Address by
Frederick L. Deming
President, Federal Reserve Bank of Minneapolis
at the
Dedication of The School of Business Building
State University of South Dakota

April 19, 1958

It is a great pleasure for me to be with you today on the occasion of dedicating the new School of Business Building. If I read the calendar correctly, the School of Business was established by action of the Regents of Education just thirty years and eleven months ago today, and the first graduating class to receive the Bachelor of Science in Business Administration got its diplomas on June 3, 1929 - just about 29 years ago. While some of the students here may feel that this is ancient history, actually neither of these dates is very far back in time. And yet into the period between the establishment of this school and this dedication ceremony today have been packed some tremendously important events.

The underlying forces leading to the Great Depression of the 1930's were working when this School of Business was founded. The stock market crash came just after the first class of graduates went out to get jobs. World War II broke out a decade later. The atomic bomb, the whole question of nuclear weapons, the cold war, the great post-war boom, and now the current recession all have come in the last half of the period. The World, the United States, and South Dakota are far different from what they were 30 years ago, and they live under far different conditions.

This new building which is being dedicated here today is symbolic of a new order in the State of South Dakota, a new order in which business and resource development is to play an increasingly important role. Agriculture, of course, continues to be the most important single industry in the State, but the number of people engaged in farming is becoming smaller. On the other hand, the number of people interested in non-agricultural business pursuits is rapidly expanding. Thirty years from now the agricultural-industrial pattern in South Dakota is not likely to resemble very closely the pattern that exists today.

It is significant, I think, that Governor Foss started an accelerated industrial program in 1955 with his IDEA - the Industrial Development Expansion Agency. This agency has already emphasized that South Dakota has the things which industry needs - resources, people, power, and vision. When this IDEA is linked with such fine new facilities as the one being dedicated here today it may well play an important part in achieving your objectives for growth and development.

The contribution which the South Dakota School of Business can make to economic development is substantial. This has been demonstrated already by this school and by the other 92 Schools of Business in this country. I note that of all the colleges which make up the University of South Dakota, the School of Business is the largest of the professional schools. It seems to me significant that of a total enrollment of 2,300 students, 14 per cent are enrolled in the School of Business, because it seems to indicate that the young men and women of South Dakota sense the importance of business development opportunities here in this State. The students should consider themselves fortunate that the State has provided them with such first class educational facilities as are demonstrated here in this new building. They should be thankful, too, that the school is small enough that personal contact between the student and the faculty can be quite close. I am sure that Dean Patterson and the faculty recognize the advantages of new facilities and size of school in the teaching process.

This morning I stopped to look at the words on the bronze plaque near the west entrance of the building. I read that "There is no future in any job, the future is in the man who holds the job." If this is the philosophy of Dean Patterson, the faculty and the students, as I am sure it is, then the economic potential of South Dakota is bright indeed.

I became a resident of this Upper Midwest area just a little more than a year ago, and over the past year I have tried to learn as much as I could about the region served by the Federal Reserve Bank of Minneapolis, the Ninth Federal Reserve District. I am still a relative newcomer, of course, and I know that one cannot learn all about an area as vast as the Ninth District in a lifetime, let alone a year. Still, sometimes newcomers can get a sense of broad outlines, the panorama as it were, of a region in a short time, partly, I suspect, because their vision is not distorted by a lot of things which used to be so but no longer are.

The Ninth Federal Reserve District, as you may know, covers a considerable east-west distance - over 1600 miles from the Great Lakes to the Columbia Basin. Central to this vast region lies South Dakota. South Dakota occupies a unique position within the Ninth Disttict's agricultural economy spanning as it does two major and contrasting agricultural areas - the midwestern Corn Belt on the east and the Great Plains wheat and rangeland on the west. And as such it shares, from an agricultural standpoint, the problems and the promise of each area.

A good part of my learning effort during the past year has gone into study of the economy of the region, the trends that have shaped it, and the problems of fostering optimum development over the years ahead. You know, of course, what I have learned: that South Dakota is among the most heavily agricultural of all states. Almost a third of South Dakota's income arises from agriculture. In a sense perhaps, South Dakota personifies the agricultural heartland of the American interior plains. Much of what has occurred and much of what will occur, will be strongly imprinted with the progress of and the developments in the agriculture of the Great Plains.

