BANQUET ADDRESS

by
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Member, Board of Governors
of the Federal Reserve System
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Thank you very much for the kind introduction, Monroe. I should say how fortunate you are in this district, which is the sixth Federal Reserve district. Actually, Monroe Kimbrel has just been President a short while and we feel very fortunate to have him here. It is also an interesting occasion. People always ask about the Open Market Committee. Well, as of March 1, Monroe became a member of the Open Market Committee, that is, for a year or so. We think we are very fortunate to have him representing us here and we feel you are very fortunate to have him running the Federal Reserve Bank of the Sixth Federal Reserve district here.

I have always been told as an after-dinner speaker one should keep one's words very short--sort of like that famous Trappist monk, which you all probably recall. He went into the monastery and was told that after he took his vows of silence that he would be limited to two words a year. So he stayed the first year and at the end of the year, the Abbott came around to see how things were and he used his two words saying, "bed hard." So the Abbott said, "Well, that's easy to fix," and he saw that they had some more straw for his slab, and had it all fixed up, and the second year, the Abbott came around and said, "Well, how are things this year?" And he used his two words to say, "food bad." So the Abbott said, "Well, we can probably do something about that." So he went and talked to the cook and saw that they fixed a little better food and everything. And finally the third year was passed, and the Abbott came around and said, "Well, what's the story now?" And the Monk turned to him and said, "I quit." And the Abbott looked at him and said, "Well, you certainly should; you haven't done anything but complain ever since you've been here!"

Well, I find it is going to be much easier to keep my words short this evening because I was in a peculiar situation. Joe McMurray was supposed to talk tomorrow, but because John Horne couldn't get here until tomorrow, Joe talked today and it turned out that our minds ran along exactly similar lines. I looked at the topic for tonight's session, "Savings Institutions--a Forward Look." And I said, "Well, let's look forward to 1985." Well, he looked forward to 1990 and I found that we both were impressed with the same sort of numbers. I was going to roll off all large numbers and then at the same time was going to talk about the fact, I think, that we are all somewhat dissatisfied with our affluence and somewhat worried about the problems that face us. As I say, we ran along the same line. What I am going to do as a result of that is not give all the numbers. I have cut about half of my speech out. You say, "Well, Joe handed his out. You can just go get the numbers. There we aren't in that much disagreement, but I will stick with the other two parts I had and one is to show why we feel so certain of this problem--why we both could look this far ahead and end up with all these trillions of dollars, and the reason is that we know that even looking this far ahead, we have already built in most of our labor force, we have a good knowledge of what is going to happen to technology, and we also have the fact of compound growth. In thinking about the future I am always amazed, impressed, and sometimes horrified by the impact on our society of current events and trends that are hurtling forward at a compound rate. Compound interest, a Rothschild once said, is the eighth wonder of the world. Now, for the fifth world, compound interest has always been a wonder. The fact that you can pay compound interest remains a major part of your industry. We were talking about this at lunch-- Under the Board of Governors' regulations you can compound instantaneously, which means that you can compound your interest infinitely.

Now, don't think this does you any great difference. I forget what the thing is, but I think it is 3 basis points a year if you compound instantaneously as opposed over daily. But we figured we weren't going to get into this argument. Every time we passed a new regulation, people came in with a different type of compounding so we just decided that if we allowed you to do it at an infinite rate, that that would be easy, we wouldn't have to argue about anything else, whether it was legal or not. Bit it is, as I say, the important thing really is compounding. A wise man once said that the fact that no one knows anything about the future makes the business forecaster more confident. Actually, however, this is not the truth, because we do know some things about the future with reasonable confidence. These have important implications for the thrift institutions. The size of our adult population in 1985, for example, has already been largely determined by past events, namely, births. Barring unforseen natural disasters, major wars, or radical changes in death rates or immigration laws, the number of people who will be in the labor force, in 1985, is already quite well known. There will be about 34 million more people working then than now, and this growth will be about twice what we have experienced in the last 18 years. In addition to knowing the potential size of our labor force, we also have a fairly clear picture of potential output. Improvements in productivity have stayed within rather narrow limits in periods of full employment. When we add productivity changes to a growing labor force, we can be fairly certain of a growth rate of 4 per cent a year for the economy's real output. It has acutally been well above this for the past five or six years. Well, this is where the miracle of compounding comes in. Four per cent doesn't sound very large, but it means that by 1985 our economy will be producing more than twice as many real goods and services as it is now. The total gross national product will grow in today's dollars to nearly 1.6 trillion dollars. More amazing, probably, is the fact that the increase in output in the next 18 years will be larger than the total growth in the output in the last 400 years, since the first settlement here in Florida. So in the next 18 years, our ability to produce goods and services will grow more than it has in the last 400 years. Now, it is this fact that we know fairly well and it is based upon the fact that we can get the estimates of the amount of housing that the industry will have to build, the potential size, the amount of savings that there will be in the economy, and in those periods it is all based upon this basic concept of compounding. Now, it is based on this, then, that Joe and I arrived, as I say, at relatively the same figures, but let me disagree with some of the things he said.

