

NORTHWESTERN Banker Newsletter

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Lack of Urgency Against Inflation

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THE MOST disappointing aspect of the President's new anti-inflation program is the lack of urgency in achieving fiscal discipline—although fiscal discipline appears to have been made the cornerstone of the new program. Virtually all of the improvement in the Federal budget is proposed for Fiscal 1980, which is still 6½ months away. In the meantime, a large volume of Federal financing is scheduled, which will not fall off precipitously in the first quarter of Fiscal 1981, the final quarter of calendar 1980. Parenthetically, the proposed balanced budget for Fiscal 1981 excludes the officially projected \$18 billion needs of the Federal Financing Bank which obtains its funds directly from the U.S. Treasury. This financing and that of the sponsored Federal agencies, including guaranteed mortgage pools, are



HENRY KAUFMAN

as of now under no restraint even next year.

When one compares the net new borrowing needs of the Federal Government (the U.S. Treasury and the Federal credit agencies) in 1980 with the two previous comparable periods of economic excesses and credit restraint, 1969 and 1974, the lack is glaring.

The fact is that during the credit restraint of 1969, the U.S. Treasury actually supplied a small amount of net funds to the private sector by repaying debt. In 1974, it borrowed

\$11 billion net. In this current calendar year, however, borrowings by the U.S. Treasury alone will total an estimated \$51 billion, even allowing for some of the initial impact of moving towards a balanced unified budget in fiscal 1981. In addition, there are the \$35 billion in cash needs of the various Federal credit programs this year (twice as large as in 1974).

Thus, during this difficult year in the credit market, the Federal Government will pre-empt about 23% of total credit demands as compared with 16% in 1974 and 2.5% in 1969.

Consequently, the burden of slowing inflation continues to be predominantly a responsibility of the Federal Reserve. The monetary and credit actions announced by the Fed consist of six parts of varying importance to the credit markets.

Special Credit Restraint. The Fed will attempt to limit the growth of commercial bank credit this year to a range of 6% to 9%.

Consumer Credit Restraint. A special deposit of 15% on increases in some type of consumer credit must be maintained with the Fed.

Marginal Reserve Requirements. The Fed increased from 8% to 10% the reserve requirements on managed bank liabilities (large negotiable CDs due within one year, Euro-

INFLATION PROGRAM . . .
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Net Federal Borrowing From Public
(\$ Billions)

Years	Total	U.S. Treasury		Federal Agencies	% of Funds Raised in American Credit Mkt. by Federal Government
		Total	U.S. Treasury		
1969	2.3	-5.8	8.1	2.5	
1974	28.4	11.2	17.2	15.7	
1980 Est	85.7	51.0	34.7	23.3	



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Iowa News

DES MOINES: Ronald H. Bishop has joined Bankers Trust Company in the commercial loan division. He was formerly vice president of the Morton Grove Bank, Morton Grove, Ill.

DUBUQUE: Group 4 will hold its annual meeting Tuesday, May 6, at the Five Flags Civic Center here. The group originally had considered either Cedar Rapids or Decorah.

FORT DODGE: Harry Huff, chief executive of The State Bank from 1949 to 1965 and chairman until 1969, died March 16 at the age of 88. He had been a banker 54 years before retirement.

Nebraska News

ATKINSON: Lawrence J. Kramer, chief executive officer for several years at First National Bank, has been advanced from executive vice president to president. He succeeds

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John C. Watson of O'Neill, who was named chairman. Mr. Kramer joined the bank in 1941. Sharon Wenner, cashier, also was elected assistant vice president; Mickey Braun and Joyce Seger were named assistant cashiers.

FREMONT: Darrell A. Legband has been elected assistant vice president and commercial loan officer at First National Bank & Trust Co. He was with First State Bank and First National here for several years before moving to a bank in Eugene, Ore., in 1977.

HOWELLS: Dana Donnelly has been elected president of The Howells Bank, completing the transfer of the bank from former President Elmer Bradley and other stockholders to the newly approved Howells Investment Co.

LA VISTA: Jack Holmquist resigned recently as president of the Bank of Nebraska and has been succeeded by Robert Everett, formerly vice president at First National Bank of Bellevue.

SCRIBNER: Delwin J. Rumery has been promoted to senior vice president and Joan G. Moeller to assistant vice president at Scribner Bank.

SIDNEY: Robert Conrad, president, Sideny National, has announced the following promotions: Francis L. Goodwin Jr. to executive vice president; Fred P. Curtiss to succeed him as vice president and ag rep; Helen M. Kitt to succeed Mr. Curtiss as cashier, and Grace H. Meysenburg to replace Helen Kitt as assistant cashier.

