

NORTHWESTERN Banker Newsletter

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June 21, 1971

Devaluation And The Little Old Lady

Excerpts from a presentation on devaluation by Fred J. Young, vice president, Harris Trust and Savings Bank, Chicago, are featured here. Mr. Young is the originator and administrator of his bank's Institutional Investment Service.

Now what about this so-called dollar crisis? I submit there is no dollar crisis. Some foreign gentleman used the term and the news media picked it up and smeared it all over the papers. There may be a German mark crisis or a Swiss franc crisis or a Japanese yen crisis but there is no dollar crisis.

The dollar is worth what it will buy, whether in terms of bread, automobiles or German marks. Up until a week or so ago, the dollar would buy 3.66 German marks. It was worth 3.66 German marks because the German Government (Central bank) said it was and the German Government proved it was worth 3.66 marks by selling it and buying it from all comers at that rate. In other words, it was rigged at 3.66 German marks per dollar.

Over the past year or so, more and more people (the market place) have been deciding they like what 3.66 marks will buy (Volkswagens and other German-made products) better than they like what a dollar will buy. So the market place started saying to the German Central bank, "Here is my dollar. I will take



3.66 marks." As this process continued, the German Government acquired such a surplus of dollars that the speculators concluded the German Government would have to raise the price of the mark (revalue) relative to the dollar. On May 4, 1971, over \$1 billion was submitted for exchange into marks at the 3.66 rate. Something had to be done. The Germans were getting far more dollars than they wanted.

So what did they do? They screamed and raved and ranted that the Americans must do something about their lousy dollar. It was over-valued. Well, the Americans didn't set the exchange rate at 3.66 marks per dollar. The Germans did. If the ratio is to be changed, they should do it. As I see it, by May 5, 1971, the Germans had one of three choices:

- (1) Continue trying to maintain the ratio of 3.66 marks per dollar.

- (2) Increase the value of the mark (revalue).

- (3) Let the mark find its own level in the market place (float).

If there were other choices, I can't think of them. No. 1 no longer seemed feasible. No. 2 was politically unpopular because it was bad for trade. It would make German goods more expensive and thus tend to reduce demand and it would make foreign goods cheaper, thus bad for the German balance of trade. No. 3 would have the same effect as No. 2, plus the uncertainty of just what the exporter would get for his exports or what he would have to pay for imports.

The conclusion by the Germans was to let the mark float for the time being, with the implied promise to set the exchange at a fixed rate a few weeks or months hence.

In anticipation that the speculators would be at their door next, the Swiss raised their franc by 7%, and the Austrians raised the shilling by 5.05%. Belgium joined Germany in letting their franc float. France, Italy and England did nothing because they had no "dollar crisis".

Now what does this mean to the little old lady who lives next door? It depends on what she buys with her money. If she buys bread baked here in town from flour milled in Minneapolis

(Continued on back page)

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IOWA NEWS

ALDEN: Harry Peters, cashier and operating officer of the Aredale State Bank, will join the Alden State Bank on July 1, as executive vice president, according to L. C. Jorgensen, president.

It was incorrectly reported in the June 14 Newsletter that Mr. Peters would join the Citizens State Bank, Iowa Falls.

DES MOINES: Iowa Bankers Association is now in its new quarters at 600 Liberty Building. The new quarters are about 40% larger than the previous area.

IOWA CITY: Open house will be held by the First National Bank in its newly remodeled bank on Monday, June 28.

MARENGO: Ken Crow has resigned as executive vice president of the Iowa County Savings Bank, effective June 1, to accept other employment.

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MODALE: Bennie M. Stave, president of Modale Savings Bank, announced the purchase, by Paul D. Dunlap, president of Hawkeye Bancorporation, Red Oak, and Jack R. Eakin, president of State Bank and Trust, Council Bluffs, of the assets of the Modale Insurance Agency, Inc., which owned 56% of the outstanding stock in the Modale Savings Bank. Ownership of the Modale Insurance Agency, Inc., was formerly held by Mr. Stave, president and Donald L. Stave, executive vice president of the bank. Mr. Eakin stated that officers and employees would remain the same. The present board of directors would be expanded to include himself. State Bank and Trust of Council Bluffs is a proposed affiliate of Hawkeye Bancorporation with application for approval to become a member now pending.

