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Is Inflation Essential to Solvency?

"It is the expectation of inflation, rather than inflation itself, that is creating distortions in our capital markets and countering the effect of fiscal and monetary restraint."

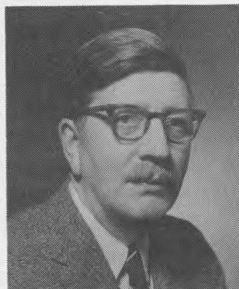
This is the conclusion drawn by Sidney Homer, partner of the national investment firm of Salomon Brothers & Hutzler, who expressed his views at a recent meeting of the National Association of Business Economists.

"For some businessmen, a prosperous future with growing demand seems to be guaranteed by the Government. There seems to be no downside risk, even though modern capitalism has been built on risk and uncertainty."

Official policy, he said, has been one of "sustained growth without the fiscal and monetary tools required to space out growth to a sustainable pace and, thus, avoid inflation."

If the present basic environment continues indefinitely, according to Mr. Homer, among other developments, we would have high interest rates at levels which would normally prohibit economic growth. "Inflation," he said, "would thus gradually become essential to solvency."

Because of continuing inflation major changes would occur in our capital markets, Mr. Homer



Sidney Homer

stated. The current institutional trend away from straight debt instruments would continue, he said, noting however that although the declining institutional bond investment has been offset in recent years by the bond investments of private and miscellaneous investors, it has been achieved through withdrawals from savings institutions and the sale of equities. This trend too would continue, he said, compelling savings institutions to seek ways to earn and pay much higher rates of return, or accept a reduced role. Also, the bond business would have to be reorganized to adjust to the erratic investment behavior of the individual investor.

Another important consequence of the institutional trend away from straight debt will be to force corporations to issue more convertible securities and more

equities. Such a trend has already begun on a limited scale and if carried much further, according to Mr. Homer, it could mean the end of the scarcity of new equities which he said, "has been a salient feature of the last 15 years in our capital markets." Also, he said, an increasing volume of bond financing may have to be done in shorter maturities. This, would in turn create serious problems for corporations, states and municipalities attempting to finance longrange projects. And for the same reasons, he noted business will turn more to banks and commercial paper for new funds. The result of this development would be a reduction in the liquidity of large sections of the money market.

The hardships resulting from this impairment of our bond market, Mr. Homer stated, will be unevenly distributed. Large corporations and Federal Government will be able and willing to pay the high rates, he said, but medium and small size business will be severely cramped. In addition, states, municipalities and consumer finance companies will have trouble raising long-term funds, according to Mr. Homer, and hardest hit will be the home construction industry.

The Federal Government can be expected to intervene to aid high priority areas of the economy to

(Continued on Page 6)



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OMAHA

Carl Paden, has resigned from the board. No other personnel changes have been announced.

NEBRASKA NEWS

BLAIR: Rex Kates, Tekamah, Nebr., grocer, will join the Blair Bank the first of next year. Mr. Kates had been associated with the First National Bank of Tekamah for 16 years before going into the grocery business.

KEARNEY: The Nebraska Department of Banking has denied the application for a bank charter for the Buffalo State Bank of Kearney.

OMAHA: Funeral services were held recently for Marshall C. Dillon who died at the age of 80. Mr. Dillon began work at the old Livestock National Bank here in 1917 and was assistant cashier when the bank merged with the Omaha National Bank in 1954. He retired from the Omaha National in 1958 as an assistant cashier.

OMAHA: A. J. Canady has been named vice president and director of operations at the First National Bank of Omaha. He has been with the bank since 1967 and before that time was president of the Bank of Independence in Independence, Mo.

WYMORE: John Allee, executive vice president and managing officer of the Wymore National Bank has resigned. The new managing officer will be Dean Kechley, bank vice president.

MINNESOTA NEWS

AUSTIN: John L. Franklin has been promoted to assistant cashier and agricultural representative at the First National Bank. He has been with the bank as agricultural representative for one year.

BABBITT: William L. Connelly of Minneapolis has been elected president and director of the First State Bank of Babbitt. He succeeds Dar-

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IOWA NEWS

ANKENY: Noel J. Liechty, president of the Ankeny State Bank, has announced that the bank has increased its surplus account to \$300,000. The \$100,000 increase in surplus was transferred from the bank's undivided profits account.

MEDIAPOLIS: Controlling interest in the Mediapolis Savings Bank has been purchased by Nelson Brothers and H. H. Schmidgall of Hawkeye Concrete Company. Aubrey Daedlow has resigned as bank president to accept a post as vice president and

cashier at the Golden State Bank, Golden, Colo., effective December 1.

SHELBY: John R. Lauritzen, president of the First National Bank of Omaha, has purchased controlling interest in the Farmers Savings Bank here from Thomas M. Stoker and the estate of the late Mrs. L. O. Stoker. Mr. Lauritzen has been elected president and cashier at the bank, and both he and his son, Bruce Lauritzen, have been elected to the bank's board of directors. Mr. Stoker has resigned as president and cashier of the bank, but will continue as a director. Mr. Stoker's sister, Mrs.



