

NORTHWESTERN Banker Newsletter

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September 18, 1978

A Realistic View of Inflation

A "realistic view of inflation" must include recognition by individuals of the role they play in generating inflation by continually demanding "a bigger piece of the economic pie" while remaining "unwilling to pay for the privilege through either increased taxes or higher interest rates," according to Donald W. Moriarty, Jr., first vice president of the Federal Reserve Bank of St. Louis.

Mr. Moriarty blamed the spiral of rising prices on an excessive growth in the nation's money supply which is outpacing the output of goods and services, a circumstance resulting from the insistence of many Americans that excessively higher wages and governmental expenditures be implemented without any unfavorable economic consequences.

"We cannot have the government deliver more services without increasing taxes, without increasing interest rates, or without an acceleration in inflation," Mr. Moriarty said. "We cannot have higher wages than productivity dictates without resultant unemployment or without an acceleration in inflation." Inflation, he emphasized, "can be stopped — virtually eliminated — but we must be prepared to make some sacrifices to achieve that important goal."

"New Generation"

Mr. Moriarty cautioned that

inflation is rapidly becoming institutionalized, with people conditioned to expect a steadily increasing cost of living and altering their lifestyles accordingly.



Among those affected, Mr. Moriarty said, are members of what he termed the "inflation generation" — young people whose awareness span does not predate the issuance of "glowing statements from economists whenever inflation dips near the 5% mark, implying that a higher figure is a 'given' while a lower inflation rate is an exception to the accepted rule."

While price increases are obvious to most people, Mr. Moriarty said, the severity of the inflation problem is most deceptive to the man on the street who may believe he is keeping pace with rising prices because his paycheck is also increasing. Instead, higher tax

brackets and the falling purchase power of the dollar are likely to nullify the impact of many years of steady wage raises.

People blame many factors for inflation, Mr. Moriarty noted. "But none of these factors can cause universal inflation without the accompanying increase in money stock, because inflation's emergence is predicated upon an increase in total spending relative to output growth. So long as spending trade-offs occur among the economic sectors so that total spending is held constant, universal inflation does not take place."

We are generally unwilling to make such trade-offs, Mr. Moriarty asserted. He cited examples of consumer demands which are not accompanied by suggestions of compensatory revenue in such areas as additional federal health services, college student and small business loans provided at below-market interest rates, and pleas for increased agricultural price supports.

Free Ride

"Realistically," he said, "the bill for the 'free ride' which we want to take, presumably at government expense in so many areas, eventually returns to us in the more subtle form of higher prices."

Mr. Moriarty said budget constraints should and can be

INFLATION . . .

[Turn to back page, please]

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House Committee Approves Reserve Bill

The House Banking Committee agreed on legislation that would require all major federally insured banking institutions to maintain reserves with the Federal Reserve Board and would give the Fed more accurate information about the nation's money supply.

In mandating reserve requirements, the bill would lower the percentage of deposits currently held as reserves and would exempt all small and medium-size commercial banks from the requirements.

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Currently, there is about \$748 billion in the nation's banking system, about 73% of which is backed up by reserves totaling about \$37 billion. Under the bill, that ratio would be lowered to 68%, totaling about \$25 billion in reserves, and through adjustments would be maintained at the 68% level.

The bill would require that the same reserves be held on savings and checking accounts, so that money supply figures won't be distorted as depositors move their funds from one type of account to another.

Further, the legislation would replace the five different categories of reserve requirements on checking accounts with just one, which would range from 6% to 8%. With this revision, all banks would be exempt from reserve requirements on the first \$50 million in checking and passbook deposits and the first \$50 million in certificates of deposit. A committee staff member said all small and medium-size banks, or about 90% of all commercial banks, would therefore be exempt from holding noninterest-paying reserves at the Fed.

The legislation also provides all banks with access to loans from the Fed's discount window.

Iowa News

HAWKEYE: Allan B. Eich has

assumed the duties of cashier and chief operating operator of Citizens State Savings Bank. He previously was vice president of the First Trust and Savings Bank, Cedar Falls.

SUTHERLAND: Robert Green, president of the Security State Bank here, was killed last week in a two-car accident near Hartley.

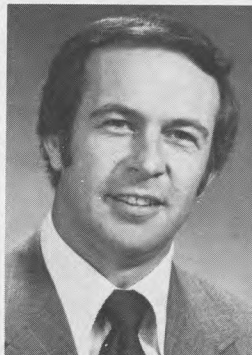
Nebraska News

HOLBROOK: The Security State Bank has been purchased by Dean and Barbara Holbein, Oxford, from Dr. Pete Phillipson, past president, and Warren Curry, former cashier. Mr. Holbein is associated with CIT in Lexington and has served as president of the Security State Bank in Oxford. He will serve as president at Holbrook's Security State Bank. Mrs. Holbein owned and operated BJ's Beauty Salon in Oxford. Mr. Curry will remain in an advisory capacity at the bank and will continue to practice law. Dulcie Elston, a 17-year employe of the bank, will take over as cashier.

