

NORTHWESTERN Banker Newsletter

Vol. 3 No. 80

Des Moines, Iowa

November 11, 1974

Inflation — Our Major Domestic Problem

The following comments were made by Dr. Beryl W. Sprinkel, Chairman, ABA Economic Advisory Committee, and Executive Vice President and Economist, Harris Trust and Savings Bank, Chicago.

Double digit inflation permeates the U. S. economy this year for the first peacetime period in my lifetime. The acceleration was brought about by classical causes—overly expansive monetary-fiscal policies. In the past four fiscal years, cumulative budget deficits have exceeded \$75 billion. But of greater importance, the annual monetary growth averaged 6.7% in the 4½ years ending June, 1974, in contrast with 1.7% 1952-60; 3.1% 1960-65, and 5.4% 1965 through 1969.

Although too much money chasing too few goods was the major culprit, a few non-repetitive special events added to the inflationary burst this year. Of major importance was the release of pent-up price pressures resulting from our ill-fated price and wage control experiment which extended from August, 1971 through April, 1974. Controls suppressed symptoms, i.e., wages and prices, and they resulted in severe consumption and investment distortions and spreading shortages. Once controls were

eliminated, prices and wages promptly rose in line with demand pressures resulting from prior monetary-fiscal stimuli. Hence, we



suffered an unusual price burst in 1974 on top of a high 6% - 7% hard core inflation. In addition, the quadrupling of oil prices resulting from the OPEC cartel added upward movement to prices. Finally, weakness in the dollar and poor crops added another upward boost.

Less Inflation

It is my view that almost irrespective of the economic policies pursued over the next year, prices are likely to rise less rapidly than now. We estimate that by the latter half of next year the inflation will settle back to the 5% - 7% range.

The harbingers of less inflation are already showing up in lower industrial material prices and slower wholesale price increases.

Proposals

Furthermore, for the first time in several years, prospects for less expansionary economic policies are improving. The American public is fed up with high inflation rates and the message is finally influencing public policies formulated in Washington. President Ford's recent economic message contained many dimensions but it emphasized the basic theme of fiscal and monetary discipline. Without less expansive economic policies, nothing else matters if reducing inflation is our major objective. True, there were proposed tax cuts to aid the poor and stimulate investment but these cuts were offset by proposed tax increases. In addition, the President disclosed a promise from Chairman Burns of the Federal Reserve Board to resume monetary growth but at a moderate pace.

The package also included proposals for increasing food production, conserving energy, reducing restrictive regulatory practices, stimulating housing, helping thrift institutions, and providing supports for the unemployed. Some of these proposals

(Turn to page 5, please)

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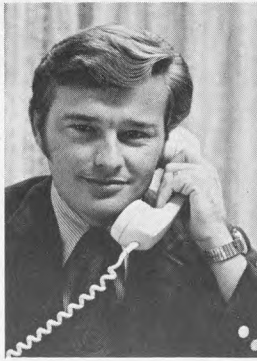
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Iowa News

After considerable study and deliberation, the Iowa Bankers Association Council of Administration decided recently to proceed with informing the membership on developments in Electronic Funds Transfer, including specific details on alternatives available. This will include the best data available on cost, benefits and drawbacks. The Council has taken no action directed to enactment of legislation and does not plan to until determination has been made about the system to be established.

The Council directed the IBA staff to proceed with negotiations with the Nebraska Bankers Association and attempt to establish an agreeable joint venture with them seeking answers and alternatives in EFTS. In addition, the Council requested an educational program be set up immediately for members; therefore, a series of EFTS workshops are planned for the week of November 18-22. There is no registration fee, but the IBA office needs to know the number who will attend so adequate facilities may be arranged. There will be two meetings each day, the first at 9:00

a.m., the second at 2:00 p.m. Following are the sites, with morning meeting listed first each day:

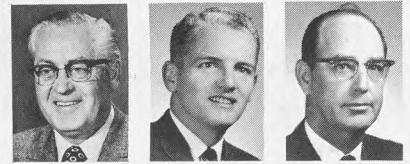
Nov. 18: Mt. Pleasant; Tipton
Nov. 19: Waterloo; Decorah
Nov. 20: Mason City; Ft. Dodge
Nov. 21: Spencer; Sioux City
Nov. 22: Atlantic; Des Moines

BATTLE CREEK: In last week's issue it was incorrectly stated that First State Bank of Battle Creek has made application to the state banking department to merge with Ida County State Bank in Ida Grove. The application is for First State Bank to move its charter from Battle Creek to Ida Grove and retain an office in Battle Creek. The Ida County State Bank is not involved in the application.

BLAIRSTOWN: Lloyd Shaull, director, has been elected president of the Benton County State Bank, replacing Leo Kelly who has resigned.

ELDORA: James Vigars has joined the Iowa Falls State Bank coming from the position of senior assistant bank examiner for the Federal Deposit Insurance Corporation working out of Mason City.

INDEPENDENCE: Dolph S. Leytze has been named vice president of the Farmers State Savings Bank. He was formerly with the Merchants National Bank of Cedar Rapids as assistant cashier and marketing officer for the Banks of Iowa. Other officers elected include Richard E. Cone, executive vice



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president; Richard B. Fiester, vice president and trust officer; James R. Smith, vice president and Lamont office manager, and Monte R. Cue, cashier.