Yet it is becoming increasingly clear that another element - industry - will be much more of a factor in the South Dakota future than it has been in the past. State and private groups working together and singly have taken fresh steps to encourage the establishment and growth of industry in South Dakota. Two benefits are usually ascribed to the industrialization of an agricultural area. The first of these is the promise of greater stability by virtue of lessened dependence on one major source of income. The second comes in the form of expanding job opportunities for young people, many of whom typically emigrate in large numbers from farm-heavy areas to other areas where opportunities are more plentiful. One of this University's own studies, through the Business Research Bureau, has identified this situation as an "imbalance of income sources", pointing out that agricultural income in a recent year accounted for more of South Dakota's total income payments than it did in any other state. Agricultural income, in fact, was the direct source of 32.5 per cent of the State's income payments compared with a national average of only 5.3 per cent, while manufacturing payrolls in South Dakota comprised only 4.5 per cent of the total income as compared with a national average of 25.7 per cent. Other statistical reports have evidenced the heavy out-migration from South Dakota and the actual loss of population that has occurred during some recent decades.

This outflow of population, while it has cost South Dakota the services of a lot of very good people, has been the result of an underlying economic development that has worked to the benefit of the nation's standard of living overall. The rapid evolution of a more efficient, more productive farm economy has resulted in the transfer of many persons from farms and small farm communities to manufacturing centers, where they could and did contribute most effectively to the product of our national economy. While we recognize that this has been a useful economic trend, it has meant difficult social adjustments for some individuals. It would be desirable on both economic and social grounds to speed the day when some of the growing manufacturing centers will be located within our own area.

Industrial promotion has received a new vigor in South Dakota. Both the Industrial Development Expansion Agency, as a coordinating and research agency, and the Industrial Development Credit Corporation, as a financing agency, attest to this fact. The former emphasizes research and information while the latter provides a channel through which capital loans may be made to promising new enterprises in the State. This type of credit unit, incidentally, has been employed with success in other parts of the country, notably in the New England States, although it is a relatively new development here.

There seems to be good evidence that the accelerated industrial development program started in 1955 has begun to pay off. The recent report of IDEA indicated that in 1957 alone, twenty-two new industries were established in the State. These have an estimated plant investment of $30.8 million, over 400 employees, and an annual payroll of $1.4 million.

I think it is particularly significant that research and information functions receive the attention they do, both within the state IDEA organization and here at the University's School of Business Administration where the Business Research Bureau has distinguished itself with a number of informative studies of various aspects of the South Dakota economy. For within the framework of free enterprise, the basic usefulness of industrial development promotional groups is their contribution toward improving and clarifying information from which the decisions of enterprise are made.

We might distinguish two types of research in which state agencies frequently play a part. Physical research into raw materials and processes is one type of research that has paid dividends in cases where it demonstrated the possibilities of economic use of existing resources previously unprofitable to exploit. A case in point is the research carried on at the University of Minnesota which has materially contributed to the successful exploitation of taconite, already resulting in a half-billion dollar private investment program and the promise of eventually doubling this figure.

But another kind of research is economic research, and one which is duly emphasized by both IDEA and the Business Research Bureau here at the University. This type of research seeks to describe the economy and identify its strengths and weaknesses. It can provide factual information about states and localities which may be used both by agencies seeking to promote industrial development in the state and for comparative purposes by industries which are analyzing prospective locations. It can provide also a basic yardstick which may, over periods of time, be used to measure the effectiveness of industrial programs and the impact of growing industrialization on the state economy.

Other fields of economic research include the more subtle areas of analysis of economic growth and decline, and the complex interflows of goods and money payments between the regional economies. In this area of regional research the Federal Reserve Bank has strong interest. It is our hope that some of the work of our own research staff may complement the efforts of various state and local agencies to examine, in a regionally-oriented way, some of the same problems you are concerned with on a state level.

Based on past research we have a better understanding of the forces which shape our economy - those that must be accounted for in examining the potentials of a state or local economy. We also are in better position to evaluate factors important to future economic growth in South Dakota.

