

THE BANKER AND ECONOMIC GROWTH

Talk by

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The banker occupies what may be a unique position in American society. On the one hand, he is regarded as the wellspring of economic creativity, although the proposition is sometimes stated in a negative way; for example, "What a great town we'd have if we only had a progressive banker." At the other extreme, he very satisfactorily fulfills for many people the role of the devil, and symbolizes all that is crass, material and uninspired. Several times I have been told, "You don't seem at all like a banker," in a manner which obviously indicates that a compliment was intended. Considering the earnest efforts I have made the last two and a half years to try to become a banker, I regard it as an indication of failure. The truth, as is the case with most social commentaries, probably lies somewhere between, with enough individuals at each end of the range to give credence to this piece of folklore.

Banks exist to make a profit for their owners, and employees are to be found in them because it's a way to make a living. That the business they are in is a service industry conditions the public response, but does not alter the fact the operation must make a profit if it is to continue. The public is not to be blamed if occasionally they fall into the error of believing that because banks exist to serve the public, this consideration in some way eliminates the profit motive. After all, if we are told often enough, "We're here to help you get what you want," a certain confusion between a bank and, let us say, Christian prayer becomes understandable.

It needs no repetition to you gentlemen that banks, along with utilities and the principal department stores, are the first to be hit for support of community enterprise. That all of the money shown in the published statement of the bank does not belong to the bank officers, to be disposed of as they see fit, is not always well understood -- although, again, perhaps the public is not always at fault, for this confusion is occasionally contributed to by some bank officers.

What I am going to say today then is this: it must be implicitly recognized that participation by a bank in community development programs must be consistent with the proper corporate purposes of the bank. The phrase, "enlightened self-interest", is a good one to describe what I mean. May I add parenthetically that this does not mean that a bank does not have the responsibility to bear its share of the charitable and philanthropic efforts in the community -- at least to the extent conventionally recognized by the Internal Revenue Code, which is five per cent of net profit. But this type of social giving should be recognizable in an obvious way as a philanthropic effort. Banks should not be expected to make bad loans as part of their contribution to the community. Besides, it is all too easy to make them without design.

With this caveat then, let me get on with the business at hand. My remarks in the main are addressed to the banker outside metropolitan areas, for it is in rural America that community development is acquiring a special urgency. Paradoxically, this urgency is receiving national momentum from those concerned with big city problems. "How you going to keep them down on the farm" is a lament being sung by many an urban leader anxious to slow up the migration from the country to cities that are already too

big to be manageable. "After they've seen Paree," you know, was the second line of that song. A not wholly facetious solution may be let them see the city -- there is some reason to believe one good look at the core city where most migrants have to settle might be enough for those attracted by the bright lights.

My guess is, though, the reasons for moving are economic and not romantic for the great majority of those who move to the city, whatever may have obtained several generations back. There is ample evidence for the thesis that given reasonable job opportunities, many people prefer to remain in small town U.S.A.

What is the role of the banker in community development of rural America as I have defined it? It might be appropriate to define also what I mean by "community development." As popularly conceived, community development means economic growth. I'm not sure that this is an appropriate limitation, but let us assume for the moment that that's what we're talking about. Economic growth occurs in two ways, either externally or internally. External economic growth is largely an accident - a fortuitous choice, at least from the community's point of view, of their area by a national corporation for plant location. I suspect that the major corporations seeking new plant locations are concerned with two principal factors: first, the existence within the area, rather than the immediate community, of a pool of trainable, underemployed or unemployed people. When I say "trainable," I mean within the limitations of a corporate on-the-job training program. "Within the area" means commuting distance, and could be a radius of thirty to thirty-five miles. The second objective is compatibility with the national marketing and production objectives of the company.

Both of these objectives are well served by rural America, and proof that major U. S. industry accords them this importance was borne out by the testimony given at a recent meeting in Washington attended by representatives of a number of major corporations. But it is important to remember that these are area advantages, rather than advantages associated with a particular community. Reactions to a local community effort, therefore, are generally not significant -- and I suspect that most of the money and time spent on industrial development committees by local chambers to attract major industry is wasted. Of less importance, but still significant, is the presence of adequately sized school and utility systems, and available land. A reasonable number of cultural amenities are also helpful. Taxes, per se, receive less weight than is generally believed, although to the degree they may be symptomatic of an attitude towards business, they can be an important element of the industrial environment. Incentives in the form of revenue bond financing, free land, or free plants are generally discounted, at least in public, by this clientele, because they are mindful that in the long run the advantages they obtain currently at the expense of other taxpayers may be offset by local pressures exerted in other directions. The existence of an industrial park can be a persuasive factor for one community as against others within the defined area for plant location, although it is not always determinative because of the differing requirements of industrial corporations.

To conclude this brief discussion of factors of external growth, may I say the prognosis is highly encouraging in the aggregate for rural America, but as far as any particular community is concerned, consciously

directed effort from within the community to attract industry is less important than the accidental one of being in the right place at the right time.