I, for example, have never gone along with the idea that 3 million houses a year, or the two million and 6, or something like that. I have a feeling that there is double counting. When you look at households and population size, you just don't see this amount of housebuilding required, you still add on a tremendous amount for replacements and I have never been able to get up to the numbers that others have, and all I can say is that 18 years ago, when people were giving out the same sort of figures I didn't believe it then, the figures didn't add up in the interim, and I am afraid that in this case I disagree. Secondly, both Mr. Vogt and Mr. McMurray made certain estimates of the problem of savings--of getting the savings--and here if you project trends and things like that, and project the need for capital of the amount of housing we will need, the infrastructure of our community, and so on, you can get into problems of "Are they large enough?" "Will we have the savings?" "Where are the savings going to come from?" "Where are the mortgages going to come from?" and so on, and this is again a familiar thing over the last 15 years or so, these sorts of worries. And, frankly, it is not one that I have ever worried about, because when you look actually at the savings picture, you find, I think, that the question of the amount of government savings or dis-saving, in other words, the size of the government deficit or the size of the government surplus, simply overwhelms the normal changes in the saving patterns and the saving problems over intermediate periods. So someone has asked me, "Aren't you worried about what is going to happen to the mortgage market in 1972 or 1975, or anything?" I say, "I worry only about that if I want to assume that we won't make the proper political decisions. But given the size of the economy, the way in which our tax system generates potential savings, you have to assume that we will always be making the wrong decisions and that these aren't really very hard decisions to have whatever the rough balance of the private economy is with respect to savings and need brought back into balance by the question of whether the government runs a deficit or surplus and compared to the total that deficit or surplus,doesn't have to be very great. The third disagreement I would have, as I say, I have taken out all our areas of agreement because he can do that, is on the question of the composition of the Federal Reserve Board and this is not a personal matter that I feel, that the suggestion was not very good, but I think there really are other reasons. The problem of coordination of regulation is a problem, but I don't think it is a very difficult problem. It has been rather great in the last couple of years, primarily because of personality problems, there are also some other problems, competitive debasement of standards, when you have several regulatory agencies competing in the same field there is always a problem of saying, "Well, that guy is easier, therefore, we have to be easier than that, and so on." But this, I think, is a problem which can be handled rather readily. And, as I say, it is certainly one that I don't think requires that the Federal Reserve Board be expanded by heads of other regulatory agencies to handle.

The main reason, I think, is that what the Federal Reserve really does primarily is to make monetary policy. Now, if you go back in Professor Friedman's history, and you follow his reasoning, most of the time this is made wrong, if not a very good record from his point of view, others wouldn't feel quite as strongly that that is the case, and I am sure that in the last three years it has been excellent, no matter what the history was before that, but it still is true that if there had been problems it was primarily because not enough emphasis was given to the monetary policy function...