One such factor, of course, is natural resources. South Dakota has some extensive mineral resources not now exploited (including lignite, manganese, and other low grade ores) and also some promising possibilities in oil production as a part of the Williston Basin. While the immediate future of these and other resource possibilities is uncertain, they may in time support some measure of industrial development by virtue of the locational advantages such resources may offer.

Another factor is population, important both in terms of increase and training. You know, of course, that the United States is experiencing a strong uptrend in population and that the working force is becoming steadily better educated and better trained. Despite this latter fact, there is considerable emphasis now being placed on even better education and training. Generally speaking, more people with better training should produce more goods and services.

When we couple the above developments with the trends toward greater industrialization and greater decentralization of industry, we have a very important potential growth factor for this general region. It has already brought much new industry into our area. As a matter of fact, the efforts of promotional groups in demonstrating the advantages of a state such as South Dakota have been furthered appreciably by this factor.

While we may expect over the course of time some shift from agriculture to industry in South Dakota, agriculture will remain a highly important, perhaps the most important, determinant of growth in the State. Thus the progress and problems of Great Plains agriculture holds a large share of the answer to South Dakota's potential. This agricultural factor is important for two reasons. The technological revolution in farming seems bound to proceed further in the direction of larger and more efficient farms. This should lead to a stronger agriculture with a higher per capita income base. It also should lead to a continuation of the trend to smaller rural population and hence to the release of more people to man expanding nonfarm activities. I would hope that much of that expanding nonfarm activity could be located here, because then the State could keep its people as well as have higher per capita income.

Superimposed on this fundamental trend in agriculture is a contrasting movement of currently uncertain but conceivably significant dimensions. The introduction of the Missouri Basin water conservation and development program may have an important impact in many large areas where semi-aridity holds agriculture to dry land cropping and grassland ranching. The introduction of irrigation units, if carried to the full scale now envisioned, will directly involve a greater density of farm operators, and could lend greater flexibility and diversity to the agricultural product of the State. I note that in areas proposed for new or supplemental irrigation in the Missouri Basin 34,000 farms are located presently, but an additional 19,000 farms might be expected with the introduction of the smaller, more intensively-farmed irrigation tracts. This would augment materially the number of earning and spending units in some areas, and would moderate the trend to a smaller farm population.

Just as these factors may alter former dependencies on a traditional rainfall-sensitive type of agricultural enterprise, another large scale project may alter other traditional relationships in the interior plains. The St.Lawrence Seaway may well have considerable impact on transportation and marketing relationships. South Dakota, at the geographic center of the continent, will soon lie within 300 miles of a full-fledged ocean port. And while it is not at all obvious from our usual concepts, Duluth is actually some 500 miles closer by water to England, Belgium and Germany than is the port of New Orleans. Preliminary studies, while at this time merely suggestive, indicate substantial savings on shipping costs on some commodities; for instance, wheat may move from South Dakota to Europe through the Seaway at a substantial cost saving.

I think the important thing to be gained from these observations is simply the fact that forces of change are now strongly at work, and that these forces can and probably will alter the former patterns of South Dakota's economy.

It seems to me then after my brief survey that the outlook for South Dakota is a favorable and a promising one pointing in the direction of greater diversity and stability - all of this of course predicated upon a favorable environment on a national scale. And this brings me to the final point I wish to discuss today - the general subject of economic growth and economic stability.

It is important to recognize that of all the factors making for economic growth in South Dakota the key factor is the state of national economic health. You know, of course, from your experience that a strongly expanding national economy does not assure a strongly expanding state economy. You know also, because you can see it at present, that for a time the state economy can grow some even though the national economy is level or declining. But I am sure that no region or state can attain its full potential unless the national economy is strong and prosperous.

At present we are in the midst of economic recession in production and employment. This decline set in during the latter part of 1957 and has continued so far in 1958. To date the decline reflects mainly two factors: decreased expenditures for inventory and for new plant and equipment.