SOLON: The officers and directors of the Solon State Bank will host an open house in their new banking facility on Saturday, Nov. 16, from 5:30 until 9 p.m.

Nebraska News


YORK: Jay D. Peters has joined the York State Bank as senior vice president, according to Dean Sack, bank president. Mr. Peters formerly was president of the Fillmore County Bank in Geneva. The bank also announced that it has received approval to establish a detached auxiliary teller office at 710 South Lincoln Avenue.

Minnesota News

LAKEVILLE: Charles J. Tritz has been named president of the Lakeville First National Bank. He formerly was president of the Sterling State Bank, Austin. Pat Murphy, formerly assistant vice president, has been named vice president, cashier and director.

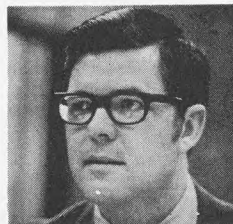
LE ROY: Gerald Payne has joined the First State Bank.

SEBEKA: The Security State Bank has increased its capital stock from \$50,000 to \$60,000 by sale of new stock.



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Illinois News

ALSIP: A permit to organize the First State Bank at 11350 South Cicero Avenue has been issued. Total capitalization of the new bank will be \$1,750,000, consisting of \$700,000 in both capital and surplus and \$350,000 in reserve.

South Dakota News

The South Dakota Bankers Association will hold its annual Bank Management Conference November 26 at the Hickory House Motor Inn in Huron. Registration begins at 8 a.m. followed by the program at 9. Featured will be a panel on "Upper Midwest and South Dakota Economic Outlook."

MOBRIDGE: Gordon H. Hoffner, who has been assistant vice president at the Citizens Bank, has been promoted to vice president.

WESSINGTON SPRINGS: Bob Orton has been named installment loan officer of the National Bank of South Dakota office here.

Colorado News

DENVER: Colorado National Bank has announced several officer changes: George R. Minot, promoted to assistant vice president; Kent Sawyers, named trust officer and Duane M. Arnold, elected investment officer, trust department.

INFLATION.

(Continued from Page 1)

need further study and certainly Congress must provide support, but at long last we are headed in the right direction. Of major impor-

tance is the fact that no easy solutions were promised and there was an explicit avoidance of a false call for wage and price controls or strict guidelines.

Some criticize because controls and guidelines were left out. Others believe we should fight recession, not inflation. Some want, as always, a different allocation of income. Finally, others say that recommended actions were not sufficiently drastic and dramatic. But, in my opinion, the program is realistic for it implicitly recognizes that there is no instant solution and that attempts to provide drastic actions would almost certainly be counter-productive.

Questions

The remaining sobering question is: Will the public and the Congress provide the necessary support to make the anti-inflation program a success? Inevitably, slower demand growth will promote a slowdown and possible recession before major progress is evident on the inflation front. Additional income supports for the unemployed will help provide more equitable sharing of the cost of controlling inflation. Recognition of the damage resulting from inflation should strengthen our resolve to persist. But will our patience wear thin in the months ahead and cause a resumption of highly expansive economic policies? I hope not, but the danger is great. As always, the economic answer to inflation is easy but the political solution is difficult. We must all join the battle. In addition to voluntary acts proposed in President Ford's message, the most important role for each of us is to

continuously inform the Congress, the President, and the Federal Reserve Board that we want less inflationary economic policies, beginning now.

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(Act of August 12, 1970: Section 3685, Title 39, United States Code)

- Title of publication — Northwestern Banker Newsletter.
- Date of filing — September 27, 1974.
- Frequency of issue — Weekly.
- Location of known office of publication — 306 - 15th Street, Des Moines, Iowa 50309.
- Location of the headquarters or general business offices of the publishers (Not printers) — 306 - 15th Street, Des Moines, Iowa 50309.
- Names and addresses of publisher, editor and managing editor — Publisher — Malcolm K. Freeland, 306 - 15th Street, Des Moines, Iowa 50309.
 Editor — Ben Haller, Jr., 306 - 15th Street, Des Moines, Iowa 50309.
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- Extent and nature of circulation:

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A. Total No. copies printed (Net Press Run)	4,952	4,931
B. Paid circulation		
1. Sales through dealers and carriers, street vendors and counter sales	NONE	NONE
2. Mail subscriptions	4,618	4,660
C. Total paid circulation	4,618	4,660
D. Free distribution by mail, carrier or other means		
1. Sample, complimentary, and other free copies	234	171
2. Copies distributed to news agents, but not sold	NONE	NONE
E. Total distribution (Sum of C and D)	4,852	4,831
F. Office use, left-over, unaccounted, spoiled after printing	100	100
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I certify that the statements made by me above are correct and complete.

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Vol. 3 No. 80 Northwestern Banker Newsletter is published weekly by the Northwestern Banker Company, 306 Fifteenth Street, Des Moines, Iowa 50309. Subscriptions 25 cents per copy, \$6 per year. Second class postage paid at Des Moines, Iowa. Address all mail subscriptions, changes of address (Form 3579) manuscripts, mail items to above address.