportunity to meet him and to get to know him. As you know, he has lived all of his life in Montana. He told me this noon that he was right now in the process of moving to the great state of Minnesota, and we hope that you get the job done real soon, Hugh. He is an attorney as well as a certified public accountant. He is a bank director and was a director of the Minneapolis Federal Reserve Bank prior to his recent election to the presidency. It is indeed a pleasure to introduce to you Mr. Hugh Galusha, whose subject is "Banking in Transition." Mr. Galusha. (Applause)

"Banking in Transition"  
by  
Hugh D. Galusha, Jr.

Following a virtuoso like Paul Nadler reminded me of a story of a famous violinist, Effrem Zimbalist, who was sitting with an equally famous pianist, Arthur Rubinstein, at the debut of Yehudi Menuhin. Shortly after the performance had started Zimbalist said, "My God, it's hot in here," and Rubinstein said, "Not for pianists, it isn't hot."

Bankers have always lived in an age of transition. I think the good old days never did exist. But we're being forced to take a new look at banking because of the tremendous speed-up in our society. We had an extraordinary talk this noon which gave us an idea what's taking place in the scientific community. All I could think of when I was listening to that was that when this new community starts out in space, I hope to God it isn't in the Ninth

Federal Reserve District, because I've got all the problems I can accommodate right now.

We're aware of what's happening in agriculture; the fact that if we were to have the same level of agricultural production or would have had in 1962 that we had had in 1940, there would have been half again as many people employed in agriculture.

These rapid changes are happening to banking. These things are happening to our economy, the financial world. They aren't as well known, they aren't as dramatic, but they're here. We've seen examples of action and reaction in our society, some planned, but most of them are accidental. I've been impressed in the reading of the history of the Federal Reserve System that the Open Market Committee, which has been an extremely successful tool in terms of monetary policy, came about as an accident. The system had to get more earnings in the early 20's, so they bought government securities. When they bought government securities, they found it had an immediate effect upon the banking system. From that accidental discovery came a very useful tool.

We're now in an era when perhaps the Open Market Committee as an instrument is not as effective as it was before because of evolution that has taken place in the banking community, such as the growth of CD's, the growth of negotiable notes, the changes that have been so well discussed by Dr. Nadler. We have a new monetary instrument; speeches by the chairman of the Federal Reserve System -- an example of action and reaction that was unrehearsed, spontaneous and probably fortunate. But these things are happening. They are facts that can't be ignored. I'm mindful of the story about Gallileo when he maintained against the Roman church that the earth went around the sun, he was forced to recant, but as he left the stand after his public recanting, he was overheard

to mutter, "But the earth still goes around the sun." Change does occur. Change will occur. It's occurring fast. We're aware of what's happened in the industrial world; for example, it is estimated that 50% of General Electric sales are products devised since 1950. There has been an acceleration in every phase of our society, and this includes banking.

What's going to happen in the Ninth Federal Reserve District? I feel very strongly about this, because this is the district in which I have made my life. This is an area with many small businesses and banks. I'm particularly sensitive to the problems of small banks and the problems of survival of small business generally. I made my living serving small business, fighting against organized society in one way or another, whether it was the Internal Revenue Service, the FCC, the SEC, or what have you. And it is a fight. The interesting thing to me, though, is that small business does survive, that there are ways to survive, that the resourceful businessmen do succeed, and they are making profits. This is true of small banks, but they survive only if the management is aggressive, if the management is fully apprised as a matter of deliberate policy of everything that's taking place in their own industry.

There are a lot of glamorous things going on in the banking industry. Computerization is one. I read a paper (the amount of papers I find I have to read in this job is just incredible. I have a feeling some day my secretary is going to come in and find me suffocated) having to do with the compatibility of second generation computers, which itself is a lovely, lovely title. I thought of the frequent cause for divorce out in Montana, recited as a lack of compatibility, and then I got a picture of one computer divorcing another computer! While the whole broad spectrum of communications -- furnishing

information, the use of encoding, securing statistical data -- back and forth across the district is important, it is very easy to go overboard on hardware. I am afraid there is a status factor involved in having a computer, just like there is a status factor in having an economist. I am not sure that every bank can afford either. Many of these items of hardware, and economists belong in this category, are essentials in the banking industry. Unfortunately, only the larger banks can afford them. In the drive to hold profits, all banks are attempting to enlarge their areas of service, and reduce their costs simultaneously. Reliance to some degree on the new technology is essential.

How can the small bank compete? I think we are going to find a consolidation of service functions, but whether this can be done and preserve the integrity of the individual small bank is something else again. I happen to be confident that it can be done, and I think it can be done because there exists this service/cost vacuum. All banks have the same cost problem, but generally the big bank can emerge with a lower unit cost structure than the small bank. The small bank cannot compete on equal grounds. Pressure to find answers for the small bank is mounting. Somehow they are going to be found. I would hate to see every small bank end up with a computer, but the pooling of services may be an answer.

Another area of the expanding service/cost vacuum is trust service. Trust services are essential. But, again, to operate a trust department efficiently and effectively calls for an expensive department. A trust department must have analysts available to provide investment service competently and protect the investor. The trust department must be staffed with officers who have a single objective -- the trust department. I suspect there may be an area here for pooling of services, I don't know.

