

Rising Rates May Cause Credit Controls

Direct controls over the credit markets are likely if interest rates escalate sharply again, according to Henry Kaufman, partner and economist of the investment banking firm of Salomon Brothers.

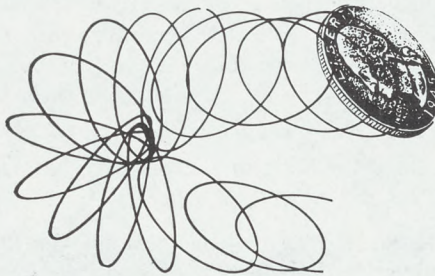
Speaking before the 25th annual conference of the Financial Analysts Federation, Mr. Kaufman said, "The temptation to directly influence credit markets will arise when direct programs of government aimed at achieving wage and price stability weaken and monetary policy must move to restraint." The imminence and format of credit market intervention by the Government will probably hinge, according to Mr. Kaufman, on economic and credit market developments during the coming months.

"While I am convinced that a sharp escalation in interest rates would not be tolerated during the next period of excessive economic demands and attempts by the Fed to slow credit availability, I am not in a position to tell you with equal conviction the credit control techniques that may be adopted to stabilize the interest rate structure," stated the investment firm economist.

"I do suspect," he went on, "that we will first see attempts to influence credit flows through the exercise of moral suasion by Government, which can succeed for a short time." However, he said, their eventual failure would be followed by the introduction of formalized controls.

Among the important developments which have led Mr. Kaufman to conclude that the Government may eventually

encroach on the decisions of portfolio managers is the drastic changes in national stabilization philosophy. With the introduction of the New Economic Program in 1971, direct intervention, rather



than traditional fiscal and monetary techniques, was being embraced as a desirable policy by a broad cross section of both major political parties, stated Mr. Kaufman.

No direct measures have been taken to stabilize interest rates or direct the flow of money, he noted, adding that he did not think the Government would abstain from implementing such controls if the availability of funds for housing, municipalities and small business was endangered. "Direct credit allocation policies are likely to be more popular than wage and price controls," predicted Mr. Kaufman. "Stable or low interest rates have considerable appeal, as evidenced by the renaissance of political populism," he said.

"The likelihood of increasing governmental intervention in private investment portfolio decisions is not only rooted in the activism of official policymakers, but perhaps more fundamentally and pathologically can be attributed to

the increasing role that government has been playing in our economy during the post-war period," stated the economist.

Mr. Kaufman noted that the Federal Government has already made progress in indirectly influencing investment decisions by: 1) becoming a larger demander of credit; 2) by officially adopting the full employment budget, and making it highly likely that large actual budgetary deficits will prevail more often than budget surpluses, and 3) by spawning a vast array of new Federal credit agencies and enlarging the role of old ones.

Looking ahead, Mr. Kaufman said that while credit market conditions are currently comfortable, they are likely to tighten in the second half of 1972. The economy, he said, will gain strength from a stimulative Federal budget, increasing the demand for funds and bringing into sharper focus the problem of containing inflation as the economy moves to fuller utilization of resources. Among the specific developments which will act to tighten credit Mr. Kaufman cited: a slowdown in the flow of funds into savings institutions as consumer spending increases, with some mortgage financing institutions having to run off holdings of Government obligations, thereby adding to the burden of Treasury financing; corporate bond flotations following the same pattern as in the first half, with additional cash needs being met through an increase in short-term borrowings; substantial Treasury financing requirements; and a continued strong demand for funds in the municipal market.

The Salomon Brothers economist explained that it would be possible to
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IOWA NEWS

AMES: The 27th annual Agricultural Credit School sponsored by Iowa State University and the Iowa Bankers Association will be held here June 5-16.

BRITT: J. A. Hickok, president of the First State Bank, has filed nomination papers for the Republican nomination for state senator.

CLARKSVILLE: Fred W. Maifeld, manager of the Kesley branch of the Iowa State Bank, has been elected assistant vice president.

DES MOINES: Tom Quinlan of the Iowa-Des Moines National Bank has been named president of the Des Moines Chapter of the American Institute of Banking.