on it. It is, I think, contrary to what some people may believe, a fairly difficult and complex task and one that requires both a good deal of work on it, and a good deal of time spent on it. I think, therefore, putting people who would look upon this as a once-a-month job is not very good. Secondly, the problem with that suggestion is that most of the people he suggested are really chaimants of credit. And again, the history of having the Treasury on the Federal Reserve Board, which was true for its first 30 years, was that they were far more interested in their function as claimants of credit than they were in determining that we have a good monetary policy. So I think that the one important thing is that monetary policy has to be carefully coordinated with administrative policy. We are independent, but obviously in a period or in an economy where fiscal policy, wage-price policy, monetary policy and other policies, in this case, war policies and other things such as that, all interact very closely upon each other. It becomes very important that you have coordination but I also think under our present system that the Federal Reserve be able to take an independent view and also have the time to do this. If you ask the Secretary of the Treasury to worry about monetary policy, he has got hundreds of other things to worry about and he just couldn't give the time. I think we have been rather fortunate in this country in that we, by being an independent board, in most cases we have been able to stand up to the Treasury for what are more important things for the economy than simply the lowest price of yields on the public debt or other things. Secretaries of the Treasury in other countries and this country, I think tend to maximize the wrong problem. They worry much more about their own personal debt problem or things of that sort than they do about the country. So an independent board has the advantage of being able to think about monetary policy first. Then when it comes to a view of what it should be or what the policy of the country should be in a coordinated moneta and fiscal way, it has the skills, we hope, to try to convince others. And again, I think in the history of Washington we have been rather fortunate. The Federal Reserve has traditionally had one of the finest staffs in Washington. This is because it has been an independe agency and there have just been many, many areas where the work can't be done in an agency which has been on the firing line on a day-to-day basis. The Federal Reserve, a fact that decisions come not as frequently, has been able to give a good deal more staff time, a good deal more interest to it, and I think has succeeded in that way.

Well, those, as I say--that takes the place of my trillions--I ha been able to substitute those comments for. But let me go back to the last fact that I wanted to talk about, and that is that in contrast to the basic physical factors which lie largely beyond the reach of public policies, we can look forward to exerting some influence during the next 18 years on the quality and the amenities of urban living. And I think this is obviously something that bothers all of us now--th feeling that as we become more affluent we haven't--aren't that much better off in our living conditions. We will need to take steps to improve the variety of creative opportunities and the environment in which we live. For, as one critic reminds us, the danger of an affluent society is that people can be better off without being better. Sheer growth in numbers will not be enough. And here, too, the thrif industry has important contributions to make. It is a basic source o the funds we will need to improve our urban intra-structure and our housing. And unless we do this, our full potential for growth, both as a nation and as individuals will be wasted. "Honesty," a politician once said,"is no substitute for experience." But I would be less than honest today if I failed to point some problems in addition to some opportunities that experience suggests lie ahead of the thrift industry. First, while we face a period of accelerated expansion and adult population, households, and housing, nearly all this growth will be concentrated in our cities and surburbs. Secondly, while we face a time of unprecedented expansion in our production of goods and services, here too, most growth will occur in urban areas. The combination of technological growth, rising standards of living, and increasing urbanization, in turn, threatens to pose an unprecedented burden on the quality of our living environment. To paraphrase a recent government report on the subject, one person's trash basket will become another man's living space to an increasing degree. We can all see around us what pollution has already done to our skies, our streets, and our rivers.