Please don't go away saying that I am advocating pooling of services as a sole solution to the service/cost vacuum. I am just simply saying that these are things that the banking industry is facing, that there are these vacuums that exist, and something is going to occur to fill them. We think of action versus reaction. I think, generally speaking, as individuals we react; but we urge the people we are trying to influence to act, and there is a whole of a lot of difference. Having bargained with banks on behalf of clients, I am well aware of the lectures exhorting the businessman to modernize, to do this or that as a prerequisite to obtaining the loan. And at the same time, the banker delivering the lecture will be violating some of the basic precepts that he is advocating for his customers.

These changes can happen. They can happen peacefully, which is evolution, or they can happen violently, which is revolution. And the banking industry is up against the same time problem to accomplish the essential evolution that American industry has been. American banking is the home of free enterprise. One of the reasons that I have been able to make this shift from having been wholly on the side of private enterprise to at least a quasi-public institution is because I believe, and I believe this just as sincerely as I believe there is a Lord, that if free enterprise survives, it is going to survive through a healthy, wholesome, growing banking community, for it is the guts of the private enterprise system. Now I know that for someone who is president of the Federal Reserve Bank to speak this way to you is a little like the lecture that was given at one Naval station during the second World War -- when a man left the training program and became a midshipman, he was read the famous speech of John Paul Jones on freedom and democracy, knowing full well that when he got on the warship he was to be assigned to, he was going to have neither.

But I believe that the banking fraternity can bring about these changes without the intervention of government agencies or any other social pressure. I believe this very strongly, because it has happened in the past. The only thing that has changed is the timetable. We are in an accelerated era. We have a different political climate, and we have a different economic climate. If these service/cost vacuums aren't filled by the banking industry itself -- whether operating individually or through the associations, or even, if you please, through the Federal Reserve System, which I regard as an essential element of the banking industry -- they will be filled by state and federal action. If this happens, it will be unpleasant and uncomfortable, but it will happen. I don't know whether it will be a Supreme Court decision or any of the other devices now accomplishing social change, but it will come, and when it comes, you will have lost something essential and something very precious to each of you. You will have bargained away your freedom to evolve in an orderly, planned manner on an individual basis. Thank you very much.

(Applause)

GLENN A. UGGEN:

Thank you very much for being with us this afternoon, Hugh. I hope that your moving will soon be accomplished so that you can be referred to as a true Minnesotan.

Would everyone like to stand up and take a stretch for a minute?

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Gentlemen, our good friend, John Chisholm, has been Commissioner of Banks for just a little over a year. Personally, I think we are extremely fortunate that John accepted the Commissioner's job, and, John, I think

everyone here joins me in expressing their appreciation to you for the outstanding job that you have done in the short time that you have been in the Commissioner's office. It has been a great pleasure to work with you and to see the progress that has been made in many areas since you accepted that Commissioner's post.

Gentlemen, I take great pleasure in introducing to you The Honorable John Chisholm, Commissioner of Banks for the State of Minnesota. John.

(Applause)

Banking in transition.

Adam and Eve.

Back in the days of World War II it was the custom at one of the naval stations to accompany the promotion of enlisted men to the rank of midshipmen in the U S naval service with the reading of a letter from John Paul Jones on the subject of command at sea. The gist of the message was that while an American warship might fight for democracy and freedom, her company would experience comparatively little of those conditions -

~~A condition of banking~~

Application to all units of our society.

My experience - govt agencies

Banking generally -

Action - reaction

Premium on action - and  
anticipation of change

F R S history



Open market device

(2)

~~C.D.'s~~

Banking generally -  
banking like  
automation -

computer compatibility

"divorce"

~~monetary~~

monetary instruments

C.D.'s

negotiable notes

cost of money

decline of demand deposits

Security

Trust departments

Role of economists

✓ ✓ academic community

research

no economist has been able to find  
a clear cut or entirely satisfying  
relationship between economic change  
and advances in scientific knowledge.  
But - that there is a correlation  
is inescapable. ~~But~~ ~~is~~

Agriculture is a basic industry in this district. If farm productivity today ~~was~~ <sup>was</sup> then same as in 1940, some 50 to more labor, land and other resources would have been required for the 1962 output.

~~It would~~ the changes in industrial product mix are as dramatic and as well known just as dramatic I suspect, but less well known are the changes in the structure and product of U.S. banking.

Log -  
customer pressure - even smallest bank -  
my firm

Profit

quote

While the bank administrator necessarily is guided by the immediate consideration of profit, he must recognize that a bank is a "timeless" institution in the sense that the long-run best interest of his community is the long-run best interest of the bank as well. Willingly or unwillingly, he has a very real responsibility in the shaping of our economy and in the future of our political and economic institutions. Both his own self-interest in the preservation of the American system of private chartered banking and his wider interest in the continuance of a private enterprise system demand that the bank administrator fully understand his position in the community and in the economy of his area and of the country.

From BANK ADMINISTRATION, American Institute of Banking