



Oklahoma Bank and Commerce History Project

a program of the Oklahoma Historical Society

Interview with Dr. Larkin Warner
Professor Emeritus of Economics, OSU
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Audio taped and transcribed by MJH

Prior to interview, I asked Dr. Warner for a brief autobiography. He earned his PhD in Economics from the University of Indiana and received his first assistant professorship in the fall of 1960. 1974-79: Warner worked Ann Morgan at the Kerr Foundation and the Economic Studies Foundation. He was back at OSU in 1979. He retired from OSU in the spring of 1998.

MJH: It is Monday, July 30, 2012, and I am with Dr. Larkin Warner in his home in Oklahoma City, and we are talking about the Oklahoma economy in the eighties and nineties in general and BancFirst Corporation in particular. Really, we are starting in the seventies. So, you were talking about the uncertainties in the seventies.

LW: The general theme is that business decision making, and therefore business real investment, business spending, is strongly influenced by increasing uncertainty in the environment. And I guess my point was that, beginning with the close of the Johnson administration, when inflation started to heat up, and continued under Nixon, the Nixon people, then, decided to impose what was totally anathema to conservative economists—to impose wage / price controls. That, of course, created all kinds of maladjustments throughout the economy, because the supply and demand just weren't coming through! That lasted a couple of years.

But then, added to the uncertainty of the environment, of course, was Watergate. When you add Watergate to that, and Nixon resigning, really pretty early in his second term... Then, to add to the uncertainty, you get Gerald Ford coming in. His initial front was, we've got to fight inflation. He instituted the WIN program: "Whip Inflation Now!" The federal government was putting out all kinds of publicity and so forth. By the time... Really, they didn't get very far into the WIN program before they realized that the economy was getting into a pretty good recession. And that was his problem for the rest of his term.

Alan Greenspan, in his autobiography, praises Ford for moderation, in terms of his attempt to resuscitate the economy. But again, with all this uncertainty... And then you get Jimmy Carter coming along, who bumbled along, and he had this Iran [Iranian hostage crisis] situation, which just preoccupied everybody. But, toward the end of his administration, he does what, in my judgment, was a very remarkable thing in terms of his contribution to the U.S. economy: he appointed Paul Volcker as chairman of the Fed [Federal Reserve

Board]. Volcker comes in...The previous administration of the Federal Reserve had gone along with, and sort of bought into the idea, that the Federal Reserve could stabilize the economy. The result was that the Fed had created a lot more money, and we had inflationary pressure. As I mentioned to you, there was a period, from 1978 to 1980, when you had 24 months of CPI data, where the CPI was growing at over one percentage point per month! How in the world do you decide what kind of deal to make...?

And then the remarkable thing was, Reagan comes in, and Reagan folks institute a tax cut. That's what Reagan folks are known for today. For me, if you think carefully about what was going on...Maybe the key contribution of Reagan was that he continued to be supportive of Volcker, and his institution of really tightening up on the money supply. In the process, of course, throwing the nation into a pretty good tailspin. The data are just remarkable. I showed you how it just wrings inflation out of the economy. In fact, Reagan turned around, and the Reagan folks realized within less than a year that they had cut taxes too much. But they never raised taxes. They instituted a set of revenue enhancements. I love how the politicians come up with terms!

The point is that the business community everywhere was operating in a high degree of uncertainty. And that was true in Oklahoma. Oklahoma added to the uncertainty with our tremendous reliance on the oil and gas industry as a driver. As I point out, and is evident in that table I prepared, throughout the seventies, and the first half of the eighties, come Hell or high water, year after year, Oklahoma's unemployment rate was below that of the nation. Today, we just crow about how the unemployment rate is below that of the nation. There's nothing new about that relationship!

By 1986, when it really hit the Oklahoma economy, because of the collapse of oil prices, then our unemployment rate became higher than that of the nation. But I think it's fascinating that the bank failures, as reported by the FDIC—they include a small amount of what they call assistance, and I don't know the significance of that. I guess with a bank failure, they simply shut them down.

And then there's the fact that Penn Square was the first bank failure in what became a series of over a hundred bank failures in Oklahoma during the rest of that decade.

It might be interesting to pose, as a question, to...What's his name?