I must say, I had a very shocking experience about two months ago. We were visiting our daughter in California at Thanksgiving vacation and about the first day we were there it rained. And as a result of the rain, it just cleared the air beautifully, and she looked up and she said, "Gosh, look at the gorgeous mountains." And they were really beautiful. The southern California mountains are about 8 or 10 miles away from her school. She had been there as a Freshman about 10 weeks, and had never seen the mountains eight miles away. Well, when we went to southern California 18 years ago, which is the period we are talking about, there wouldn't have been more than one day a year when the environment would have blocked out the mountains. So here we have an example of a tremendous loss in our environment--a tremendous loss in our national heritage, and one of the questions we obviously have to face is, "Where will we be 18 years from now?" Will we continue to move along this same compound curve or will we win back some of our environment? Unless some sort of drastic measures are taken, problems of disposing of the solid, liquid, and gaseous wastes of an ever higher-producing, higher-consuming, more urbanized future society, will multiply at a compound rate. These problems of waste disposal will be accentuated by the fact that while our production of waste seems to accelerate, the capacity of our air, soil, and waters to absorb such wasted will remain essentially constant. Here is a matter of compounding urgency in which the thrift institution has a direct stake, where undue pollution can impair not only the quality of city environments, but also the value of indidividual houses, apartments, and other real estate, that serve as loan collateral. Let me say two more dramatic examples of what has been happening to the pollution of our environment as a result generally of growing industrialization throughout the world. One of these problems comes from the interjection of leaded gasoline as automobile fuel. Based on ice excavations in Greenland, scientists have recently discovered that from 1750 until about 1940, the lead content of air trapped in successive layers of ice rose from about 10 millionths of a gram per ton of ice to about 70. In other words, over a period of almost 200 years it went up from 10 to 70. From 1940 to 1950, however, the lead content of the air trapped rose to 200 millionths of a gram per ton, or by 130. Within only a ten-year period, in other words, the amount of poisonous substance in the air had grown by as much as it had in the previous 190 years. Well, if you are all familiar with what a compound growth curve looks like, you can put these points on the curve and see what problem arises. I was recently told a horror tale to bring this point out more completely.

Imagine that an environment is created in the Great Lakes that enables amoebas to procreate and double every 20 minutes. To those of you as Harlan Swift and I and others here who were brought up on the Great Lakes, this is not too hard to imagine. It is hardly an apocryphical story if you've tried to fish or swim in the lakes in recent years--you recognize how this type of environment is growing very rapidly. Anyway, it has been estimated that if amoebas procreated at this rate, in 500 years, the entire Great Lakes would be filled solid. We could walk from one shore to another. But the interesting question--if this happened, at what point would the Great Lakes be only half filled? Well, for those of you who are mathematicians, the answer is simple. It would be half filled only twenty minutes before it became solid. But beyond that, it has been estimated that if 24 hours before it became solid, you took a glass and dipped the glass in the lake and held the glass in the light, you wouldn't see that there were any amoebas in it at all. In other words, the power of compounding is such that it would take 499 years, 11 months, and 29 days moving along a hardly noticeable curve and suddenly the worsening environment would become disastrous. Where do we sound on such a compound curve today with respect to the environment around us? Well, clearly, meetings such as this are extremely valuable to allow us to break away from our day-to-day routine and take a longer, forward look. We can see some of the future implications of compound interest for the thrift industry. Unprecedented growth in output, unprecedented growth in adult population and in housing, tremendous needs for housing, tremendous needs for pollution control, for other ways of controlling our environment, are called for. These are all based upon higher savings, larger loans, a much greater and more expanded industry.

Again, I won't estimate the Savings pool because you have got the story already. But I think it is clear that it will take imaginative efforts by the individual thrift institution to tap fully these vast accumulations of future savings and to allocate them most efficiently. The thrift industry itself will have to look forward to grappling with new and tougher problems as well as with some old standbys like inflation. As a nation, we will all be concerned about making the most of our limited resources while sustaining a high quality of economic growth. The wonder of compounding has already created part of the irreplacable fabric of the future over which we can have no control. But substantial parts of that fabric have yet to be woven to whatever designs we may designate. To quote a famous French diplomat, "Remember this also and be well persuaded of its truth. The future is not in the hands of fate, but is held by mankind."

Thank you.

Sherman J. Maisel

Question and Answer Session

Question: We heard Dr. Friedman's estimate of the chance of devaluation today. Could we hear yours?

Governor Maisel: Well, obviously, I can't put a probability function on this. But I can say something about the problem of gold, because obviously it is on all of our minds. And first, I should make clear that this is not an area in which the Federal Reserve makes policy. Gold policy is made by the President. The Federal Reserve is asked or requested to administer certain programs and problems, and we also work in conjunction, just as J. Pierpont Morgan worked in terms of getting a line of credit from foreign banks that can be used for emergency threats of speculators as a run. I forget what they are. They are between 3 billion and 4 billion--our current line with other central banks. This is an additional--it is actually a first defense before it is used, before the international monetary fund drawings, which are also potentially large and for gold. But I think what I could say is that Professor Friedman gave a very good basic outline of the problem and I think the point that he was trying, the one I would try to stress again, is that there are really two very different problems here. One is the gold problem, and the second is the balance of payments problem. And people confuse them and think of them as the same, but they are really only rather dimly related.