Minnesota News

BRECKENRIDGE: J. J. (Joe) Vihstadt, assistant vice president and commercial loan officer at Polk County State Bank, Crookston, has been named president of Farmers and Merchants State Bank of

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Vice President

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NEW ISSUE

S & P: "A"

\$278,000
COON RAPIDS COMMUNITY SCHOOL DISTRICT, IOWA
 General Obligation School Bonds

Dated: September 1, 1978

Denominations: \$1,000 and \$5,000

Both principal and semiannual interest (June and December 1, first coupon due June 1, 1979) payable at the office of the School District Treasurer, Coon Rapids, Iowa.

IN THE OPINION OF COUNSEL INTEREST ON THESE BONDS IS EXEMPT FROM ALL PRESENT FEDERAL INCOME TAXES, IOWA FRANCHISE TAX AND ALL PROPERTY TAXATION IN THE STATE OF IOWA.

MATURITIES

	<u>5.50%</u>				
\$ 8,000	June 1, 1981	4.75	\$15,000	June 1, 1990	5.15
10,000	June 1, 1982	4.80	20,000	June 1, 1991	5.20
10,000	June 1, 1983	4.85		<u>5.25%</u>	
10,000	June 1, 1984	4.90	20,000	June 1, 1992*	5.25
15,000	June 1, 1985	4.95		<u>5.30%</u>	
15,000	June 1, 1986	5.00	20,000	June 1, 1993*	5.30
15,000	June 1, 1987	5.00		<u>5.40%</u>	
	<u>5.30%</u>		20,000	June 1, 1994*	5.35
15,000	June 1, 1988	5.05	20,000	June 1, 1995*	5.40
	<u>5.10%</u>			<u>5.50%</u>	
15,000	June 1, 1989	5.10	25,000	June 1, 1996*	5.50
			25,000	June 1, 1997*	5.50

*Optional in inverse order beginning June 1, 1991 at 100%.

LEGALITY TO BE APPROVED BY AHLERS, COONEY, DORWEILER, HAYNIE & SMITH, ATTORNEYS, DES MOINES, IOWA.

Coon Rapids Community School District is located in west-central Iowa about 65 miles from Des Moines. The District is primarily located in Carroll County but also includes small portions of Guthrie, Greene, and Audubon Counties. The only incorporated City within the District's boundaries is Coon Rapids. There is one bank located in Coon Rapids with deposits in excess of \$22,500,000, up from \$12,600,000 only five years ago. The major employer within the District is Garst & Thomas Hybrid Corn Company. They employ 150 people year round and an additional 400 during the summer. The City of Coon Rapids owns and successfully operates its own electric, water, sewer, and natural gas systems. Three State parks are located within 20 miles of the City. Tillable agricultural land within the District has sold recently for approximately \$3,000 per acre.

These bonds were authorized at a special election held July 11, 1978, by a vote of 577 "Yes" to 234 "No". They are being issued under the provisions of Chapter 296, Code of Iowa, 1977, as amended, for the purpose of completing the new junior-senior high school building. In the opinion of counsel, these bonds are legal and binding general obligations of Coon Rapids Community School District, Iowa, and all taxable property located therein is subject to the levy of sufficient taxes to pay the principal of and interest on the bonds without limit as to rate or amount.

FINANCIAL STATEMENT

Actual and assessed value of taxable property, 1977	\$54,927,650
Direct debt, including this issue	2,178,000
Total direct, overlapping and underlying debt	2,219,870
Population, 1978 estimate: 3,000	Direct debt per capita: \$726.00
	Total debt per capita: 739.96
Area: 69,760 acres	Direct debt per acre: 31.22
	Total debt per acre: 31.82

Tax collections have approximated 100% of taxes levied for the last five years.

We own and offer subject to prior sale and change in price and subject to our attorney's approving opinion.

Supplement To Northwestern Banker Newsletter 9-18-78

Marketing Research on Automatic Transfer Is Now Available!

Are you ready for Automatic Transfer Accounts?

Last week, **Brenton Banks, Inc.**, a \$500 million multi-bank holding company, completed a research project that was designed to explore bank customer receptiveness to and acceptance of Automatic Transfer services. Now, we are offering this valuable information to you.

The primary purpose of the study was to generate information on customer perceptions concerning the concept of the bank automatically transferring funds from a savings account to a checking account. This includes customer perceptions on alternative ways to **position** and **charge** for the automatic transfer service, customer perceptions on the use of the automatic transfer service in comparison with the use of electronic fund transfer services and customer perceptions on how the automatic transfer service would fit into their current means of handling money.

In order to generate a range of in-depth customer perceptions about automatic transfer, three focus groups were conducted. All participants were between the ages of 25 and 49. The family income of

the participants was at least \$20,000. None of the participants were employed by a financial institution and all of them had at least partial responsibility for banking and financial matters in their households.