MJH: Steve Plunk!

LW: ...Whether, today, whether he thinks that the FDIC would have, with some help from the Treasury, would have done everything they could to avoid shutting down Penn Square Bank. In other words, given today's policy environment, might it be more likely that the major attempt would have been to keep those banks from failing?

MJH: I have heard that argument from other bankers.

LW: The big banks—Continental Bank in Chicago, and the big Seattle bank—I gather that they did not shut those banks down. They figured out how...

MJH: Actually, Seafirst and Continental, they eventually morphed into something else...

LW: Yes...I don't know. But that would be an interesting thing to ask.

MJH: You have talked about the effects of the energy bust. And the figures you have given don't lie. They are pretty dramatic! Can you comment at all—and you mentioned [bank] branching earlier—can you comment at all on that whole phenomenon, that we were a unit banking state forever...?

LW: We always had branches, but they were within a stone's throw of the main office. It was unit banking, but the unit banks could have neighboring branches in the same community. In effect, as an economist, I would look at this and say, well, it's a way of limiting entry. And wherever you limit the entry of new firms in an industry, it generated some extra market power on the part of the protected firm. It's obvious that forces throughout the nation were to get rid of unit banking, and Oklahoma came along kind of late! Kind of late!

All this occurred—it must have occurred under the administration of the good guy, George Nigh. And that's another story—the administration of George Nigh.

MJH: How would you summarize, or characterize, his attitude toward the banking industry.

LW: I don't know that much about his specific attitude toward the banking industry. He talked about a lot of things. It must have been under him (was it not?) that the deregulation really occurred? That unit banking really went out?

MJH: I know it was in October of 1983. There was a whole series of laws...

LW: He was governor throughout much of the eighties.

Speculated on dates; LW looked up dates...I need to confirm...

I think he became governor in 1979. I remember, about the first four years of his administration, 1983-84, thing just went along wonderfully. Then everything collapsed, and state revenues collapsed. The fascinating thing was that Nigh supported a series of tax increases to kind of keep the state government open.

I can't remember if there's a good biography of George Nigh. I don't think there is yet. He's still very active. I will say this: I served on a commission on state government that Nigh had appointed, and as I was around him some, I realized that he was a good stand-up comic, but he is a bright guy, and he knew his politics. If you were in a small meeting with him, I found him to be impressive as Hell! That's not the image that a lot of folks have—good guy, George Nigh, and so forth. It should be pretty easy for you to dig out a little bit of information. He was much more of a leader than people realized. There were

some pretty strong folks in the legislature, too, during that period—Gene Stipe, etc. So that would be important to check on, but like I say, I just don't know. But I am sure that he and his people played a significant role in that, in unit banking...

MJH: This might be a little bit of a sideline, but what were some of things that you worked on as part of the reform commission?

LW: I suppose if there was a single theme...Because of its populist origins and so forth, Oklahoma's state government was very poorly organized. One of the things that kept cropping up was that the governor was really not the chief executive officer of the state. In agency after agency, the governor appoints members of a board or a commission, and then that board or commission—they serve independent terms, and so forth. I think the only exception to that is the Highway—what was then called the Highway Department, or Transportation Department, where the governor did have some control. But that was a big [concern].

MJH: So you were trying to get less authority in the agencies and commissions and more in the governor's office.

LW: Yes. That was part of it.

MJH: Gene Rainbolt was on the Highway Commission.

Pause while LW located reform commission's report...

LW: This was a heck of an effort!

MJH: Oh, my goodness! 1984...This is huge.

LW: Yes. There's a lot there.

MJH: Can I borrow this?

LW: Sure. I'd forgotten about...

Pause...

I did a fair amount of the writing. I served on the staff of the...He [Governor Nigh?] really didn't do too much work! We did the work. Tom [Ryan?] and I did most of the work. There were some very good committees, and there's got to be a section on banking. I just don't...It's so long ago! "Cabinet Organization"; "Government Structure"; Cabinet Organization for the Executive Branch."

MJH: Were a lot of these reforms implemented later?

LW: No, not so much. But, you know, we're going to get to vote this fall on abolishing the Human Services Commission, and I am going to vote to abolish it! No question!

