

BANK DIRECTORS' CONFERENCES
Billings, Great Falls, Missoula

October 13, 14, 15, 1965

HUGH D. GALUSHA, JR.
October, 1965

The first series of Bank Director Conferences of the Ninth Federal Reserve District -- and perhaps the first in the System on this scale -- is almost history. We have tried to do these things:

- (1) Outline the relationship between the bank director and bank management;
- (2) Outline the relationship between the bank director and the public;
- (3) Furnish a capsule analysis of our monetary system;
- (4) Give you an equally brief summary of the relationship between our banking system and the world.

The progression has been one from the purely internal relationships within a bank through the local public sector, to the nation, and ultimately to the world in which our banking system must operate.

We hope this program has been meaningful. Certainly it has been a rewarding one for those of us who have taken part in it. In a broader sense, you might ask the reason for our concern, and the justification for the presentation of this program by the Federal Reserve Bank of Minneapolis. The answer to this is to be found in the function of the System. The Federal Reserve Act had its origin in Article I, Section 8, Clause 5 of the Constitution, which, in one short sentence, gave to Congress the right to "coin money, regulate the value thereof, and of foreign coin." From this sentence has come the whole national banking edifice, including the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the

Federal Reserve System. The System has this to say about itself in the first chapter of the 50th anniversary edition of the handbook describing the purposes and functions of the Federal Reserve System:

"An efficient monetary mechanism is indispensable to the steady development of the nation's resources and a rising standard of living. The function of the Federal Reserve System is to foster a flow of credit and money that will facilitate orderly economic growth, a stable dollar, and long-run balance in our international payments."

The obligations of the Federal Reserve System and the operation of the American banking industry are inextricably intertwined. Yet the Federal Reserve System is unique in Congressionally sponsored programs in that it carries such a major emphasis on regional and cooperative patterns. It is regional in the sense that an essential element of the System are twelve district banks, with their roots in the economy of the several states comprising each district -- and voluntary in that membership, for state members at least, is optional, and the implementation of most of its operating decisions requires cooperative effort from member banks, rather than the fixed, rigid adherence to strict patterns normally thought of in terms of regulatory agencies.

These points have been personally important to me, for they enabled me to make the leap from private industry into a semi-public position with a minimum amount of philosophic dislocation. After all, having spent my professional life guiding businessmen through the morass of federal and state regulations, it would have been a traumatic circumstance of major proportions to leap from one side of my desk to the other.

Our role in the Fed, in terms of broad contribution to the development of our economy, is that of a catalyst, rather than a direct reactive agent.

We can and must serve a useful purpose in assisting the banking industry to strengthen itself; because if we don't, the only alternative will be a super federal regulatory agency, with fixed and specific operating imperatives. This would destroy the viability of our banking system, as those of us here in Montana have known it, but it would be an inevitable progression. Society abhors vacuums. If a segment of our economy as essential as the banking industry fails to evolve at a rate and in a direction required by the evolution of the economy, then Congress and state legislatures will move to do the job, with the unpleasant and sometimes disastrous results that have accompanied such moves in the past.

Bank directors are a pivotal element in this evolutionary process. As we have developed here today, the bank director has as his major responsibility the formulation of corporate policy, which is simply a high-falutin way of saying the director must work with management in developing destination points, and the routes to be taken, the mileages, and the equipment to be used in reaching these points.

We have talked about what bank directors should expect from management. Primary among these expectations is an education. The bank director must be informed about the mechanics of the bank, so that when the tough, internal decisions have to be made, the director will have adequate specific knowledge of the limitations peculiar to the bank which must influence the application of the general principles of business experience. As part of the educational process, the bank director should be made aware of the services the bank has to offer, which then puts the director in a position to be an effective representative of the bank in the community. A director can and should be

an effective salesman for the bank. His assistance in obtaining new accounts, acquainting his particular part of the business community with his bank's services, cannot be overestimated. The bank director is usually selected because of his eminence in the community. This position gives him an entree that a bank officer can acquire only by transference. Very often, unless the door is opened by the bank director, the bank officer cannot enter.

But in a broader sense, the bank director has a responsibility that transcends his particular bank and goes to his community and to the national economy. While this line of reasoning might be considered as having particular application to the so-called outside director, it also has significance for the owner-director. I happen to believe strongly in the use of some outside directors, however, because it not only broadens the horizon of management in the general areas of management and business conduct, but can contribute substantially to the profitability of the bank. Profits are essential to bank growth. A director has a responsibility to help bank management remain competitive. But the directorship, per se, is not going to yield any immediate financial benefit to the director, nor should it. It is in the nature of public service, and is fully as important, if not more so, as service on a charitable board. I use that expression advisedly, although some of you, in the pressure squeeze caused by the current interest rate structure, may think the difference between the commercial bank and the charitable institution has virtually disappeared.

Credit, and all it portends, is the lifeblood of our economy. Our economy has succeeded beyond the wildest dreams of our fathers, and seems to have no outer limit. But this can continue only as long as we have a

sound and responsible banking system, for the banks are the heart of our economy. It has only been realized the last few years that the American dollar is the ultimate weapon of the free world. By the same reasoning, domestically applied, sound bank credit is placed in proper perspective as a major source of our national strength. We have over 14,000 banks in the United States. The directors of these banks, in a real sense, are the most influential single group of national business. They are in big banks, little banks, state banks, national banks, member banks, and non-member banks, with a bewildering variety of backgrounds and operating climates; but this is as it should be in a free society. But it will not continue unless each of these men contributes fully to sound banking practices, and supports constructive management. This means a greater degree of involvement perhaps than some of you would like or had anticipated, but the objective is a worthy one.

You are part of the most exciting industry in the United States. It is exciting because it has the most to lose, as well as the most to gain. The success or failure of American banking will be the success or failure of private enterprise.