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## TIGHT MONEY, ITS CAUSE, AND ITS CURE

### At The Moment

#### Major Areas of Weakness Being Pointed to by Some Official and Non-official Spokesmen:

Unemployment - about 4%

Wholesale price index - unchanged in Sept., down in Oct.

Housing construction - down 22% rate since Dec.

Industrial production index - off slightly in Sept.

Retail sales - little change since March

#### Counter Areas of Strength

GNP - up 8% rate since end of 1965

Disposable income - up 6% rate since end of 1965

Federal budget

#### Prices - Inflation

Wholesale. - steady 1958 - 1964

Starting rise from mid-1964  
(1964 to 1965 at 2%)

Rises have accelerated (so far 1966 about 3.5% rate to Sept.)

Industrial component since last year 2.3% - 1965 year 1.5%. (No change since July)

### Cost of Living

1958 to 1964 - 1.2% annual rate

Feb. to Aug. 1965 - 2%

Aug. 1965 to Feb. 1966 - 3%

Feb. to Sept. 1966 - 4%

### The Build-up to Excessive Demand

Over-taxation of our ability to produce

Plant capacity - 93% (over optimum level)

Labor capacity - ~~to~~ 1966 Emp. up  
1.5% Half of 1965 ?

Unemployment of 4%

Why excessive demand

Government's Concern with Optimum Utilization of Resources

Production

Plant - labor

A necessary influence to long-run stability

Accepted doctrine among economic thinkers

The doctrine in action - from 1961

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, 6%  
from Apr. to Apr.

Supply fell since Apr. - 1.5% rate

The Fiscal-Monetary Mix

Dual expansionary forces  
(until recently)

Money Market Reactions - Supply and Demand

Tremendous demand for credit

Government

**Business to meet demand**

Past 12 months - 17%

Jan. to July - 22%

Some tapering off recently -  
7% since July

Others

**The resulting tightness in money markets**

Despite record growth of money  
supply

Demand forces rates upward

Policy tight only in sense -  
didn't provide all

**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 further inflation~~

~~We are slow 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

Likely continued upward pressure on  
prices

Total demand continues 8%  
growth rate

Productive capacity only 4% rate

Price lags

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

## Impact of Higher Rates on Agriculture

Will push current expenses higher

Little effect on current production

Will tend to reduce purchases of  
operating capital items

Slow down the rate of increase in  
farm land values.

*Thumbnail summary  
discounting*