I believe that it may be said that the current recession had many of its roots in the inflationary situation that prevailed during much of the postwar period. The same two factors that now are weak were very strong during the big boom of 1955, 1956 and most of 1957. In fact, I believe that they were too strong during that period and that is why they have adjusted downward in recent months. Buying for inventory and spending for plant was both fostered by and contributed to the rising price trend of the past three years.

I do not believe that the present recession will be a long recession. It does not seem to be feeding upon itself much more than did the other two postwar dips of 1948-49 and 1953-54, although it has gone deeper, faster than either of those two. But I do not intend to analyze the causes, nor predict the course of the present downturn. I note it because it poses questions relating to the subject of growth with stability.

The economic record of the whole postwar period shows three major trends, two favorable and one unfavorable. We have had tremendous economic growth with high employment and high income and consequently have enjoyed a rising standard of living. We have seen an acceleration of the rate of productivity gain which, if it can be maintained, promises an even more sharply rising standard of living in the future than we have had in the past dozen years. But we also have experienced a considerable rise in prices which has eroded the purchasing power of the dollar and thereby robbed us of some of the gains that rising productivity and rising output should have brought. The great domestic economic question for the future is: can we have full employment of men, machines and materials, can we have steady economic growth and a rising standard of living, and at the same time preserve a stable dollar.

My own feeling is that we have to strive for attainment of all three economic goals - growth, high employment and price stability, or we have little chance of attaining any of them. In essence they are inseparable. Unless we can employ our human and material resources at a high level we experience economic waste and consequently retard the optimum rate of economic growth. Unless we maintain reasonable price stability we create conditions that lead to overful employment of resources, or to inefficient use of those resources, or both, and consequently to painful readjustments similar to those we see at present. This also is a wasteful process and retards economic growth. And finally, to go right around the circle, unless we have economic growth we cannot employ fully the human and material resources that we have available. So my answer to the original question I asked is that we not only can have growth, full employment and price stability, but that we have to have them all. And this point is as important to South Dakota as it is to the nation as a whole. Unless these goals are attained nationally, the prospects for growth and development in South Dakota are dim.

The Federal Reserve Bank of Minneapolis has a deep interest in the growth potential of South Dakota because South Dakota is an important part of the Ninth Federal Reserve District. The Federal Reserve System, of which the Minneapolis Bank is just one part, has an even deeper interest in this whole question of growth and stability. The central purpose of the System is to influence the supply, cost and availability of money and credit so as to promote a high level of employment, a rising standard of living and a stable dollar. Thus we see these goals as inseparable.

I wish to make just two points about the Federal Reserve System's pursuit of these goals. First, the fact that the System attempts to shape its policies to their attainment cannot assure the goals. The System is a powerful force for growth and stability; good monetary policy is indispensible in making for high employment, growth and stable prices, but it is not a panacea for all economic ills. It cannot do the whole job all by itself.

Second, effective monetary policy means flexible monetary policy. The System leaned heavily against inflation in 1955, 1956 and much of 1957. It followed a restrictive monetary policy and this led to so-called "tight money" and rising interest rates. Since last fall, monetary policy has turned from restriction to ease. It has sought to make bank reserves more plentiful and cheaper. But just as the restrictive policy, by itself, could not prevent all excesses on the inflationary side, neither can the policy of ease, by itself, assure recovery. It has, however, created credit conditions conducive to and necessary for recovery.

Insofar as the Federal Reserve is able to contribute toward national stability, the System plays a part in fostering the kind of environment in which your State may best achieve its desired goals of economic growth and diversification. And it is only within a broader framework of national growth and stability that the institution to be housed in this fine, new structure we are here dedicating can realize to the utmost its high promise of a useful role in the future progress of South Dakota.

Pof

STATE UNIVERSITY OF SOUTH DAKOTA

75th Anniversary

Dedication of the School of Business Building

Saturday, April 19, 1958

Dedication Address Delivered by

FREDERICK L. DEMING
President Federal Reserve Bank
Minneapolis, Minn.

Vermillion, South Dakota

FOREWORD

The academic year 1957-58 marks the 75th anniversary of the establishment of the State University of South Dakota. As a part of the observance of this historic year, the dedication of the new School of Business building was held on April 19, 1958.