Pause, looking at report...

“Consolidated Retirement Program for State Employees.”

MJH: What prompted this? Was it just Governor Nigh's decision, after being in office for a while, that it was time...

LW: He had been lieutenant governor forever. He was lieutenant governor for life! And...

MJH: So it was his initiative...

LW: He played a key role in it. There were some leading business people: ____ Allison [?] from Bartlesville; a co-chair—I remember spending quite a bit of time talking to this young guy who was a co-chair [named] David Walters. Gerald Marshall from Oklahoma City was the treasurer...

MJH: I interviewed him too.

LW: You can see, there were a lot of neat people.

MJH: Were there any Rainbolts?

LW: I don't think so. I don't think so...

Here's Ross Swimmer, on the education committee. Ann Taylor, who was mayor of Nichols Hills for a long time. Ed Moran [?] of Weatherford, who is very famous. And Dan Petrie [?] from Oklahoma City.

MJH: I look forward to looking through this. As you say, there might have been a section on banking.

LW: I should be able to remember it. Could well have been. On government structure—Leland Gourley from Oklahoma City. Anyway, you're welcome to browse through it.

MJH: One of my other questions is, do you have any thoughts or memories, or even participation with Gene on some projects, in the formation and growth of BancFirst? You're doing some things with him now, and he's got a book project in the back of his mind. I'd like for you to talk about that. What are the secrets of their success? What are some of the ingredients.

LW: The interaction that I had with Gene was—I don't mean to overstate it or anything—but as a fellow, professional economist. This guy, he was intellectually curious. I don't remember how I got more and more involved with him. I suspect, during that period,

Dick Pool [?] at OSU had gotten significantly involved in the State Chamber of Commerce. And that's probably where I ran into him [Gene Rainbolt] the most.

Gene had a lot of respect for the economics profession. Like I say, as I recall, he was an Econ major at OU. So we all sort of spoke the same language! Back in the days of chain banking, it was kind of hard to get a handle on what was going on. We knew that Gene was running this big operation with chains. I guess that's technically the correct term. We didn't have consolidation. We still had unit banking. What Gene was doing was accumulating a chain, where he had a controlling interest in bank after bank after bank.

One of the interesting things would be to take this FDIC list. My guess is...It would be interesting to find out the extent to which they acquired failing banks, or whether they Gene looked at things...My guess would be that Gene would acquire a bank before it failed.

MJH: Or he would buy them at auction. He sent David around to a lot of auctions.

LW: Yes.

MJH: Did you ever get a sense of what his North Star was? What was his guiding philosophy for acquiring banks? What were his bedrock economic principles?

LW: Like I say, he was interested in maximizing profit! He was not, in my impression, he was not expanding just for the sake of expanding. And I think it continues to be fascinating that, throughout all of this, he and his folks—David and so forth—in my impression, were quite interested in regional economic development. So they were interested in areas where something was going to happen. And I think the fact that, to this day, the northwestern quadrant of this state...I don't know. There may be one or two outlets for BancFirst out there, but I don't think they have hardly anything, right? You've seen that.

That tells you a lot. In other words, [they are] wholly concerned that the communities that they have operated in are going to grow. It is certainly unlikely that the northwestern quadrant is experiencing...If anything, it's in decline.

I chatted with you some about the issue of community leadership, and so forth. There, back in the chain banking days, of course, the local bankers were much more important, I think, in terms of their position in their communities, and so forth. I don't have a very good feel for it. In thinking about Stillwater—Bob McCormick was, of course, quite an important leader. And then, the guy who was head of First National in Stillwater, Vic Thompson...Those guys were very important people in their community. I wonder if you could go into Stillwater today and see if the guy who is running BancFirst has the same sort of position in the community hierarchy. I think Stillwater National Bank is doing pretty well...

It would be interesting to ask about turnover in top leadership positions in the local banks.

MJH: I talked to some guys in Ada, for example, and they were very up front, saying the change is pretty dramatic when a branch comes in, and the shots are being called somewhere else.

LW: Like I say, Wal-Mart comes in and has a sale on blue jeans once a year, and there goes the local dry goods store! It is fascinating to look at the smaller communities all over the state, including communities the size of Stillwater. Downtown businesses are...there are some law offices, and other than that, you have some boutique kind of operations.

