FEDERAL RESERVE BANK ECONOMIC POLICIES

TALK

by

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My topic has been listed as "Federal Reserve Bank Economic Policies", and so has Dr. Struble's. I have assumed this would have primary reference to national monetary policy. Now obviously a full hour on this subject would tax both your patience and your credulity, so I am relinquishing any claim on this topic to Dr. Struble. As a visitor to Minneapolis, he is entitled to speak in an area of his particular competence without having all the good lines preempted by a native of his host city - and as an audience, you are entitled to a discussion of this absorbing subject by an informed and perceptive analyst instead of a bewildered and dispirited participant who has been lost in the forest so long he is no longer aware of either the forest or the trees.

Instead - and without consulting the program committee, I have chosen this forum to unburden myself of some thoughts about developing a pattern for economic growth. It seems to me that the Ninth Federal Reserve District affords an unusually good laboratory. Although the district is huge - 1800 miles by 450 - both industry and population are scattered thinly enough to be fully exposed. Skews which develop in the application of broad national policies can be more easily observed - needs and aspirations have a special dimension.

I am not unduly disturbed by the questions about Federal Reserve Bank district lines. These are as good as any, I suspect. Efforts to establish geographically described districts that will encompass any more than the roughest kind of economic homogeneity are not going to be successful. Even in the Ninth District, economic activities are surprisingly diverse. Broad categories of similarities lose significance when specific areas, geographic or economic, are under examination. There are three EDA regions presently in the discussion stage for states and parts of states in the western half of the district, with considerable overlap geographically. There is one involving parts of three states in
the eastern part of the District. Political alliances and personal interests of the proponents seem to be stronger than economic parallels.

The proliferation of districts, for whatever purpose, seems inefficient and wasteful, and especially so when economic intelligence is a prerequisite to decision making. It was for this reason that the region of the Upper Midwest Research and Development Council was made coterminous with the Ninth Federal Reserve District. Channels of communication, even though not of the best perhaps, have considerable justification from their existence and history. Split states particularly present very difficult patterns. We have worked out a certain modus vivendi over the years, but to start again and again with additional fragmentation is hardly calculated to make the problem easier.

Then, too, these patterns of economic activity have a habit of shifting about. If Appalachia, for example, presently has validity as a region because of its depressed condition, then what happens to it when it is brought up to the average standards of the United States? It, therefore, seems obvious that before we complicate further the pattern of regional economic research, let's look at what we have. The Federal Reserve Bank districts are in existence. They have patterns of research built up over years - plain old number gathering, if you will - that have great usefulness.

A great deal is known about this district - far more than is currently being used, and more is being added all the time. The problems uncovered have piled up to awesome proportions - the pile is now self-generating - it is of such proportions the zealous researcher can happily, if not profitably, spend his time researching the research.

If sheer weight of research were sufficient, this district should be a model of economic growth and wisdom. But it is not. We are about on a par with national economic levels in the major indices - no better - and if we are
no worse, credit is not due to consciously directed effort, but to the war in Viet Nam; good weather, crops, and prices; and the general level of industrial demand. There is no reason to expect, that absent a change in the neutral factors, we will not revert to our historical pattern of lagging the nation, going a little deeper into the troughs, and not quite so high on the upside.

What is needed? There are at least these three courses of action:
Comprehending the other two is the first - communication. Main Street has not been mobilized. Concern is generally found - usually of a simplistic order of what we need is a new plant - preferably General Electric or U. S. Steel. With this concern, the individual is able to leapfrog over all the immediate problems outside his door. Schools, streets, the local regulatory climate, can be comfortably forgotten in the assurance of success when the new plant comes in. Money that could much better be applied by the contributor himself is channeled into a business development effort of the chamber and spent in usually fruitless efforts to attract a major industry. Industrial parks with the grading and utilities done, credit and a favorable pattern of local regulation, an orderly plan for city expansion and improvement geared to a realistic tax base. These take time - seeming eons of time - spent in community meetings where the compromises between the conflicting demands and desires of the community are beaten out. But it is hard going for an impatient people to go this route - yet is there any other? The best research effort, the results of which are not communicated, is a useless academic exercise in this field, at any rate.

It has become increasingly popular to blame the inertia of the business community, the unwillingness of the farmer to participate in the total community effort. This criticism may have some justification, but the researcher, the professional planner, has the major burden. There is a basic goodwill, a basic concern, among the members of the business and farming communities. The missing
bridge is the communicator - the person who makes the research intelligible to the layman, in the process of which it becomes useful to the local leaders who can act effectively on their own behalf.

The second area of effort is in the area of political organization. After the recent Minnesota primary this might seem an obvious indiscretion - like talking of a halter in the house of a man who has been hanged. I am not referring to political organization in a narrow party sense, though, but in the larger sense of the body of ordinances, regulation, and statutes which have spawned the bewildering complex of state and local political entities. This pattern, which in large measure is part of our Anglo-Saxon inheritance, may have been a useful one somewhere, sometime, but has little merit today. Its impact on the rate of industrial growth cannot be measured, but that it is considerable cannot be contested. "Fiscal drag" is a term of popular usage - "tdmg drag" is its local counterpart - the "tdmg" standing for "too damn much government".

Instead of serving as the lubricant of society, local government has become the glue. Zoning regulations and tax structures are just two of the more sticky areas.