The School of Business was established by the Regents of Education in 1927. The dedication of the new $650,000 building was an appropriate climax to thirty years of growth and development in collegiate education for business at the State University of South Dakota.

The principal address on this occasion was delivered by Frederick L. Deming, President of the Federal Reserve Bank at Minneapolis. An economist by training, Mr. Deming came to the presidency of the 9th Federal Reserve District bank in 1957 after being associated with the Federal Reserve Bank in St. Louis since 1941.

Mr. Deming's address was most appropriate to the occasion and demonstrated a keen understanding of the economic problems and potentialities of the plains region. We are happy to make this outstanding speech available to a wider audience.

R. F. PATTERSON
Dean of the School of Business

South Dakota's Economic Future

It is a great pleasure for me to be with you today on the occasion of dedicating the new School of Business Building. If I read the calendar correctly, the School of Business was established by action of the Regents of Education just thirty years and eleven months ago today, and the first graduating class to receive the Bachelor of Science in Business Administration got its diplomas on June 3, 1929—just about 29 years ago. While some of the students here may feel that this is ancient history, actually neither of these dates is very far back in time. And yet into the period between the establishment of this school and this dedication ceremony today have been packed some tremendously important events.

Th underlying forces leading to the Great Depression of the 1930's were working when this School of Business was founded. The stock market crash came just after the first class of graduates went out to get jobs. World War II broke out a decade later. The atomic bomb, the whole question of nuclear weapons, the cold war, the great post-war boom, and now the current recession all have come in the last half of the period. The World, the United States, and South Dakota are far different from what they were 30 years ago, and they live under far different conditions.

This new building which is being dedicated here today is symbolic of a new order in the State of South Dakota, a new order in which business and resource development is to play an increasingly important role. Agriculture, of course, continues to be the most important single industry in the State, but the number of people engaged in farming is becoming smaller. On the other hand, the number of people interested in non-agricultural business pursuits is rapidly expanding. Thirty years from now the agricultural-industrial pattern in South Dakota is not likely to resemble very closely the pattern that exists today.

It is significant, I think, that Governor Foss started an accelerated industrial program in 1955 with his IDEA—the Industrial Development Expansion Agency. This agency has already emphasized that South Dakota has the things which industry needs—resources, people, power, and vision. When this IDEA is linked with such fine new facilities as the one being dedicated here today it may well play an important part in achieving your objectives for growth and development.

The contribution which the South Dakota School of Business can make to economic development is substantial. This has been demonstrated already by this school and by the other 92 Schools of Business in this country. I note that of all the colleges which make up the University of South Dakota, the School of Business is the largest of the professional schools. It seems to me significant that of a total enrollment of 2,300 students, 14 per cent are enrolled in the School of Business, because it seems to indicate that the young men and women of South Dakota sense the importance of business development opportunities here in this State. The students should consider themselves fortunate that the State has provided them with such first class educational facilities as are demonstrated here in this new building. They should be thankful, too, that the school is small enough that personal contact between the student and the faculty can be quite close. I am sure that Dean Patterson and the faculty recognize the advantages of new facilities and size of school in the teaching process.

This morning I stopped to look at the words on the bronze plaque near the west entrance of the building. I read that "There is no future in any job, the future is in the man who holds the job." If this is the philosophy of Dean Patterson, the faculty and the students, as I am sure it is, then the economic potential of South Dakota is bright indeed.

I became a resident of this Upper Midwest area just a little more than a year ago, and over the past year I have tried to learn as much as I could about the region served by the Federal Reserve Bank of Minneapolis, the Ninth Federal Reserve District. I am still a relative newcomer, of course, and I know that one cannot learn all about an area as vast as the Ninth District in a lifetime, let alone a year. Still, sometimes newcomers can get a sense of broad outlines, the panorama as it were, of a region in a short time, partly, I suspect, because their vision is not distorted by a lot of things which used to be so but no longer are.

The Ninth Federal Reserve District, as you may know, covers a considerable east-west distance—over 1600 miles from the Great Lakes to the Columbia Basin. Central to this vast region lies South Dakota. South Dakota occupies a unique position within the Ninth District's agricultural economy spanning as it does two major and contrasting agricultural areas—the midwestern Corn Belt on the east and the Great Plains wheat and rangeland on the west. And as such it shares, from an agricultural standpoint, the problems and the promise of each area.