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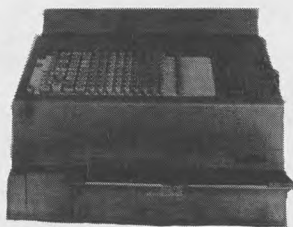
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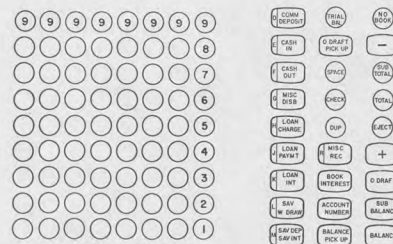
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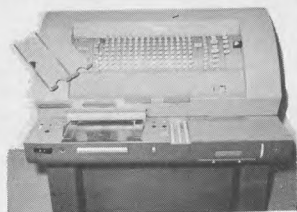
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old D. Johnson, who has resigned to become vice president of the First National Bank of Valley City, N. D. Mr. Connelly began his banking career in 1961 at the First National Bank of Austin. He most recently has been serving as assistant vice president at the First Edina National Bank, Edina.

BEMIDJI: Elgin I. Phillips has been named president of First National Bank of Bemidji. He has been serving as vice president and auditor at the bank, having been employed there since 1934.

WAITE PARK: Sidney E. Storm has joined the Plaza Park State Bank as assistant vice president. Mr. Storm was most recently employed as cashier and director of the First State Bank, Fertile, Minn.

SOUTH DAKOTA NEWS

BISON: Norman Lyon has joined the staff of the Bison office of the Bank of Lemmon as an officer trainee.

PINE RIDGE: Approval for the opening of an office here has been received from the administrator of national banks by the United National Bank of Vermillion, according to Larry Ticknor, executive vice president of the bank.

NORTH DAKOTA NEWS

NEW ROCKFORD: Application of the First State Bank of New Rockford to increase its capital stock from \$100,000 to \$150,000 through a stock dividend has been approved by the State Banking Board.

ILLINOIS NEWS

CHICAGO: Chicago Helicopter Industries, Inc., has announced that it is in the midst of acquiring more than

50% of the stock in the Mercantile National Bank of Chicago. The purchase price of the transaction has been estimated at close to \$6 million. The largest volume of stock is being purchased from Fifth Avenue Coach Lines, Inc., a New York City firm. No plans to replace current management at the bank have been announced.

CHICAGO: Francis J. Hearn, vice president at the Central National Bank, has accepted a post as vice president of the Amalgamated Trust & Savings Bank here, effective December 1.

CHRISMAN: Application of the State Bank of Chrisman to exercise limited trust powers has been approved by the FDIC.

WYOMING NEWS

CASPER: Darrell G. Satterfield has been promoted to operations officer at the Security Bank & Trust Company. He joined the bank in 1966. Thomas M. Jones recently resigned as cashier of the bank to become cashier of the Citizens Bank of Westminster, Colo.

COLORADO NEWS

DENVER: Three loan officers in the commercial banking division of the Denver U. S. National Bank have been promoted to vice presidents. They are Joseph J. Lindsley, Jerry W. Moore and Terrance J. Ryan.

DENVER: Deposits in the 53 commercial banks in Denver and its

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suburbs have dipped to their lowest level in more than a year. The deposit total as of October 21 was \$2,193,032,000, down \$193.7 million from the figure reported at the start of 1969. A survey of the area banks revealed that the biggest decline in deposits occurred in larger banks, while smaller banks managed to hold their own or even show increases.

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Inflation ...

(Continued from Page 1)

secure credit. However, the Salomon Brothers & Hutzler partner recommended that sponsors of such programs realize that there is only a limited pool of genuine savings in this country. "When any segment perfects new credit instruments giving them improved access to the credit markets, they are simultaneously depriving some other areas of credit," he explained. Emphasizing this point, Mr. Homer stated:

"It is a mistake to think that monetary policy can create the extra needed credit except temporarily. To the extent that monetary policy in an inflationary economy creates credit over and above real savings, monetary policy thereby merely feeds inflation which, in turn, creates even larger credit demands,

thus accentuating rather than relieving the over-all shortage of credit."

Another solution to the problem of meeting high priority credit demands in an inflationary environment would be higher taxes and a Federal Government which would finance such areas as housing and municipal needs out of its budget surplus. Similarly a program of credit priorities could be established by the Federal Government, stated Mr. Homer. "In an environment of built-in substantial inflation, credit shortages, and political battles for survival between groups of massive credit demanders," Mr. Homer observed, "it seems probable that there will be a growing maldistribution of resources and, hence, a distinct slowdown in over-all economic growth." An even more serious

consequence, according to Mr. Homer would be that "an increase in political extremism of a sort that could be disruptive is probable." Mr. Homer concluded that these penalties and hardships are so severe that our government will continue a policy of strong restraint in the hope of avoiding them.

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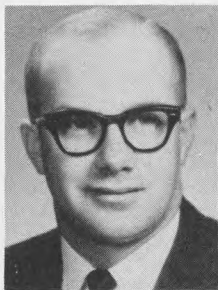
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