Not only is the legal pattern of regulation calculated to deter all but the valiant, but the attitude that accompanies their enforcement is not designed to minimize their impact. It is tragic that the disposition to make the "novel, social, and economic experiments" Judge Brandeis spoke about as such an important part of our political heritage has been surrendered along with a substantial part of the national tax base to the federal government. The problem with this surrender has been that broad innovative programs on a national basis have a distressing philosophic resemblance to the bed of Procrustes when regionally or locally applied. Of more than passing interest to me, then, was the clipping from the Seattle Post-Intelligencer of September 24, 1966, sent me by
a friend. It is concerned with a talk given by Norton Clapp, Chairman of the Board of the Weyerhaeuser Lumber Company of Tacoma, and I quote:

"One of Washington State's leading industrialists Friday night called for formation of a new Puget Sound regional government as a modern solution to a present-day 'horse and buggy' system that, in effect, blocks smooth development.

"Clapp pulled few punches in describing the present system of government:

'Governmental unit has been piled on top of governmental unit and things have become extremely complicated and quite uncoordinated - and often, very illogical.

'The problem today is, however, that we are still operating under the old system, which has been repeatedly patched up in attempts to meet changing needs.

"Change will not be easy, he warned, adding:

'To begin with, we have a surprisingly large herd of sacred cows. The rigidity of much of our community and governmental structure, by its very nature, tends seriously to limit both the extent and the quality of our growth. Our institutions were designed to meet past needs."

Any discussion of regional economic growth either starts or is stopped (and sometimes both) with an exploration of financing. Where is the money going to come from? There are the two traditional sources - private and public treasuries.

What does private investment require? The obvious are opportunity, return, and security. Less obvious is the importance of economic/emotional climate. Success begets success - bigness begets bigness. Number 1 in the new industrial park is the tough one. Venture capital is hunch capital. It is usually timorous capital as well. "Venture" capital often turns out that way unintentionally. Most investors think they have minimized the risks at the outset - and only later find out just how venturesome they really have been. Nothing allays the pre-commitment jitters like the sight of another industrial building with reassuring smoke coming from its chimneys. Number 1 can be found in one of two places - the business already in the community, and the outside
one looking for a home. Of the two, the former is 92.3758% easier and cheaper than the latter. Absolutely essential is a receptive economic climate in the town. It is axiomatic that business goes where it is wanted. If there is a single common denominator of the successfully surviving communities in this district, it is the collective will of their business communities which manifests itself across the whole spectrum of community structure. Mostly though it appears as a quality of old-fashioned enthusiasm for business, an enthusiasm that is both innovative and realistic.

But what about the public assistance? This must come first for most communities. Seed corn in the form of urban renewal and area redevelopment funds must be secured from federal agencies in most instances. The only reason I don't say all, is not a lawyer's conservatism, but because I do know of one community in the district that was entirely financed from the private sector.

The modern mayor's office must include on its staff at least one technician familiar with the array of federal agencies operating in this field. It may be unfortunate, it may be an affront to those who would practice Christian Science in the economic field, but it sure is the American way. As a pragmatist, I think it is a good way, because for most communities it is the only way and it does work.

This brings me full circle to regionalism. Fortunately, most of these programs are being regionally administered. There is no practical workable alternative to a continued expansion of the regional platform. Only by this means can we accomplish the necessary fitting of the program to the individual community and still achieve a measure of administrative efficiency. Only this way can talent and money be pooled - and still be reasonably accessible to the local community.

On the private side, the same must be done. The regional councils, of which yours is one, are important in providing forums for the interchange of
ideas. It is difficult to find the same measure of progress in private finan-
cial structures. Bank Holding companies have provided a measure of capital
interchange in this district. Insurance companies do have regional contact
offices with outlets in the major communities, usually through the banks. There
are regional brokerage firms with branch offices through the district.

On the industrial side, most of the regional utility companies are
making distinguished contributions to local planning and are helping to find
ways to finance needed projects.

If we were to judge by the uniform noise level of protests, financing
is as easy or as difficult one place as another. But is it really? Again
bigness helps. It is a lot easier to put a deal together in the Twin Cities
than in Blooming Prairie, Minnesota, that mythical everytown referred to by
Mr. Foley yesterday. You must have more than a good idea - entrepreneurial skill,
and investment expertise are the difference between a successful beginning and
none at all. I suspect the man from Blooming Prairie may feel he has been left
to languish unfairly - and languish probably so - but unfairly may be too harsh
for what is a normal market process. The problem of pooling capital is inextric-
cable from this one - and I think is overshadowed by it. I am quite certain we
won't get it solved this morning. But some type of pooling of talents on a
regional basis must come about if Blooming Prairie is to be helped. The SBIC's,
it was hoped, would be such a vehicle, but their record has certainly been less
than spectacular. It may be the regional council will be the answer. I would
wager that if this hurdle can be surmounted, the capital shortage will be truly
equalized, if not eliminated. Here special credit again must be paid the
utility companies.

It has been said that we need a moratorium on solutions, for each
solution leads to more problems. In a recent meeting of the Minnesota Executive
Committee of the Upper Midwest Research and Development Council, the Mayor of St. Cloud, where an excellent record of industrial development has been made, discussed his community's progress. As I recall, they have nearly 2000 more jobs there than they had ten years ago. In the process, the problems inherent in the political overlap of township, city, and county have become exacerbated - with a special dimension caused by its location in three counties. The list of these was long and I suspect could have been longer had there been more time. One of the committee members commented afterwards that the first mistake they made was to attract the new industry and start the growth pattern, for all their problems seemed to come thereafter. In this facetious comment there was a substantial truth. Growth does bring new problems. But so does decay, and which group of problems would you rather have?

There is a drive - a desire to better our communities that must be served. While our knowledge of the process of economic growth is hardly comprehensive, there does exist the essential building block material. It is the responsibility of all of us who have expressed our concern for building economic growth to first become involved in the design of a pattern of growth, then to assist in the execution of the design, and finally to commit ourselves to the maintenance of continued growth.