A good part of my learning effort during the past year has gone into study of the economy of the region, the trends that have shaped it, and the problems of fostering optimum development over the years ahead. You know, of course, what I have learned: that South Dakota is among the most heavily agricultural of all states. Almost a third of South Dakota's income arises from agriculture. In a sense perhaps, South Dakota personifies the agricultural heartland of the American interior plains. Much of what has occurred and much of what will occur, will be strongly imprinted with the progress of and the developments in the agriculture of the Great Plains.

Yet it is becoming increasingly clear that another element—industry—will be much more of a factor in the South Dakota future than it has been in the past. State and private groups working together and singly have taken fresh steps to encourage the establishment and growth of industry in South Dakota. Two benefits are usually ascribed to the industrialization of an agricultural area. The first of these is the promise of greater stability by virtue of lessened dependence on one major source of income. The second comes in the form of expanding job opportunities for young people, many of whom typically emigrate in large numbers from farm-heavy areas to other areas where opportunities are more plentiful. One of this University's own studies, through the Business Research Bureau, has identified this situation as an "imbalance of income sources," pointing out that agricultural income in a recent year accounted for more of South Dakota's total income payments than it did in any other state. Agricultural income, in fact, was the direct source of 32.5 per cent of the State's income payments compared with a national average of only 5.3 per cent, while manufacturing payrolls in South Dakota comprised only 4.5 per cent of the total income as compared with a national average of 25.7 per cent. Other statistical reports have evidenced the heavy out-migration from South Dakota and the actual loss of population that has occurred during some recent decades.

This outflow of population, while it has cost South Dakota the services of a lot of very good people, has been the result of an underlying economic development that has worked to the benefit of the nation's standard of living overall. The rapid evolution of a more efficient, more productive farm economy has resulted in the transfer of many persons from farms and small farm communities to manufacturing centers, where they could and did contribute most effectively to the product of our national economy. While we recognize that this has been a useful economic trend, it has meant difficult social adjustments for some individuals. It would be desirable on both economic and social grounds to speed the day when some of the growing manufacturing centers will be located within our own area.

Industrial promotion has received a new vigor in South Dakota. Both the Industrial Development Expansion Agency, as a coordinating and research agency, and the Industrial Development Credit Corporation, as a financing agency, attest to this fact. The former emphasizes research and information while the latter provides a channel through which capital loans may be made to promising new enterprises in the State. This type of credit unit, incidentally, has been employed with success in other parts of the country, notably in the New England States, although it is a relatively new development here.

There seems to be good evidence that the accelerated industrial development program started in 1955 has begun to pay off. The recent report of IDEA indicated that in 1957 alone, twenty-two new industries were established in the State. These have an estimated plant investment of $30.8 million, over 400 employees, and an annual payroll of $1.4 million.

I think it is particularly significant that research and information functions receive the attention they do, both within the state IDEA organizations and here at the University's School of Business Administration where the Business Research Bureau has distinguished itself with a number of informative studies of various aspects of the South Dakota economy. For within the framework of free enterprise, the basic usefulness of industrial development promotional groups is their contribution toward improving and clarifying information from which the decisions of enterprise are made.

We might distinguish two types of research in which state agencies frequently play a part. Physical research into raw materials and processes is one type of research that has paid dividends in cases where it demonstrated the possibilities of economic use of existing resources previously unprofitable to exploit. A case in point is the research carried on at the University of Minnesota which has materially contributed to the successful exploitation of taconite, already resulting in a half-billion dollar private investment program and the promise of eventually doubling this figure.

But another kind of research is economic research, and one which is duly emphasized by both IDEA and the Business Research Bureau here at the University. This type of research seeks to describe the economy and identify its strengths and weaknesses. It can provide factual information about states and localities which may be used both by agencies seeking to promote industrial development in the state and for comparative purposes by industries which are analyzing prospective locations. It can provide also a basic yardstick which may, over periods of time, be used to measure the effectiveness of industrial programs and the impact of growing industrialization on the state economy.