It is internal growth that holds the brightest promise for most of our communities. Here a consciously directed effort can pay off. Paved streets, painted store exteriors, orderly master planning of community services and utility systems to accommodate growth are very important. The words "consciously directed effort" and "planning" are synonymous perhaps in the context of these remarks. There is less agreement on community goals than many of us believe. These goals are not only the physical ones of direction of growth, but the qualitative ones associated with community aspiration. If I may be metaphysical for a moment, these latter goals are associated with the soul of a community, its corporate identity. What quality of life do the people in the community want, and how united are they in this objective? Have they looked at the price tags attached to the alternatives? These prices are not always expressed in dollars, you know.

The next step should be the taking of stock. To arrive at a plan, it is important to know where you've been and where you are. This requires a dialogue be started among the elements of the community. It also requires an inventorying of the assets. What is the available labor pool? Where are the fledgling industries within the community or its area that need help? And don't forget the liabilities. What are they, and how can they be overcome?

For most places in the Ninth Federal Reserve District, and maybe for rural America as a whole, internal economic growth will be limited

generally to two categories. The first of these is associated with the exploitation of a primary resource, whether it be agriculture, mining, lumbering, or some other natural resource. While these industries require fewer and fewer people for their primary processes, the associated supply and processing activities are certainly on the increase. Convenience is usually a major factor in the location. One of the brightest potentials for a small town is that of becoming an area center, where economic services like the supply and credit facilities so necessary to business, and social services like education and medical services so necessary to people can be readily available. Unfortunately, my time today does not permit more than a passing reference to another promising potential -- that offered by outdoor recreation in the Ninth District; even though it might be considered more in the context of the development of an area rather than of a single community.

How does the banker relate to internal growth? In Montana where I grew up, it was axiomatic that a viable town needed just two things: a good newspaper and a good bank. The banker was much more than a supplier of credit. He was the supplier of entrepreneurial skill. It was to him the business community turned for counsel, which did not mean that these early day bankers attempted to be all things to all people -- but they knew where to send the man for technical advice he might need, and were willing to serve as catalysts in bringing the elements of good business together. It is in this area of entrepreneurial skill that the modern banker in rural America is most often criticized. It can be said in his defense that it is much more difficult to advise a man in this complex era when industrial processes and the ramifications of service industries make them very specialized, indeed. But I think this begs the question. Technical advisors do exist, and a banker, through his correspondent or other sources, can know where they are. The whole area of money management, whether it be credit or capital, is peculiarly within

the province of the banker to advise. The relationships with the community, labor procurement -- all of these things should be within the banker's competence. And certainly it is the banker's obligation to give encouragement in an active way to the struggling business in his community -- and this does not mean an inappropriate credit line. Don't ever be afraid to express your confidence in the customer. Presumably, I hope the decision to make the loan is a calculated one, and is based on a reasonable expectation of repayment. The young-and-new-borrower needs all the emotional capital he can raise -- don't hold back on your share because you think it might be unseemingly for a banker to believe his own advertising.

I have not mentioned a frequent lament of rural America -- the limited availability of bank credit and capital funds. I am not sure this is the case, at least in the Ninth District. My guess is that at least a reasonable supply exists most places now, but investigation may establish that the difficulties are in distribution and structure, aggravated again by a shortage of entrepreneurial skill. To launch a successful business at best is as chancy as launching a satellite, and all systems must be go. The difficulties can be compounded in a town too small to support such necessary appendages to modern business as a tax attorney and a laboratory, but at least the banker can play a role in alerting his customers to his broader needs and direct them to such advice. We are commencing a study of capital and credit flows in the District, so I hope someday soon we will have more facts than are presently available.

I have not preached at you about community leadership in a social sense. If you aren't aware of your citizenship responsibilities by now,

you can neither read nor listen, so we would both be wasting our time. Sufficient perhaps to point out that the terrible paralysis that seems to be spread across this country this fall is a direct reflection of the breakdown in personal accountability. For all of our prating about private enterprise, we seem to have forgotten that private starts with one. If we worried less about the collective expression of the American people through the various levels of government, and more about our individual, private roles within our own areas of influence and competence, many of the community problems we anguish about publicly -- schools, utility systems, run-down main streets, the level of public spending -- would disappear.

Bankers are in a position to accomplish great things for their communities. You do cut across all the sectors of your town. Unfortunately, i, we, they get all mixed up -- and in the progression of responsibility, the buck never seems to stop until it gets to "they".

I believe as a matter of personal conviction, the banker is the most important single business element of American society. In the meeting I referred to earlier, there was virtual unanimity that a single person determined to reshape his community is the priceless ingredient for community development. It is a quality of motivation that you must feel yourself before you can communicate it. Without it, a banker is little more than a conduit for other people's money. With it, he can be a source of inspiration for his community, for his state, and for his country.