North Dakota News

The North Dakota Bankers Association's 1980 Consumer Credit Conference is scheduled for April 8-9 at Kirkwood Motor Inn, Bismarck. The conference starts with luncheon at 12:30 p.m., chaired by Mel J.

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South Dakota News

The South Dakota Bankers Association will hold its 1980 Ag Credit Conference April 9-10 at Kings Inn, Pierre. Dave Moore, committee vice chairman and president of Vivian State Bank, will preside at the opening session.

Minnesota News

EDINA: J. Peter Meyers has been appointed president of Americana State Bank to succeed Ray Bentsdahl, who continues as controlling shareholder and active chairman of Americana State and three other banks outside the metropolitan area.

FREEBORN: The First State Bank and The Freeborn Agency, Inc., have been sold to Cecil A. Pogatchnik and associates by John L.

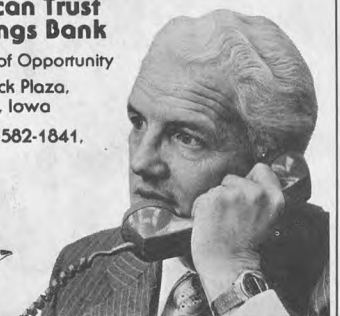
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Miller. Mr. Pogatchnik will be president.

MINNEAPOLIS: Promotions at Union State Bank include Earl Doble to executive vice president; Helen Erickson to auditor and Bev Hanes to assistant cashier.

PRINCETON: Don Perbix has been advanced from vice president to executive vice president in charge of operations. Tim Nelson was named vice president in charge of commercial instalment lending.

ROUND LAKE: Fritz Jones, 68, president, Farmers State Bank, died March 10 at a Sioux Falls hospital. He had been president seven years.

ST. PAUL: Chairman A. W. Sands has announced these promotions: Lester Davis to senior vice president and assistant to President A. Wm. Sands; Myron Gilbertson to vice president and controller; Stephen Erdall to assistant vice president-real estate; Dennis Prchal to assistant vice president-retail sales and development.

Wyoming News

GLENROCK: Olen Wright has been advanced to executive vice president at First National Bank and Herta McLagen was named to succeed him as cashier.

LYMAN: Bob Morrison has joined the First State Bank of Lyman as vice president and cashier replacing Richard Hardwell.

Illinois News

EVANSTON: Harland L. Edwards has been promoted to chairman and chief executive officer of the First National Bank and Trust Co. here. Howard B. Silverman was named president and chief operating officer. They previously held the positions of president and executive vice president, respectively.

INFLATION PROGRAM . . .

(Continued from front page)

dollar borrowings, repos against U.S. Government and Federal agencies and Fed funds borrowed from non-member institutions).

Money Market Mutual Funds. The imposition of a deposit to be maintained with the Fed equal to 15% of the increase in assets of money market mutual funds after March 14 will reduce the proportional flow of funds available to the money market.

Discount Rate. In fixing a 3% surcharge on non-seasonal discount window borrowings by larger banks, the Federal Reserve by definition is not acting as forcefully as if it had raised the basic rate from 13% to 16%.

Summary

In summary, the following are my impressions of the anti-inflation program and its credit market implications.

1. The new effort that will be underway to balance the budget in Fiscal 1981 should not be construed as providing immediate relief to the credit markets or as a landmark in fiscal wisdom.

2. No action was undertaken to halt the proliferation of financing by Federal credit agencies. To be sure, Congress was urged to adopt a credit budget (including Federal guarantees). In the meantime, agency financing will again be very large this calendar year.

3. The Federal Reserve will put into effect a variety of new restraining measures, many of which will try to limit the growth of bank loans. The increases in marginal reserve requirements and the surcharge on the discount rate will tighten credit, but these actions alone can hardly achieve the Fed's objective of holding the growth of

bank loans to a range of 6% to 9%. Much depends on the persistence of Fed policy in the months ahead. The unanswered question is whether the Fed will ease in the aftermath of these new measures as it did following the announcement last October. The temptation may indeed be very great considering the ambivalence that may again show in the economy.

4. Bank profit margins will be squeezed and, if this is sustained long enough, will dampen credit growth.

5. Finally, it would seem that the peaks of credit stringency and of interest rates are still ahead of us. If the new credit restraint program is effective, it will not only limit the availability of short-term funds but will encourage some long-term borrowing demands. The business recession has been brought a little closer but its magnitude still seems to hinge very much on the unfolding drama in the credit markets. □

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