

Regional Economic Meetings  
Aberdeen, Rapid City, Sioux Falls  
August 6-7-8, 1962

SOUTH DAKOTA

I came to the Minneapolis Bank in April 1957, and shortly thereafter - almost exactly five years ago as a matter of fact - I made a trip through South Dakota, primarily to meet South Dakota bankers in their home areas. My trip five years ago was not the first time I had been in South Dakota, and of course, I have been many times since. My first recollection of the State goes back 23 years before 1957, when on a tour through the west I went through western South Dakota and spent a little time in the Black Hills.

In thinking about these South Dakota meetings it occurred to me that these two dates - 1934 and 1957 - represented fairly good bases from which to make comparisons with what is happening today. Actually 1934 was not a very long time ago, and obviously 1957 was quite recent in point of time. But there have been many changes that have taken place over this relatively short period. Let me note just a few.

In 1934<sup>3</sup> the Gross National Product of the United States - the total dollar value of all its output - was \$<sup>60</sup>65 billion. In 1962 it will be about \$<sup>585</sup>560 billion. So in less than 30 years the Gross National Product has risen almost \$<sup>925</sup>500 billion in dollar terms, or has multiplied <sup>about 10</sup>about 9 times. In the last <sup>five</sup> five years alone it has grown almost \$<sup>40</sup>120 billion, or by <sup>about 1/3</sup>a little better than one-fourth.

Now not all of this growth was real, of course, because prices increased substantially, particularly during the period between 1934 and 1957. The wholesale price index today is almost 2 1/2 times as high as it was in 1934<sup>3</sup>, but it has changed practically none in the last <sup>five</sup> five years. Retail prices are up about the same amount as wholesale prices in the <sup>28</sup>28-year period. They rose a bit more slowly through 1957 but have shown some increase (about <sup>8</sup>8 per cent) in the last <sup>5</sup>5 years. The net effect of these price changes has been to inflate the dollar

value of output. In real terms the Gross National Product increased about  $3\frac{1}{2}$  times instead of the  $\frac{1}{9}$  times shown by the dollar figures.

I want to note two important points here. First, the fact that real GNP increased  $3\frac{1}{2}$  times in  $28$  years represents a very significant gain. It means that the total pie to be split up today is  $3\frac{1}{2}$  times bigger than the pie we had in 1934. And thus, despite a rapidly rising population, the individual share of that pie has grown quite a lot in  $28$  years. Per capita income today is about twice as big in terms of what it will buy as it was in 1934 and this represents a real gain.

The second point is that a lot of the dollar amount of gain is what I call "froth". The price increase alone accounts for a substantial part of the total increase in GNP. How much that "froth" amounts to, however, depends partly on individual judgment as to what price increases have done to the individual's purchasing power and partly on judgment as to what a "good" price level is. For example, if today's output is valued in terms of 1934 prices, two-thirds of the \$500 billion rise in GNP seems to be "froth". On the other hand, if 1934 output is valued in today's prices, only one-fifth of the gain seems to be "froth".

I am not trying to do a statistical trick here. The point is that if you think 1934 prices were too low and really represented a drag on the economy, then 1934 output was undervalued. If you think that 1962 prices are too high, then 1962 output is overvalued. While the facts about real and physical output do not change, judgment as to the value of output differs. My own judgment is that 1934 prices were too low and 1962 prices are too high. So I feel generally that the amount of "froth" lies somewhere between two-thirds and one-fifth of the dollar gain in GNP - probably at about the halfway mark.

Now let's look at per capita income again. In pure dollar terms, per capita income increased about  $5\frac{1}{2}$  times from 1934 to now in the United States.

But in ~~South Dakota~~ it increased about  $2\frac{1}{2}$  times. Thus the income effects of

price increases, plus the population effects, favored South Dakota as against the United States as a whole. In other words a South Dakotan's opinion as to the amount of "froth" probably would differ from a Vermonter's.

After saying all this, however, there still was a lot of "froth" and both South Dakotans and Vermonters probably would have been better off if price increases had been smaller. I think in general that the price increases of the period led to some inefficient resource use and thus contributed to drag on economic progress. I think we have done somewhat better in the past five years than is generally recognized when we have had reasonably stable prices and most of the dollar gain in output and income has represented real gain with very little "froth".

Now just two or three more figures and I am through with comparisons of past with present. In 1934 there were 41 million employed and 11 million unemployed, or 22 per cent unemployment. Today we have 69 million people working and an unemployment rate of 5.3 per cent. We have more working today than 5 years ago but we have more unemployment today than 5 years ago also. So the record over the whole 28 years is very good but is less than perfect over the last 5 years as far as unemployment is concerned.