MJH: Do you have any insight into the BancFirst management structure?

LW: No, I really don't. I don't pretend to. One of the things that continues to be sort of fuzzy in my mind is the linkage between the bank and the private banks. I have tried to get a handle on that, and I have kind of decided that this is something that is too hard for me, and I am not going to spend much time on it.

MJH: I talked to Roger Beverage at the OBA, and the way he described it was, what they basically did was create a phantom bank. It was branching in reverse. Rather than a central bank going out and establishing branches, in this case, they established a headquarters in Oklahoma City, but they do not call it a headquarters. It's a support center.

LW: By the way, talking about Beverage...

Pause...

I mentioned Gary Simpson to you. Have you had any dealings with him yet?

MJH: No, I haven't. I really want to.

LW: He's a real good guy, and he's been at it a long time. He's an old friend, and I would be glad to call him up and mention you to him, if you would like for me to. I really think you need, given the fact that you are doing some interviews—Gary, it seems to me, is a must. He's got a pot full of data, and he does a lot of work for the OBA.

MJH: Is he still teaching at OSU.

LW: Yes.

MJH: I was going to ask you too, what is your title?

LW: Regents Professor Emeritus [of Economics].

MJH: And you were [at OSU] from...

LW: My career ran something like this: I joined the faculty there as an assistant professor, fresh out of Indiana University, in the fall of 1960. I had an interesting period, an interesting opportunity. From 1974 to 1979, I worked here in Oklahoma City for the Kerr Foundation, running an operation that we called the Economic Studies Division. The Kerr folks supported...My job was to work with faculty people to promote research on Oklahoma's economy. I had quite an interesting time. During that period, almost on a monthly basis, I got to sit in on board meetings of the Kerr Foundation, which consisted of the four Kerr children, and two of the wives. That was quite an experience. Bree [?] Kerr was chairman of the board. That was before they all split up and went their separate ways, with separate foundation.

MJH: Was that the one that Ann [Morgan] ran for so many years?

LW: Ann Morgan. She came in a year or so after I left, and this was before...I can't remember the sequence of it, but she worked for the foundation that...I think it was part of the foundation that Bill and Jocelyn [?] set up. Wasn't she with the Grace B. [?] Kerr Fund...?

In 1979, I went back up to OSU and finished up my career at OSU. Ann [Morgan] worked for the [Kerr] Foundation before everybody split up, as I recall. I recall doing some things, doing some traveling, with Ann, and working on strange requests.

MJH: When did you retire from OSU?

LW: I retired in—I guess it was the spring of...1998. We didn't move down here in 1997, because we knew we were going to...Jean [Larkin's wife. Sp?] has a PhD from OU in Political Science, by the way. She was a Carl Albert fellow, and had quite an interesting ride at OU.

MJH: You have a pretty high-powered household!

LW: She stays intellectually active. She really enjoys her computer work, and has been active in mission work in Kenya, and also she helped set up the Oklahoma Women's Coalition, an organization of women that is particularly interested in state government and policy.

MJH: I was going to ask you, if you have any particular comments with respect to Oklahoma banking in particular, or in general, or BancFirst in particular, regarding post-2008. How have things changed? There are all kinds of new regulations...

LW: I guess...It just leaves my head spinning! Dodd-Frank, and all this stuff...It looks to me like our smaller banks, including the regional banks, just kind of got dragged into some events at the national level—some responses at the national level—that, maybe, are not appropriate. I am sure they would agree with me on that! The question is, is one-size-fits-all regulation appropriate? It is fascinating, and perhaps the most interesting thing to me is the assessment of whether commercial banks can get involved in investment activities, and what's going to happen there. It seems to me that there is some revisionist view of a

return to a more stringent, more regulated environment. And this too-big-to-fail thing...The too-big-to-fail thing is a little bit of the reason why I think it would be interesting to speculate a little bit as to whether Penn Square would have been saved today, in today's environment.

MJH: Today, would it be perceived as too big to fail?

LW: I've got to say, I read the *Wall Street Journal*, and the *Economist*, *Business Week*, and so forth, and the current policy environment is terribly discouraging. I just got done reading this...

