

# NORTHWESTERN Banker Newsletter

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October 20, 1975

## Outlines Route To Economic Recovery

A combination of smaller Federal budget deficits and a more accommodating monetary policy by the Federal Reserve is suggested by Henry Kaufman, general partner and member of the executive committee of the investment banking firm of Salomon Brothers, as a route to sustainable economic recovery.

In this light, Dr. Kaufman said the President's latest fiscal proposals are inappropriate and not likely to be legislated. Adding some \$15 billion to the Treasury's \$40-odd billion net new cash needs in the first six months of 1976 would put upward pressure on interest rates, inhibit private short-term refinancings, delay the housing recovery and create adverse market expectations.

As matters now stand, he said, conditions point to a slow down in the rates of both economic recovery and inflation, leading to improved credit markets in 1976. He expects new high grade corporate bond yields to fall to around 8% in the first half of 1976, and short-term interest rates will likely fall well below current levels then.

### Seven Developments

Dr. Kaufman notes that the American economic financial recovery is off to a very bumpy start. The unusual dimensions in the

present economic and financial scene, he said, are far more characteristic of the terminal stages of a boom than the initial months of an economic expansion. This is producing at least seven strange developments in financial markets.

First is the narrow base of the recovery, dependent largely on a sharp deceleration of inventory liquidation plus gradual improvement in the badly depressed housing and consumer spending sectors. A second stage upturn in these latter two areas hinges on a significant slowing in the extraordinarily high current rate of inflation, Dr. Kaufman said.

Second, the continued existence of a two-tiered credit market, restricting national and international markets to highest grade issuers, requires an involuntary shift by important borrowers to local and regional creditors. This provides a powerful discipline, assuring that capital will not be as wasted in the future as in the past.

Third is the process of restoring liquidity. High grade corporations have made good progress, but not lesser companies. Savings institutions did well until a month ago when savings inflows slowed. Commercial banks are still substantially undercapitalized and have not become aggressive lenders as in previous economic recoveries.

It is difficult to envision a broadly-based economic advance without a large increase in bank credit.

Fourth, the municipal market faces unprecedented obstacles. New York City's problems have translated into intense investor desire for quality and have reduced the overall market. In addition, commercial banks and insurance companies, once dominant buyers of municipal securities, have reduced needs for tax-exempt income, eliminating them as net new buyers.

Fifth, the U.S. Government's unprecedented credit demands are contributing to the sharp rise in interest rates. Big Treasury deficits, along with an uncomfortably high inflation rate, have prevented a rise in the value of outstanding financial assets. In addition, the huge deficit is "crowding out" other borrowers. In order for the Treasury to meet its upcoming cash needs without further "crowding out," Dr. Kaufman says the rate of inflation must abate and demand for bank funds must continue sluggish. Otherwise, the budget deficit will be self-defeating and will help destroy the economic recovery it was designed to encourage.

Sixth, Dr. Kaufman cites the alarmingly high current interest rates. High grade bond yields are only slightly below their peaks,

**ECONOMIC RECOVERY. . . . .**  
[Turn to page 3, please]

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### Iowa News

**DES MOINES:** The 89th annual Iowa Bankers Association Convention will open this Sunday, October 26. Registration begins at 3 p.m. in the lobby of the Hilton Inn and will continue throughout the convention.

**DES MOINES:** The Iowa Bankers Association has moved to its new quarters at 400 Liberty Building. Iowa Bankers Insurance and Services, Inc., will occupy a portion of the 9,200 square foot complex.

**DES MOINES:** The new telephone number for Bankers Trust Company is 245-2424.

**SIOUX CITY:** Funeral services were held recently for J. E. Kelly, president of Valley State Bank. Mr. Kelly died while on an outing in Canada with friends.

### Nebraska News

Bankers attending NBA group meetings last week were alerted that the Fair Credit Billing Act and the Equal Credit Opportunity Act go into effect October 28. The Fair Credit Act is aimed at giving the credit card holder the option of going back with unsatisfactory

merchandise. If a satisfactory settlement is not obtained, the buyer can refuse to pay the amount on the credit card. The Equal Credit Act restricts lenders on the information they can seek on sex and marital status.

The Nebraska Bankers Association made its first survey of the membership since 1968 on bank structure in the state. The results announced at the group meetings show that member banks are opposed to liberalizing state laws regarding holding companies or branching laws either statewide, countywide or in Omaha.

Dates and locations of the second set of group meetings are:

Oct. 21, Group 1, Radisson Cornhusker, Lincoln.

Oct. 22, Group 2, Holiday Inn, Columbus.

Oct. 23, Group 3, Villa Inn, Norfolk.

**YORK:** Daniel D. Gibb has been named a loan officer in the instalment loan department of York State Bank. He came to the bank from the American National Bank of Denver where he was a loan counselor.

### Minnesota News

The 1975 Bank Staff Seminars will be held throughout the state beginning this week. Registration will be at 5:30 p.m. followed by dinner and the seminar, entitled "Bank Swindles--Robbery without a Gun." Dates and locations of the first seven meetings follow:

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Oct. 21, Holiday Inn, Mankato.