Finally, commercial bank loans and investments in 1934 totaled \$33 billion. In 1957 the figure was \$170 billion and now it is about \$215 billion. Commercial bank credit has multiplied 7 times in 28 years and increased 14 per cent in the last 5 years. Over the whole period it increased a little less than the rise in dollar value of output but twice as much as real output. Over the past 5 years bank credit has grown less than both real and dollar value of output.

I have two purposes in giving you these figures on comparison. First, they demonstrate graphically, as have the presentations of Frank Parsons and Oscar Litterer, that great changes have taken place. You might say that the theme of this meeting is "change". Change has occurred over a relatively short period of time and I believe that one thing we can be certain of is that further

change will take place in the future. One question we raise here tonight is whether that change will represent progress or regression in South Dakota, the Ninth District, and the United States.

Second, while the changes have led to progress so far, the record has been a mixed one. I think that we might have had more progress and better distributed progress had we had less in the way of price rises and more in the way of real output gains. And in this belief is one big reason why the Federal Reserve Bank of Minneapolis is interested in doing a program of the kind we are doing tonight. I want to come back to that point a little later. Let me now talk a bit about the Ninth District and its progress.

The economic record of this district over the period that I have been discussing also is a mixed one. We have had growth in this region but it has not been sufficient growth to keep our people fully employed, and the net result has been that a lot of people have left this district to seek employment opportunities elsewhere. The migration figures for South Dakota counties and regions are given in the little booklet you have in your folder. For the district as a whole the amount of net migration in the last 30 years has been about 1 1/2 million people. The population of this Federal Reserve district today is about 6,300,000. Had there been no net migration, had this district been able to keep its people, its population today would have been 7,800,000. Roughly speaking, 1 person in every 5 left the Ninth District between 1930 and 1960.

Let me contrast this performance with an area that has experienced tremendous growth. When The Federal Reserve System was established almost 50 years ago, the 2 smallest districts in terms of population were Minneapolis and San Francisco, with the Minneapolis district having 100,000 more people than the San Francisco district. In that 50-year period the Minneapolis district increased its population by about 1 1/4 million people, the San Francisco district by a whopping 18 million people. The result, of course, is that San Francisco today has 4 times as many people as Minneapolis.

Now this population loss from this district has its good side as well as its bad side. The fact that district income has increased substantially but is shared among relatively fewer people has caused per capita income in this region to grow more rapidly than in certain other regions. As a matter of fact, real per capita income in the district in the past 30 years has increased 2.4 times, and in the United States just 2 times. In South Dakota the per capita gain in real terms was even bigger than in the district as a whole.

As I see this over-all picture, however, it would be far better to increase our per capita income by means of increasing our total income more and thereby provide more employment opportunities within this region itself. This would make a bigger total pie than we have now and this is the crux of the economic problem in this district.

In this situation lies the other big reason why the Federal Reserve Bank of Minneapolis is interested in doing a program like this tonight.

From a regional standpoint the Minneapolis Bank is naturally interested in Ninth District growth. We live here and we want to see this area show up to advantage in comparison with other areas in the United States. This is why we have worked closely with the Upper Midwest Research and Development Council which has fostered the large scale economic and urban center research studies under way in this district, some of the results of which you have heard Frank and Oscar present tonight. We are deeply committed to the research efforts and we expect to work on the action side of the Council's program also. This is an exciting and, we think, very worthwhile venture. It should lead to progress.

But above our natural regional interest is our interest in sound growth for the country as a whole, and here our regional interest merges into Federal Reserve System interest. The nation needs to grow and it is necessary to have each of the regions grow on the simple proposition that a chain is no stronger than its weakest link. Low growth in one area retards growth in the country as a whole.

The Federal Reserve System is a regional central banking system. Its policies are national in scope and affect the national economy. They are formulated, however, with an awareness of regional developments and in my opinion are better for that reason. The fundamental purpose of the System is to provide a monetary climate that is conducive to growth and high employment with stable values.

I spoke earlier as to my belief that we would be better off today had we had more real growth and less "froth". The reason for this belief is quite simple. Too rapidly rising prices tend to bring income distortions and lead to uneconomic allocation of resources. When resources are scarce, as are economic resources, we cannot afford to waste them.

System policy attempts to provide enough bank reserves to underpin a supply of bank credit and a supply of money adequate for a growing economy. If it supplies too much in the way of reserves it fosters too much credit and too much money and these tend to lead to price rises. And what is important to realize, especially at this point in time, or at any time for that matter, is that an excessively easy money and credit policy is self-defeating. It provides neither more availability of credit nor low interest rates over any sustained period of time.