Gold is the problem that has existed for only the last hundred years, I guess, and since he is the historian, I would ask him to check it. But I think it is only about 100 years that we have had an actual gold standard in the world, and have used gold as a basic method of settling monetary claims. And, as you all know, the gold standard has been developing at a very rapid rate. It is an entirely different situation. After World War I it became a very different type of standard than it had been prior to World War I, and after World War II it again became an entirely different situation, and again, it is still very different. We have been one of the few countries in the world which have had a gold cover law, for example, most countries did away with this after the War. Most countries don't allow gold to circulate within the country, most countries don't allow you to go in and get gold--all sorts of things like that. It is a very different problem, but the point of gold then, is that it is one of the ways of settling international debt. Actually, there have been recently three basic ways.

You have gold, you have the international monetary fund drawings, and you have had the so-called reserve currencies--the dollar and sterling. And if you, for example, were in Montivideo or even if you were in Paris and wanted to buy something in Berlin, you would probably find that you would have to pay for it in dollars. In other words, the settlement had to go through. Most currencies of the world are not exchangeable against each other. They are exchangeable only against the major currencies and that really means primarily dollars. So there have been these three ways of settling international debt.

Now, as the amount of trade has grown very rapidly, it is like your bank balance, if you were spending more money, if you have got a bigger payroll, and so on, you need more money in the bank simply for transaction purposes. Well, international trade has been growing, therefore, there has been a bigger demand for ways of settling those accounts, a basic transaction requirement. Well, for a long time in most of the postwar period, this was met by people accumulating dollars, because the dollar was thought of as a very stable currency. It was the main currency in which transactions could be settled. It was sensible for people to hold deposits in New York, just like you hold them in your own bank to settle international transactions. The problem was, though, very similar to what this country was before the setting up of the Federal Reserve System. And that is, that if you remember the original national banking system here, New York was the center of settlement for the countries. All correspondent balances were held in New York. And this meant a pyramiding of Reserves on New York for the rest of the country. Periodically the rest of the country would try to get reserves out of New York. As you all know, running financial institutions--if too many people come in, you just don't have the cash, so that when people used to come into New York, the cash wasn't there. As a result, New York used to just say, "Tough, we can't pay you." They closed down for a period, refused to pay, and at the end of that time, everybody would remember that if you're going to run financial institutions, you have to trust them, so that New York would be back in business and it was the going through this periodically that led to setting up the financial reserve system, eventually, so that you wouldn't get these problems. Well, anyway, the world situation is somewhat the same. As the amount of deposits increase greatly compared to gold, you've got in this a basically unstable situation where people feared that when the crunch came that if everybody suddenly lined up outside the bank and all rushed for the reserves of the bank, the bank wouldn't be able to pay off. And this is obviously true of any banking system. If all your depositors come and try to get their cash immediately, you can't do it. So this has been a worrisome thing.

Ten or fifteen years ago, it was pointed out by a well-known economist that situation was going to happen, and that the only way that you could really stop this from happening was by getting some other sort of reserve system, either having everybody accept the dollar, having everybody accept international funds and making it large enough or having what we now have hoped to get--so-called special drawing rights, which is called "paper gold." But all of these were simply on the recognition of the fact that you could not continue to run the world's international system as it has been run, with a limited amount of gold in it, because the world was growing too fast for it, just as in this country we had to take gold out of circulation simply because the country was growing too fast. But again, it is the same problem of compounding that I was talking about earlier. Well, given this problem, then the question is, "What has the price of gold got to do with this?" And the answer is, the price of gold is basically and a completely artificial price. It was set by President Roosevelt back in 1936, or something like that, whether there was a logical reason for it or not, is not that clear, but having once set the price at \$35.00 an ounce, ever since then, the price of gold has been pegged by the willingness of the central banks of the world and usually the Federal Reserve, to buy gold at \$35.00 an ounce.