ILLINOIS NEWS

CHICAGO: Gavin Weir, president of Chicago City Bank and Trust Company and David L. Smith, president of Mayflower Investors, Inc. jointly announce the sale by Mayflower Investors of the controlling interest in Chicago City Bancorporation, a corporation holding 80% of the stock in Chicago City Bank. The stock has been purchased by a group of investors headed by Mr. Weir, Bertel T. Malmquist, David R. MacDonald with other major investors including Philip Lazzara, A. L. Dougherty, Stuart Struck, and Thomas Mathers.

GLENDALE HEIGHTS: Roland W.

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Blaha, Commissioner of Banks and Trusts, has issued a permit to organize to a group of applicants proposing to establish an Illinois state bank to be known as First Security Bank of Glendale Heights. Total capitalization is \$750,000 consisting of \$300,000 capital stock, \$300,000 surplus and \$150,000 reserve for operating expenses. Organizers are Lawrence R. Vogel, Villa Park; Archie R. Gagne, St. Charles; John J. Hamer, St. Charles; Vernon S. Hoesch, Naperville; William J. Callahan, Lisle; Claude W. Youker, Wheaton; and Donald H. Fischer, Glen Ellyn.

MONTGOMERY: A charter has been issued for the organization of the Bank of Montgomery which will have a total capitalization of \$600,000. E. Jay Lease will be chairman of the board; G. William Richards, president; and Lawrence R. Vogel, cashier.

ZION: A permit to organize has been issued to a group proposing to establish the Bank of Zion with a total capitalization of \$750,000. Organizers include: William F. O'Meara, Jr., Western Springs; Robert P. O'Meara, Waukegan; George J. Goetz, Zion; James Stiles III, Glencoe and Saul Corush, Chicago.

WYOMING NEWS

CASPER: The election of two new officers and the delegation of new responsibilities to three existing officers at The Wyoming National Bank has been announced. Hale Kreycik was named vice president and head of the commercial loan department. A. Blake Cornthwaite, Jr., was named security officer and auditor; James E. Forsling, assistant manager; Ronald E. Bailey, operations manager and Ralph J. Bar-



Get to know
BOB REED

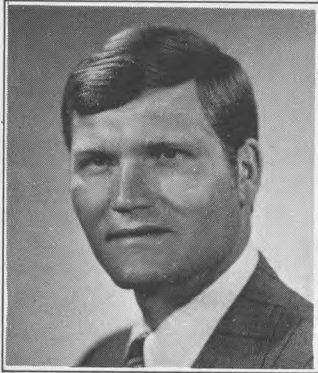
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JACKSON HOLE: At the 63rd annual convention of the Wyoming Bankers Association held last week at Jackson Lake Lodge the following officers were elected for the next year: President — Robert W. Finkbiner, president, First National Bank, Lander; 1st V. P. — Bernard R. Weber, executive vice president, First National Bank and Trust Co., Cheyenne; 2nd V. P. — John A. Guthrie, Jr., president, Bank of Laramie; Secy-Treas. — George W. McIlvaine, vice president and cashier, First National Bank of Rawlins.

MINNESOTA NEWS

DELAN: Wendell Bengston has resigned his position as director and cashier of the Farmers State Bank and has accepted a position at the Brenton County Savings Bank in Norway, Iowa.

DUNDAS: The State Bank has moved into its new location according to a recent announcement. The grand opening for the new building is planned for later this month.

ERSKINE: Gale P. Larson has recently sold his controlling interest in the American State Bank to Rudell Opegard. He had been affiliated with the bank for almost 20 years. It was also announced that F. N. Moen of Twin Valley will be

“C”

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executive vice president and will be in charge of the bank.