Other fields of economic research include the more subtle areas of analysis of economic growth and decline, and the complex interflows of goods and money payments between the regional economies. In this area of regional research the Federal Reserve Bank has strong interest. It is our hope that some of the work of our own research staff may complement the efforts of various state and local agencies to examine, in a regionally-oriented way, some of the same problems you are concerned with on a state level.

Based on past research we have a better understanding of the forces which shape our economy—those that must be accounted for in examining the potentials of a state or local economy. We also are in better position to evaluate factors important to future economic growth in South Dakota.

One such factor, of course, is natural resources. South Dakota has some extensive mineral resources not now exploited (including lignite, manganese, and other low grade ores) and also some promising possibilities in oil production as a part of the Williston Basin. While the immediate future of these and other resource possibilities is uncertain, they may in time support some measure of industrial development by virtue of the locational advantages such resources may offer.

Another factor is population, important both in terms of increase and training. You know, of course, that the United States is experiencing a strong uptrend in population and that the working force is becoming steadily better educated and better trained. Despite this latter fact, there is considerable emphasis now being placed on even better education and training. Generally speaking, more people with better training should produce more goods and services.

When we couple the above developments with the trends toward greater industrialization and greater decentralization of industry, we have a very important potential growth factor for this general region. It has already brought much new industry into our area. As a matter of fact, the efforts of promotional groups in demonstrating the advantages of a state such as South Dakota have been furthered appreciably by this factor.

While we may expect over the course of time some shift from agriculture to industry in South Dakota, agriculture will remain a highly important, perhaps the most important, determinant of growth in the State. Thus the progress and problems of Great Plains agriculture holds a large share of the answer to South Dakota's potential. This agricultural factor is important for two reasons. The technological revolution in farming seems bound to proceed further in the direction of larger and more efficient farms. This should lead to a stronger agriculture with a higher per capita income base. It also should lead to a continuation of the trend to smaller rural population and hence to the release of more people to man expanding nonfarm activities. I would hope that much of that expanding nonfarm activity could be located here, because then the State could keep its people as well as have higher per capita income.

Superimposed on this fundamental trend in agriculture is a contrasting movement of currently uncertain but conceivably significant dimensions. The introduction of the Missouri Basin water conservation and development program may have an important impact in many large areas where semi-aridity holds agriculture to dry land cropping and grassland ranching. The introduction of irrigation units, if carried to the full scale now envisioned, will directly involve a greater density of farm operators, and could lend greater flexibility and diversity to the agricultural product of the State. I note that in areas proposed for new or supplemental irrigation in the Missouri Basin 34,000 farms are located presently, but an additional 19,000 farms might be expected with the introduction of the smaller, more intensively-farmed irrigation tracts. This would augment materially the number of earning and spending units in some areas, and would moderate the trend to a smaller farm population.

Just as these factors may alter former dependencies on a traditional rainfall-sensitive type of agricultural enterprise, another large scale project may alter other traditional relationships in the interior plains. The St. Lawrence Seaway may well have considerable impact on transportation and marketing relationships. South Dakota, at the geographic center of the continent, will soon lie within 300 miles of a full-fledged ocean port. And while it is not at all obvious from our usual concepts, Duluth is actually some 500 miles closer by water to England, Belgium and Germany than is the port of New Orleans. Preliminary studies, while at this time merely suggestive, indicate substantial savings on shipping costs on some commodities; for instance, wheat may move from South Dakota to Europe through the Seaway at a substantial cost saving.

I think the important thing to be gained from these observations is simply the fact that forces of change are now strongly at work, and that these forces can and probably will alter the former patterns of South Dakota's economy. It seems to me then after my brief survey that the outlook for South Dakota is a favorable and a promising one pointing in the direction of greater diversity and stability—all of this of course predicating upon a favorable environment on a national scale. And this brings me to the final point I wish to discuss today—the general subject of economic growth and economic stability.