We are offering you both the **taped conversations** and the **35-page written summary** and recommendations that were developed by **GMI**, a nationally recognized marketing research firm. Any reproduction or resale of these materials, including tapes and written material, is strictly prohibited without the written permission of **BRENTON BANKS, INC.**

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Breckenridge. He is replacing L. G. (Les) Grosz who has been elected president of Western Bank and Trust Company, Marshall.

ELY: The new Boundary Waters State Bank of Ely opened for business on August 1, 1978. Russell Hepola is president and vice president and Warren Tikkanen is cashier. The capital totals \$325,000, and surplus and undivided profits are \$325,000.

Illinois News

The Illinois Bankers Association is holding a second set of teller-staff conferences Sept. 19 at the Ramada Inn in Champaign, Sept. 20 at the Holiday Inn East in Springfield and Sept. 21 at the Southern Illinois University Student Center at Carbondale. The agenda includes "Principles of Teller Operations," "You, the Professional Banker," "The Bank Robbery," "The Full Service Banker," "Check Frauds and Forgery," "Customer's View of Banking" and "Review through Role Playing." The program will be presented by Donald R. Jones and Veronica Greany, both of Donald R. Jones & Associates, a Midwest mid-management training firm.

CHICAGO: The board of directors of the American National Bank & Trust Company of Chicago has designated bank President Michael E. Tobin as chief executive officer, shifting that designation from chairman of the board, Allen P. Stults. According to Mr. Stults, the switching of the chief executive officer responsibility to Mr. Tobin is part of the bank's planned, orderly transition of top management in anticipation of Mr. Stult's retirement at the end of this year.

North Dakota News

BISMARCK: The Independent Community Banks of North Dakota will hold its convention September 26-29 at the Kirkwood Motor Inn, Bismark. Registration opens Tuesday, Sept. 26, in the motel lobby. Topics at the convention will include: "Bankers View of Rule Making Process by Regulatory Agencies," "Bank Examinations and Directors' Responsibilities" and "Can We Bank on Women Bankers." A Ladies Program will be held Sept. 27 and 28.

Colorado News

The 5th annual convention of the Independent Bankers Association of Colorado will be held September 21-23 at The Mark in Vail. Daryl W. Biggerstaff will preside. He is president of the association and president of the Empire National Bank in Canon City.

FORT COLLINS: The Commerce Bank has filed an application for a charter with the state banking board. The bank is to be located within one-half mile of Colorado Highway 14 and Link Lane in Fort Collins. Incorporators are Joel H. Wiens, Raymond M. Buchanan, Timothy D. Wiens, Max Hoffman and Gary Nordick.

Fed Rejects Bid To Delay Automatic Transfers

The Federal Reserve Board has turned down a bid to postpone the November startup of a rule change allowing banks to make automatic transfers from savings to checking accounts. The rule goes into effect November 1.

Wyoming News

CASPER: The Wyoming National Corporation will acquire all of the stock of the First National Bank of Glenrock owned by First Glenrock Corporation. This announcement has been made by R. D. Simpson, president of First Glenrock Corporation, and R. W. Miracle, president of the Wyoming National Corporation. This acquisition is subject to the approval of the Board of Governors of the Federal Reserve System and other regulatory authorities. The present manage-



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- When:** the date the loan was filed with the Secretary of State
- Where:** location where loan made



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INSTALMENT LOAN—Complete charge of \$35MM portfolio. Both direct and indirect experience required. \$25,000

AG-LOAN—\$20MM Nebraska bank seeks addition to staff. Commercial experience helpful. \$20,000

INSTALMENT LOAN—Supervise \$7MM dept. in Iowa bank. Background will include dealer experience. \$18,000

A sample of our current listings. Please forward resume' and salary history in confidence to:

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ment of the bank will continue with R. D. Simpson as chairman, William S. Bolton as president, Robert D. Simpson as executive vice president and Olen Wright as cashier.

INFLATION . . .
 [Cont. from page 1]

effectively imposed on those in charge of spending — "if the monetary authorities are not pressured to stabilize interest rates, if they are not encouraged to try to prevent any upward movement in the unemployment rate, if they are not required to worry about every deviation in the foreign exchange rate."

"Yes, we can blame labor or business or any of dozens of market participants as contributors to inflation," Mr. Moriarty told the bankers. "But the fact remains that without acquiescence to the political pressures for interest rate stabilization and without other artificial restrictions, we would not have a need to point the finger at 'the other guy' as the villain in the problem of inflation."

Mr. Moriarty concluded that "a truly realistic view of inflation must include an examination, not only of the performance of elected officials as guardians of the nation's finances, but also of how individuals and participants in the business community and the political system, by their implicit demands for a continually increasing money supply, are actually aiding and abetting the perpetuation of the very situation they are criticizing."