

FROM

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Mr. Francis' speech before the
Farm Credit group on August 26, 1966

National Financial Trends and Agriculture

Review of the money situation - As it exists today -
How we got here - Where it may go from here - The
impact on Agriculture.

In context of basic law of supply and demand.

How we arrived.

Government's concern with optimum utilization
of resources.

Production.

Plant - Labor.

A necessary influence to long-run stability.

Accepted doctrine among economic thinkers.

1946 The doctrine in action - from 1960.

Public programs

The tax cut - a series over the period

The Vietnam war

The resulting fiscal pressure.

The high employment budget.

Reinforcement by monetary policy

Normal counteraction absent

Rates of growth of money ~~November to~~
~~March~~. 6 from June to June

Supply fell in July and August to date.

The Fiscal-Monetary Mix -

Dual expansionary forces

The build-up to excessive demand.

Over-taxation of our ability to produce.

Plant capacity - 93% (over optimum level)

Labor capacity - (4 million vs. 4 million plus)

Prices -

Wholesale - steady '58 - 64

Starting rise from mid-1964 (64 to 65 at 2%)

Rises have accelerated (so far '66 about 4%)

Industrial component since last year 3% -
1965 year 1.49% ²/₃

Cost of Living -

'58 to 64 - 1.2% annual rate.

Past year at 3%

Since Jan. '66 - 3 1/2%.

Money market reactions - supply and demand.

Tremendous demand for credit.

Government

Business to meet demand

Prices.

Government

Business - for expansion

Past 12 months - 18%

Jan. to July 22%

May to July - 32% annual rate.

Other.

The resulting tightness in money markets.

Despite record growth of money supply.

Demand forces rates upward.

What do we do?

State of economic intoxication may lead to

National economic frustration.

Everybody has it so good.

Close our eyes to threatening clouds of
inflation.

We seem unwilling to take chances with

our present comfort to do what's needed

to assure long-run well-being.

How it can be solved - with a lag

Fiscal adjustment

Reduce spending

Increase taxes - while holding spending.

Restore the Fiscal-Monetary Mix.

Can monetary policy do the trick?

Perhaps - if - - but

If - economic forces only concern

But - social and political issues involved.

Restrictive monetary - expansive Fiscal

Non-selective in impact.

Somebody gets hurt - housing.

Social to political issues.

Then comes talk of legal control - And

the great debate goes on.

Prices continue to move - They don't

roll back.

Inflation continues to take its toll.

The solution -

Restoration of Fiscal-Monetary Mix.

Agriculture -

Production assets quadrupled since 1940

A great influx of capital

Less than 50 to almost 200.

Concern about future - ,

I don't share it.

The long-run outlook

Additional capital need

Individual reinvestment

Family cooperation

Public

Loans

Cost of loan funds will vary

Supplies will be adequate

Credit supplements by equities.