It is important to recognize that of all the factors making for economic growth in South Dakota the key factor is the state of national economic health. You know, of course, from your experience that a strongly expanding national economy does not assure a strongly expanding state economy. You know also, because you can see it at present, that for a time the state economy can grow some even though the national economy is level or declining. But I am sure that no region or state can attain its full potential unless the national economy is strong and prosperous.

At present we are in the midst of economic recession in production and employment. This decline set in during the latter part of 1957 and has continued so far in 1958. To date the decline reflects mainly two factors: decreased expenditures for inventory and for new plant and equipment.

I believe that it may be said that the current recession had many of its roots in the inflationary situation that prevailed during much of the postwar period. The same two factors that now are weak were very strong during the big boom of 1955, 1956 and most of 1957. In fact, I believe that they were too strong during that period and that is why they have adjusted downward in recent months. Buying for inventory and spending for plant was both fostered by and contributed to the rising price trend of the past three years.

I do not believe that the present recession will be a long recession. It does not seem to be feeding upon itself much more than did the other two postwar dips of 1948-49 and 1953-54, although it has gone deeper, faster than either of those two. But I do not intend to analyze the causes, nor predict the course of the present downturn. I note it because it poses questions relating to the subject of growth with stability.

The economic record of the whole postwar period shows three major trends, two favorable and one unfavorable. We have had tremendous economic growth with high employment and high income and consequently have enjoyed a rising standard of living. We have seen an acceleration of the rate of productivity gain which, if it can be maintained, promises an even more sharply rising standard of living in the future than we have had in the past dozen years. But we also have experienced a considerable rise in prices which has eroded the purchasing power of the dollar and thereby robbed us of some of the gains that rising productivity and rising output should have brought. The great domestic economic question for the future is: can we have full employment of men, machines and materials, can we have steady economic growth and a rising standard of living, and at the same time preserve a stable dollar.

My own feeling is that we have to strive for attainment of all three economic goals—growth, high employment and price stability, or we have little chance of attaining any of them. In essence they are inseparable. Unless we can employ our human and material resources at a high level we experience economic waste and consequently retard the optimum rate of economic growth. Unless we maintain reasonable price stability we create conditions that lead to overfull employment of resources, or to inefficient use of those resources, or both, and consequently to painful readjustments similar to those we see at present. This also is a wasteful process and retards economic growth. And finally, to go right around the circle, unless we have economic growth we cannot employ fully the human and material resources that we have available. So my answer to the original question I asked is that we not only can have growth, full employment and price stability, but that we have to have them all. And this point is as important to South Dakota as it is to the nation as a whole. Unless these goals are attained nationally, the prospects for growth and development in South Dakota are dim.

The Federal Reserve Bank of Minneapolis has a deep interest in the growth potential of South Dakota because South Dakota is an important part of the Ninth Federal Reserve District. The Federal Reserve System, of which the Minneapolis Bank is just one part, has an even deeper interest in this whole question of growth and stability. The central purpose of the System is to influence the supply, cost and availability of money and credit so as to promote a high level of employment, a rising standard of living and a stable dollar. Thus we see these goals as inseparable.

I wish to make just two points about the Federal Reserve System's pursuit of these goals. First, the fact that the System attempts to shape its policies to their attainment cannot assure the goals. The System is a powerful force for growth and stability; good monetary policy is indispensible in making for high employment, growth and stable prices, but it is not a panacea for all economic ills. It cannot do the whole job all by itself.

Second, effective monetary policy means flexible monetary policy. The System leaned heavily against inflation in 1955, 1956 and much of 1957. It followed a restrictive monetary policy and this led to so-called "tight money" and rising interest rates. Since last fall, monetary policy has turned from restriction to ease. It has sought to make bank reserves more plentiful and cheaper. But just as the restrictive policy, by itself, could not prevent all excesses on the inflationary side, neither can the policy of ease, by itself, assure recovery. It has, however, created credit conditions conducive to and necessary for recovery.

Insofar as the Federal Reserve is able to contribute toward national stability, the System plays a part in fostering the kind of environment in which your State may best achieve its desired goals of economic growth and diversification. And it is only within a broader framework of national growth and stability that the institution to be housed in this fine, new structure we are here dedicating can realize to the utmost its high promise of a useful role in the future progress of South Dakota.