MANILLA: Lynn McCracken has resigned as president of the Manilla State Bank after 38 years with the bank. He was succeeded by Wilmer E. Petersen. In other action, Marvin Kuhl was named executive vice president, Dennis Mesenbrink was elected cashier, and H. Rand

Petersen of Harlan was elected to the board of directors.

MARION: Donald R. Huber, vice president of the Citizens State Bank of Hopkinton, Ryan office, was recently elected president of the Eastern Iowa chapter of the Bank Administration Institute at the group's annual meeting here.

MARSHALLTOWN: Pete Garberding has joined the staff of the Security Savings Bank in the personal loan department.

MASSENA: An open house and buffet dinner were held here this past week in honor of the 75th anniversary of the Farmers Savings Bank.

NEWTON: George Kruse, retiring assistant vice president of the Jasper County Savings Bank, was honored on "George Kruse Day" here recently in honor of his 36 years service with the bank.

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NEBRASKA NEWS

OMAHA: John R. Lauritzen has been elected chairman of the board of First National of Nebraska, Inc., and its major subsidiary, the First National Bank of Omaha. Mr. Lauritzen, who will continue as chairman of the executive committee, succeeds the late John F. Davis. F. Phillips Giltner, president of the bank, succeeds Lauritzen as president of the holding company.

In other executive action, A. J. Canaday, who heads the bank's operations division, was elected executive vice president, and Bruce R. Lauritzen and Thomas L. Davis were added to the executive committee and named vice presidents of the bank.

OMAHA: Harlan Falk, vice president of the Douglas County Bank, has been elected president of the Omaha Chapter of the American Institute of Banking.

OMAHA: Three staff members have been promoted at the First Westroads Bank. They are: Lloyd Warner, assistant cashier, Jeff Ingalls, loan administrator, and Robert Haas, assistant cashier.

MINNESOTA NEWS

ALEXANDRIA: L. H. Gaugert, president and chairman of the First National Bank, has announced the election of Irene M. Halstead as assistant cashier. She is the first woman officer in the bank's 72 year history.

HILLS: Controlling interest of the Exchange State Bank has been sold to D. A. Roning. Mr. Roning is presently cashier of the bank.

MINNEAPOLIS: F. Paul Hargarten has been elected chairman of MoAmCo Corp., financial services company. Mr. Hargarten had served as president and chief executive since the company was founded as Bankers Agency, Inc., in




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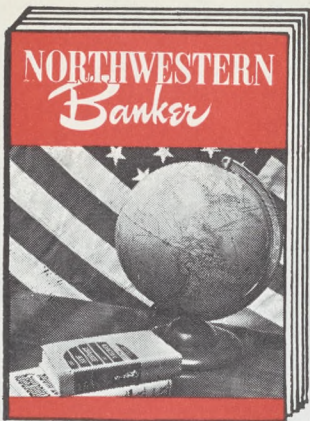
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1965. He is succeeded in that post by David Fleming, formerly executive vice president of MoAmCo and chairman of the Americana State Bank of Edina, a MoAmCo subsidiary.

In addition, Robert T. Wienert has been elected senior vice president. Mr. Wienert heads the indemnity division.

MINNEAPOLIS: John W. Windhorst, a Minneapolis attorney, has been elected a director of the First National Bank.

MINNEAPOLIS: John Swanberg has joined the investment department of the Marquette National Bank. He was formerly with the investment services division of the First National Bank of St. Paul.

ST. PAUL: Betty Scherer has been named assistant vice president of Gambles Continental State Bank.

ILLINOIS NEWS

CHICAGO: Frank L. Christensen, retail, banking, and Joel P. Gebert, systems development, have been named assistant vice presidents of the LaSalle National Bank. Also, Kenneth A. Bawolek was appointed data processing officer, and Sharon A. O'Lecky was named investment officer.

CHICAGO: The Federal Reserve Board announced that the South Side Bank & Trust Co. has received approval to change its name to the Bank of Commerce and Industry.

CHICAGO: John P. Kilroy has joined the Merchandise National Bank staff as assistant vice president in the operations department. He was previously with the All American Bank of Chicago as vice president and cashier.