HAWLEY: James L. Durham of Moorhead is the new president and director of the State Bank of Hawley after a recent reorganizational meeting held by the board of directors. He succeeds G. Allen Wastvedt, who recently resigned as president and director. Hugo V. Olson, a director of the First National Bank of Barnesville, was named a new director. Mr. Durham is currently president of First National Bank of Barnesville.

PRINCETON: The Princeton State Bank recently held a grand opening of its new bank building. In making the announcement Roger W. Barton, chairman, and C. J. Erickson, president, held an invitational open house and dinner for correspondent and area bankers, stockholders and members of the board of directors.

NORTH DAKOTA NEWS

WISHEK: At a meeting of the board of directors of the Security State Bank at Wishek, Arthur T. Sayler was elected president to fill the vacancy created by the death of Walter R. Sayler who had been president of the bank since 1952.

NEBRASKA NEWS

LINCOLN: Henry E. Ley, Department of Banking, Lincoln has announced that a hearing concerning presentation of a bank charter to an organization to be called Uehling State Bank will be on June 30 in Lincoln.

COLORADO NEWS

GOLDEN: Arch J. Cueny, president of Golden State Bank, has announced the appointment of Robert W. Berry to the position of installment loan officer. Mr. Berry was formerly affiliated with Thrift Plan, Inc., in Burlington, Iowa for seven years.



COULSON CANNON AND MUIR

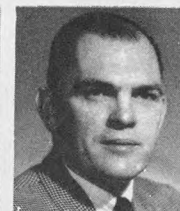
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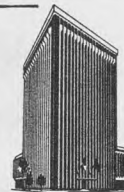
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Devaluation...

(Continued from Page 1)

from wheat raised in Kansas, it doesn't mean one thing to her. But if she lives on Swiss-made cheese, she eventually will have to pay about 7% more for it and her dollar has been devalued that much. If she buys Volkswagens or takes her vacations in Germany, her dollar has been devalued by an uncertain amount, depending on where the free market sets the exchange rate.

How can she protect herself against any future devaluation of the dollar? I frequently get this question in all seriousness in my work at the Harris Bank. It comes in various forms such as, "When will the Government devalue the dollar?" or "How can I profit from the devaluation of the dollar?" or "Should I be buying gold stocks in anticipation of devaluation of the dollar?" or "What is the smart money doing about devaluation?", etc., etc.

My answer invariably is to forget about devaluation of the dollar. Our Government is not going to devalue the dollar. I don't think our Government knows how to devalue the dollar even if they wanted to. Sure they could raise the price of gold and that would devalue the dollar relative to gold but the chances of our Government doing that are very slim for the simple reason that it would not solve anything. This would only reward those who are speculating against the dollar. I personally don't think gold is worth \$35.00 an ounce and don't think it would sell that high if our Government stopped supporting it at that price. Anyway, the little old lady next door doesn't buy much gold. I have no interest in speculating against the dollar myself and I doubt that little old lady next door has

either. I am not a buyer of gold mining stocks because I can think of lots of better investments and even better speculations than they are.

Our Government cannot devalue the dollar relative to other currencies because the dollar is now the world's key currency. All other monetary units are valued relative to the dollar. Thus, changing the value of the dollar in relation to gold would automatically change the value of other monetary units accordingly and we would be right where we started with nothing accomplished. I repeat, we are not about to devalue the dollar and you and I and the little old lady next door don't need to do anything to protect ourselves from this particular hazard.

I do point out, as I have been doing over the past few years, that we need, and no doubt will get, a few revaluations of other currencies from time to time but these should come about on an individual basis, one or two or three at a time, if and as they get over-valued relative to the dollar. This is good. Fixed exchange rates are bound to get out of balance and must be brought back in line occasionally. Actually, we have had far more devaluations relative to the dollar in the post-war period than we have revaluations. Remember the devaluations of the British pound, French franc, South American countries, etc. These many devaluations are one of the major reasons the dollar is now over-valued relative to several other currencies.

And what is Germany going to do with all those billions of dollars they accumulated at 3.66 marks per dollar? Well, General Motors, IBM and other American companies will be glad to take them off their hands in exchange for our goods and services.



Bernie Kersey

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