Oct. 22, Kahler Inn Towne, Albert Lea.

Oct. 23, Ramada Inn, Marshall.

Oct. 27, Holiday Inn, Willmar.

Oct. 28, L'Hotel Sofitel, Bloomington.

Oct. 29, Sheraton Inn Northwest, Brooklyn Park.

**HUTCHINSON:** Richard Burgart has been named assistant cashier in charge of instalment loans at First National Bank.

**LAKEVILLE:** Patrick Murphy has assumed the position of executive vice president of the First National Bank. The post of president was dissolved with the resignation of Charles Tritz. Also announced is the addition of Gary Gruttadaurio to the bank's staff as assistant vice president. He formerly was with Franklin National Bank in Minneapolis.

**MINNEAPOLIS:** First National Bank has announced the following promotions: Leo J. Reuder to vice president, real estate loans; Paul M. Blad, corporate banking, and J. Scott Hutton, Personal Banking Center, to assistant vice presidents; Lawrence A. Gregerson,

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Michael J. Hollnagel and Joseph A. Jeannette to commercial banking officers and Franklin Brosseau to computer services officer.

### Illinois News

CHICAGO: The following changes have been made at the Commercial National Bank: Carol J. Lucchesi and John P. Farley, assistant cashiers, named assistant vice presidents; Dorothy M. Smith, James P. Soukoulis, George P. Krillies, John R. Kerr, Michael T. Ryan and Ronald E. Pucilowski, named assistant cashiers, and Chrissie Grivas, appointed customer service officer.

CHICAGO: Exchange National Bank has announced the election of five officers: Victor P. Stasica, vice president, commercial banking; Michael E. Gibson, assistant vice president, commercial banking; William A. Spoo, commercial lending officer, and Terry Duggan and Mary Beth Spartz, assistant cashiers.

HIGHLAND: The Board of Governors of the Federal Reserve System has announced approval of the applications of Southern Illinois Bancorporation, Inc., here to become a bank holding company by acquiring Farmers and Merchants Bank and to engage de novo in the sale of permissible credit-related insurance.

OAK BROOK: Discussion of major new developments affecting banking in Illinois will be featured at a joint meeting of Regions I and II of the Association of Modern Banking in Illinois on Wednesday, Oct. 22. The meeting will be held at the Sheraton Oak Brook Hotel beginning at 1:30 p.m.

### ECONOMIC RECOVERY..... [Continued from page 1]

which is not the structure which should prevail in the early months of economic recovery. Meanwhile, despite the decline in short-term rates from their peaks, there is still no relative inducement to invest long rather than short, which has

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been an important financial conditioning process in prior recessions and subsequent recoveries.

Seventh is the dilemma facing monetary authorities who have limited options. High inflation, some economic growth and huge Treasury deficits are offsetting the beneficial impact of the current pace of monetary accommodation. The result has been credit market travail instead of orderly growth.

### Improved Credit Scene

Dr. Kaufman states that the problems he enumerates are generating conflicts and constraints of sufficient intensity to slow the pace of economic activity and the rate of inflation by the first half of 1976, which should make for an improved credit market. He cites as a possible scenario:

1. Business open market financing will continue to slow in 1976, with corporate bond offerings below 1975. Bank lending will increase its corporate role and corporate liquidity will improve. Equity financing should also rise.

2. The housing recovery, now stalled, should slowly pick up but without the force to preempt a large amount of savings.

3. Municipal financing will be

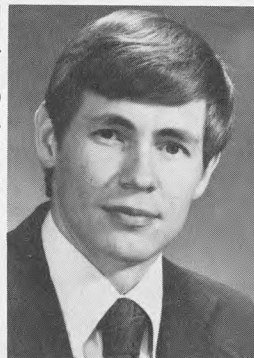
subdued regardless of the outcome of the New York City problem.

4. U.S. Treasury needs will be at least a little less than in 1975. Treasury revenues should increase and the huge tax concessions of this year are not likely to be repeated.

In examining the struggle in the U.S. between two dominant schools of economic thought—Keynesian and Monetarist—Dr. Kaufman says a national policy has resulted that will continue to breed poor results. The Keynesians have captured the Federal budget as a policy weapon and are fostering huge deficits. The Monetarists strongly influence the central bank and stress financial competition and moderate money supply growth. Such policies, Dr. Kaufman says, assure the dominance of Government in the economic process. Neither can provide quickly the stability which the nation seeks nor the improved financial conditions essential for rapid, sustainable economic growth.

He proposes a reduced Federal deficit and an easing in monetary policy as a means of improving business sentiment and reducing inflationary expectations. Barring a major breakthrough in economic

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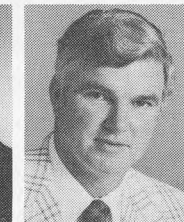
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understanding, Dr. Kaufman says, we must find a way to combine the best economic thoughts of both (Keynesian and Monetarist) schools and integrate this with current economic realities.

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