The reason is really quite simple and can be seen clearly in the economic record I have cited to you earlier. Too much reserves leads in the first instance to easier credit availability and lower interest rates. This is fine for recession because it brings unemployed resources into use. But then resource use becomes full and continuation of easy credit cannot bring additional resource use about. The oversupply of credit and money then becomes reflected in price increases rather than more real resources. And then resources get valued higher and use up the oversupply of credit and money. And then credit gets tighter and rates rise. And then additional easy credit and more money lead to even higher

prices and the process continues. Beyond a certain point, therefore, the process is self-defeating.

I told you earlier that between 1934 and 1962 GNP in dollar terms rose 9 times and bank credit 7 times, but in real terms GNP multiplied just 3 1/2 times. I told you also that I thought 1934 prices were too low and there should have been some price rise. But there should not have been as much as there was and easier credit bears responsibility for a large part of that rise. And we do not have lower rates now than we had in 1934.

Since 1957 real GNP has risen 18 per cent and bank credit 14 per cent. We still have had some price rise although it has been quite small. Credit has been generally available and interest rates have been fairly stable, lower in some cases, higher in others. Credit today actually is more available than it was 5 years ago.

To conclude and summarize the System's interest in growth let me say this. The primary business of the System is to attempt to create the proper monetary climate in which expansion can take place. Its job is to attempt to gauge the strengths and weaknesses of the economy and to formulate and carry out credit policies which will further those strengths and alleviate those weaknesses. Since the System is run by human beings, its record is something less than perfect. Despite study, hard work, and I believe it fair to say some talent, System credit policy has had some shortcomings. Nevertheless, I think that in the last ten years Federal Reserve policy has been pretty good, pretty well timed, and reasonably effective. Certainly it would be unbecoming to claim for the System all of the credit for the relative mildness of the postwar recessions. Monetary policy is important, but it is a long way from being all-important.

Nevertheless, I think that monetary policy can take some credit for the record of the past ten years, and I would go further and say this, that while good monetary policy cannot guarantee economic growth, high employment,

and stable prices, bad monetary policy can almost certainly guarantee against attaining these three objectives.

Now finally I want to tell you why we bring this kind of a program to bankers. We do so for a variety of reasons all of which touch upon what can be done to further growth in general and specifically in this region and particularly in South Dakota.

First, it is an obvious fact that bankers are in an unusual, almost a unique position in terms of community leadership. In almost any area where development projects are under way, banker leadership is an important factor. So it is quite natural to talk to bankers about progress and to expect them to take responsibility for leadership.

Second, in an economy like ours money and credit are indispensable to economic health. What you do in terms of providing finance and financial counsel is crucial to development. And this means that you bear great responsibility to finance sound projects and to search them out and keep abreast of new financing techniques. You have to help meet needs in sound fashion. This is the very essence of good banking.

Third, your own interests are served by helping your areas to develop soundly and rapidly. Growing areas generate more deposits, more opportunities for good loans and investments, and more profits.

The objectives of monetary policy - growth, high employment and stable values - run absolutely parallel to the interests of commercial banking. This is why we bring this program to you.

Let me close this meeting with this observation. I spoke earlier of the changes that have taken place in the past and noted that change was almost certain for the future. These changes bring about adjustments, and this is a key word. We fight adjustments or facilitate them, but we have to adapt to them. Perhaps the greatest difficulty we face is our slowness to recognize what adjustments are required of us - our inability to agree on the inevitability of the



required adjustment. We need to understand better the nature of the impending adjustments and the extent of economic pressures upon our own resources. We have to have knowledge about specific advantages and disadvantages about our own resources and their physical and economic characteristics, and we have to approach this whole problem with an open and receptive mind.

This is what we have been trying to say to you here this evening. This is the purpose of the Upper Midwest Research and Development effort described to you. If we keep open and receptive minds, if we perceive the forces of change and adapt to them, we will advance, and it is vital that we do advance.

	<u>GNP</u>	Real 1961 <u>Prices</u>	<u>P C</u>	Real 1961 <u>Prices</u>	<u>Empl.</u>	<u>Unempl.</u>	<u>Rate</u>	<u>W H</u>	<u>C P I</u>	<u>L</u>	<u>Inv.</u>
1934	65	160	411	963	41	11	22	49	57	16	17
1957	443	474	1804 (61)	1911	65	3	4.3	118	120	94	76
1962	560	560	1987	1987	69	-	5.3	119 125	128 106	125 140	90 96
1934-62	9x	3.5x	5x	2+x				2.4x	2.3	<hr/> 7x	
1934-57	7x	3x	4½x	2x				2.4x	2.1	5x	
1957-62	26%	18%	10%	4%				-0-	7%	14%	

South Dakota Personal Income

	<u>Total</u>	<u>Per Capita</u>
1930	\$ 248 million	\$ 358
1940	230 million	359
1950	793 million	1,216
1960	1,256 million	1,842
June 1962	1,382 million	2,012