RIVERDALE: The appointment of three new officers has been announced by



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Riverdale Bank President Frank Stewart.

William M. Freidheim has been named assistant vice president, commercial loans. He was formerly with the Hyde Park Bank in Chicago. John J. Donnellan, previously with the First National Bank of Chicago, has been named assistant commercial loan officer. Eva S. Huskey was appointed mortgage loan officer. She has been in the bank's loan department for two years.

NORTH DAKOTA NEWS

FARGO: The First National Bank & Trust Co. has received approval to construct a drive-in facility in the Main Ave. urban renewal area.

LANGDON: The FDIC has given its approval for the First National Bank to move its main office to 210 8th Street.

SOUTH DAKOTA NEWS

GETTYSBURG: Darwin D. Ronngren has been named vice president of the First Potter County Bank. Mr. Ronngren was formerly a vice president with the First Bank of Paynesville, Minn.

RAPID CITY: Richard L. Mathieson has been elected vice president and Gerald Kiel has been named assistant vice president of the First National Bank of the Black Hills. Mr. Mathieson is in the commercial banking department, and Mr. Kiel is installment loan manager of the Belle Fourche office.

In addition, Marion A. Matt was elected an installment loan officer at the Belle Fourche office, and Lee Groskopf was named an installment banking officer in the main office.

COLORADO NEWS

DENVER: Directors of the First National Bancorporation are seeking approval to acquire controlling stock in the Routt County National Bank in Steamboat Springs.

DENVER: Stanley O. Halberg, senior vice president of marketing at the American National Bank, retired June 1.

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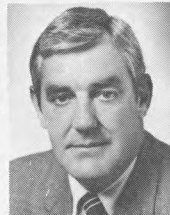
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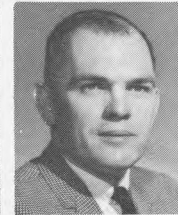
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COMMERCE BANK of Kansas City

DENVER: Joseph W. Hovorka of the Central Bank & Trust Co. has been named vice president.

LAKEWOOD: Eugene Hultman, Lakewood Colorado National Bank president, has announced the election of two new bank officers. John Henning, Jr., has been named operations officer, and Ralph McCauley was named installment loan officer.

WYOMING NEWS

CHEYENNE: R. Walt Miller, an agent of Massachusetts Mutual Life, has been elected to the board of directors of the First National Bank & Trust Co., according to W. Robert Dubois, chairman.

JACKSON: Winona Flower, executive secretary of the Jackson State Bank, was recently elected group chairman of the Wyoming chapter of the National Association of Bank Women.

JACKSON: Michael D. Hogg has been promoted to operations officer at the First National Bank, according to Robert Noel, president.

CREDIT CONTROLS . . .

(Continued from page 1)

arrest the drift towards higher interest rates and controls over credit flows. "One initiative that would importantly contribute to an improved equilibrium between the credit markets and the economy would be a reassessment of the

budgetary strategy for the fiscal year starting July," stated Mr. Kaufman noting that the economic recovery is proceeding at a good pace, even though Federal expenditures in fiscal 1972 will fall short of the officially targeted amount by \$5 million. The intent to accelerate Governmental expenditures to the officially targeted levels, he said, will reaffirm inflationary expectations and encourage long-term investors to place funds short instead of committing long. Furthermore, there are also very fundamental governmental budgetary and planning changes that need to be considered if stabilization policies are to be effective.

A meaningful disarmament agreement with the Soviet Union would certainly help to choke off some of the potential future pressure towards higher interest rates, according to Mr. Kaufman. Equally important, he said, is the need for our Government to recognize that as we move closer to fuller utilization of economic resources, there is bound to be increasing pressure for higher wages and prices, even with the continued effort of the current wage and price control programs. Reasonable wage and price stability, stated Mr. Kaufman, can only be attained with an improvement in the basic competitiveness of the wage and price structure. "The New Economic Program has not moved forcefully in this direction," he said, adding, "the time to do so is now, although this may be difficult in an election year."

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