

Mr. SUTTS. I think I would go so far as to say that the only feasible way that that result could be attained would be precisely by lower farm prices. That is where the flexibility in the price system lies in the very short term.

There is not much that can be done about manufacturing prices.

Senator MILLER. You mean the only way of cutting this down to 3 percent would be a reduction in farm prices?

Mr. SUTTS. That is correct.

Senator MILLER. I am wondering if there was a reduction in farm prices, on the one hand, if that wouldn't be counterbalanced, on the other hand, by a reduction in costs of production, which would enable us to forecast at least a stable farm income in 1969 relative to 1968 rather than forecasting a drop.

Mr. SUTTS. I think that the production costs in terms of fertilizer, equipment, and other prices of materials that farmers have to buy are not likely to come down; that is, there are undigested costs still pushing on the prices of those products.

Senator MILLER. Well, suppose you have an easing of interest rates. Farmers out here are borrowing for their cattle loans and paying 7 to 7½ percent. Suppose they end up paying 6. It would make a lot of difference in a livestock operator's income. So I wonder why you don't think that this would ease costs of production?

Mr. SUTTS. Well to that extent, of course, it would. But if we look at the price side rather than the interest side, interest rates, of course, can be varied; but again, there is the question whether, given the posture of Federal Reserve, they will in fact be brought down.

Senator MILLER. Well, if we did have a reduction in the rate of inflation from 4½ to 4, don't you think there would be a correlative easing in interest rates?

Mr. SUTTS. No, because I think that tight money is part of the force that is going to hold the expansion in place. We can't have it both ways.

Senator MILLER. Well, it seems to me that it is a correlative of inflation that you have high-interest rates. That just makes sense. If I borrow some money from you for a couple of years, and you forecast that the dollar is going to be less when I pay you back 2 years from now automatically you are going to charge me an interest to make up for the difference regardless of the tightness of the market, and the tightness of the market is an added factor to that.

Mr. KLEIN. I think the timing is to be considered here, because we are talking about a year's income and even if interest rates are going to come down they are not going to come down for a few months. They are not going to come down very much if they do come down. They are not going to come down until well after midyear, and it is going to be very difficult for farm income in 1969 to benefit from these low-interest costs in our economy.

Senator MILLER. I have no further questions. I apologize for not being here for your statement.

Thank you, Mr. Chairman.

Senator PROXMIRE (presiding). Thank you, Senator Miller.

Gentlemen, I get the impression from you, and I am sure that individually you don't feel this way and I would like you to have a chance on the record to correct it, that we are kind of helpless in a sense; that