

COMMUNITY DEVELOPMENT -- TO WHAT END?

Remarks by

BRUCE K. MacLAURY
President
Federal Reserve Bank of Minneapolis

at the

Upper Midwest Agricultural Credit Conference

Howard Johnson Motor Lodge
Rapid City, South Dakota

June 28, 1973

COMMUNITY DEVELOPMENT -- TO WHAT END?

I. Introduction

Best attendance ever; coming back in redoubled strength after last year's tragedy.

Marks a revitalization of UMACC. Distinguished alumni of the Council -- many leading bankers throughout district.

Noticeable change of subject matter over the years: initially heavily oriented to agricultural lending practices; then more broadly bank management; now role of banker in rural America -- a developer of the whole community in which he lives.

II. Community Development -- nothing new for banker

1. Has always seen role as service to community -- depositors, borrowers.
2. Recognized that bank prospered and grew as community developed -- fate bound up together.

A. Still room for continued growth along traditional lines i.e., to traditional customers, those who walk in the door.

Capital and credit requirements expanding rapidly. (Keep distinction clear.)

Need new methods of attracting funds into agriculture -- several suggestions.

1) Derl Derr (next speaker) will comment on suggestions by ABA Task

Force for mechanism(s) to tap national capital markets.

2) Fed has also been looking at possible ways to help channel more funds into agriculture. (Emil Melichar)

3) Buck Moore -- how Fed could help.

1. When talk of capital shortage in agriculture, must be careful to distinguish various aspects of the problem.

- 1) Low rate of return relative to other industries -- discourage capital from investing. Food and fiber are basic, essential industries. Will attract capital when rates of return are competitive.
 - 2) Inadequate lending limits of commercial banks. Can and do use overlines. But banking units must grow (or consolidate) fast enough to continue to serve as channels of funds to traditional customers.
 - a) Not adequate to bypass banking structure issue as did ABA Task Force report: "A cursory examination of bank agricultural lending suggests that of itself changing bank structures will not solve the problem of flow of funds to rural areas for agricultural lending."
 - 3) Financial markets, even if rate of return competitive, can't supply funds if capital structure in agriculture doesn't change to reflect growing financial needs of an increasingly capital intensive industry. Need equity, not just credit.
 - a) One man, or even one family, can't expect to amass capital necessary in one generation. (Same thing in banking.) (Cite Hutterite Colony.)
The Point: Can't look at only one aspect of problem of capital credit needs in agriculture and expect to find answer.
- B. Plenty of room to expand traditional ways of serving community -- bread and butter (Cite MBO experience -- responsibilities vs. objectives.)

III. Community Development -- an expanding concept, expanding in several dimensions.

We're all members of innumerable communities. As world shrinks, through transportation and communication -- more aware of the communities beyond our immediate family, business acquaintances, personal friends.

A. Geographical boundaries of "community" grow.

Decisions need to be made on basis of larger geographical units.

More precisely, need to find most efficient geographical unit for administration of public services -- some smaller, some larger.

1. Considerable turmoil a moment with introduction of revenue sharing, compounded by differences of view between Congress and Executive, and changing power of presidency.
2. Recognize interdependence (rather than independence) but difficult to strike balance and find framework for implementation.
 - a. Cite contrast between efforts of "enablers" of CENCOAD (Center for Community Organization and Area Development) and views of business leaders of Canton.

Water systems, health care, sewage treatment.

- B. "Community" includes those people not fully in the mainstream of our economic life -- Minorities and women.

As bankers, our prosperity depends on prosperity of our neighbors.
As human beings, our dignity depends on ability of all segments of society to live in dignity.

1. Usually think of social problems as the concern of the cities; obviously, though, the rural banker finds problems much closer to home.
 - a. In this district, one of the pressing needs is for economic improvement for Indians.

(Cite contrast -- obvious frustrations, potential for misunderstanding and losses, yet also potential for rewarding mutual relationship.)

- C. Community Development.

"Development" no longer means just more jobs or more profits.

Also speaks to the way we grow -- the consequences for our neighbors and for future generations. (pollution, environment)

1. Irony in fact that 1st Nat'l. City got black eye for giving

substantial loan to help finance a pyramid plan fraud on Long Island -- when asked for comment, officer said, "Are we supposed to be responsible for each loan?"

Yet Citibank, a stalwart exponent of free enterprise, devoting substantial efforts to deal with social problems of New York.

In some sense, not only responsible to see that credit isn't used to finance socially detrimental operations, but is used to foster socially desirable ends.

2. 1st Pennsylvania Banking Co. recently got publicity for adopting quantitative goal in three areas of social performance -- to parallel its profit performance targets.

- 1) mortgages and loans to inner city residents;
- 2) hiring minorities and women and promoting them;
- 3) financially supporting minority services through purchases and advertising.

3. 1st Minneapolis has been developing a social audit which it has published in its annual report last two years -- quantitative measures of the quality of life in the Twin Cities, ranging from pollution count in the Mississippi River to crime statistics.

4. Undoubtedly many other examples.

Hoped examiners might pool good ideas, but hasn't worked yet.

Clearinghouse for ideas?

IV. What can bankers do to foster Community Development in its broader dimensions?

1. Be alert to these broader dimensions.
2. Be willing to experiment in new areas.
 - a. Recognize multiple responsibilities -- to depositors, shareholders.
 - b. Suggestion last year of FDIC chairman Frank Wille. (\leq 10% of cap. stock and surplus)

3. Explore joint ventures with various government programs.
SBA, FHA, Farm Credit Agencies.
4. Not try to become philanthropic institutions, but rather use financial expertise to train less sophisticated.
 - 1) Cash flow projections for farmers, why not for Indians.
 - 2) The Jim Summer idea.

V. What can Fed do?