Pointed to book... Thomas L. Friedman and Michael Mandelbaum, *That Used to Be Us: How America Fell Behind in the World It Invented and How We Can Come Back* (New York: Picador, 2011)...

I don't agree with everything, but talk about uncertainty! Our system isn't working right. These guys argue that we actually have a pretty well structured system, but it's not working. It's a good read, and it's pretty quick, and it's real good at sort of going over the initial...

Pause...

You can see the education challenge, and the war on math and physics. The war on math is budgeting, and [the war on] physics is the environmental stuff...It's a pretty good read. It's pretty naïve on the environmental stuff...

So I've got to admit that, in terms of state economic development, I think...To me, the exciting that has happened in Oklahoma in recent years is what has gone on here in Oklahoma City, through MAPS 1, 2, and 3. It has been a remarkable example of the community investing in itself. As best I can tell, the folks in banking have been very supportive all the way along. But you just don't have the same big names in banking except, probably, for Gene.

MJH: Maybe George Records?

LW: Yes.

MJH: I am going to meet with George Kaiser up in Tulsa.

LW: Those are the names that you would be thinking about.

I do wonder whether, in today's political environment, whether we can invest in ourselves like we were doing. In other words, that's the theme of *That Used to be Us*. Tulsa troubles me. There again, they've got lots of deep pockets over there, but they are cursed with a terrible structure for their municipal government.

MJH: I worked for the Chamber of Commerce, and I lived up there for 20 years. You see that again and again—different parts of the city fighting.

LW: Yes, yes. It just seems to be hard to get them to pull together, and when they do try to do something, they try to provide a little bit for everybody. In Oklahoma City, what happened was, you had...The city was run, historically, by a very, very powerful cabal, really. You can name them: Dean McGee; Stanley Draper; the First National Bank folks. But the interesting thing there was, by the 1980s, these people were getting terribly old, and to the extent that young leaders were developing in the Oklahoma City metro area, they were developing in the suburbs, on the periphery. They didn't want to have anything to do with downtown! And somehow or another, we got some of these key people committed to doing something about the downtown area. The sequencing on that...

Have you seen the really fascinating piece that Steve Lackmeyer and Jack Money have put together? Let me show you.

Pause while LW looked for book...Second Time Around...

MJH: Oh, Jim [Tolbert]'s book...

LW: You know, we're still battling the effects of Jim Crow in this state.

In terms of dynamism, I tend to look at what's been going on in Oklahoma City as a bellwether for the rest of the state, at least in recent years. That could be chauvinistic on my part, but we have made some progress! Big time!

MJH: And then there's Tulsa looking down the turnpike.

LW: Yes.

MJH: Well, you have given me much to go on. I really appreciate all of this.

LW: I am so glad you're doing this. Do get hold of Gary Simpson. If you would like for me to give Gary a call, I will, but you don't really need me. He's just the greatest guy you would ever want to deal with.

MJH: He has been on my radar, for sure, and I've got a little orange blood myself—I did a degree up there.

LW: He's got a lot of data—he's put together a bunch of data on the status of banking and banks, the profitability in Oklahoma, and so forth, and so he's got a huge amount of information. And it would be interesting to see what Gary's view is on...

MJH: I will be gone in a week, probably back in early October, something like that.

LW: That would be a good time. Give him a call. Like I say, he's really a super nice guy. He's been at it for a long, long time.

I should also mention, while I'm talking about this commission on reform, under Bellmon...Bellmon appointed a Constitutional revision study committee, and I served on that. That came out with some pretty good recommendations. Those are all published...

Paused to look for report...

That was under Bellmon. Bellmon, in his second term, of course, was a remarkable reformer. It's kind of interesting that, aside Gene, who gets on everybody's...I mean, Gene gets on everybody's [list / committee?]. But you don't have the same powerhouse people in banking. Now you get Chase, and Bank of America. The same thing that I talked about happening at the local level, after the end of unit banking, has kind of happened, even in a place like Oklahoma City. I don't see that the Chase people, or the Bank of America people...Maybe I'm wrong, but I don't see them playing big roles, except for Gene.

Before you leave, I just want to give you a little tour of my junk...

End