If you ask what the real value of gold is for industrial purposes or transactions purposes or something like that, you can get all sorts of estimates: $12.00 an ounce, $15.00 an ounce, what-have-you. But the point has been that during most of the period all the surplus demand has always been furnished by the central banks. They have been willing to buy and sell gold at this fixed price. Well, the problem now in the last year or two clearly has been that as the ratio of the United States total amount of dollars held by foreigners to the amount of gold has grown less, foreigners have come in and said, "Well, what if we all got in line, you wouldn't be able to pay us off." And, clearly, this is true. So the only real answer to it then, is to say, "Okay, we will, as we have said, pay up to all we have, and actually if you didn't have other central banks buying it, the idea of the individuals of the world hoarding an additional 12 billion dollars of gold is hard to imagine. There wouldn't be even the places to keep it in, even though gold doesn't take much room. But what this has meant, then, is to be sure that the present system is stable, really has required an agreement among all the countries of the world that they would make their gold available at $35.00 an ounce. Well, you have the agreement, it is reissued about every six weeks, including yesterday, in Basel, and in different places. But as in any speculative situation, there is a point where people think the agreement means what it says and a point which they don't. So the problem is really that "Are the central banks of the world really willing to throw the $40 billion or $50 billion dollars of gold into the market and let the speculators eat it, in effect, or at some point will enough central banks become chicken to say that the game is called off?" Well, I think that we have tried to make it very clear that we believe that the game should be played to the end, and the reason again is the one that Professor Friedman pointed out. What difference would it make if you changed the price of gold? It is an artificial price. If you change it, you are now dealing with an artificial price but you are back to exactly the same situation that you were before, except that because the holdings of gold are uneven, some people will win in the game, and some people will lose, the fact that Russia and South Africa will win, makes many people in France, really makes many people unhappy about a change. This is one of the perhaps good arguments against it.

But the more basic argument, I think, is that there isn't any really good reason to change the price. You don't get anywhere by doing it. And, as I say, the whole question is whether the countries of the world are convinced enough of this to say, "Let's pour it all out."

There are other simple ways in which you can take the place of gold, various forms of paper gold. It hasn't been necessary up until--actually up until now, but supposedly at the end of the month we will be entering our first agreement on paper gold. If necessary, this can move forward very rapidly. Well, as I say, that is the gold problem. Now, the reason that it has become a problem, though, is that over the last five or six years, whereas people used to be eager to get dollars, they have no longer been eager to get dollars. This is the balance of payments problem. Well, what is the balance of payments problem? Balance of payments problem is simply the fact that we want certain foreign resources. We are not a country that stays entirely to ourself. We have troops in Viet Nam, we have troops in Germany, we have troops in other NATO countries. They cost us three to four billion dollars a year in foreign exchange. Now, this is over the $40 billion or so that they cost us in expenditures in this country.

But this says that to keep those troops there we have to get 3 or 4 billion dollars of Yen, or Francs, or Marks, or pounds sterling, or so on, to pay for what these troops spend in those countries. In addition to that, we like to travel. Americans are great travelers. We spend 3 or 4 billion dollars a year in foreign countries on travel. So we have to again get Canadian dollars or Mexican pesos or Francs, or Lire, or something like that, to pay the foreigners when we are in this country, for their hotels, the cars we rent there, the food, or other things. That is a second expenditure. The third expenditure is imports. I don't think my wife has French clothes on at the moment, and we didn't have any French wine, but if you go along in an average American house, we do have all sorts of foreign goods that we buy, and again, we have to be able to pay for those and finally, the other major expenditure is that we have been buying up companies around the world at a rather rapid rate. We boutht Rootes, we bought Simca, we bought Brown--as you go around the world, you find both companies being bought out and American companies building a plant and equipment there, all of these cost money. We have to have foreign resources to buy this, foreign exchange to do this. You can't do it with dollars, because if you, for example, tip the waiter in a Parisian Hotel he may be glad to accept your dollar, but he doesn't go out and spend that dollar in turn, he takes it to the bank and gets Francs for it, and the man who gives him the Francs has to be able to turn that dollar in and get Francs for it or has to find somebody who wants it. Now, the way we earn those dollars, then, is by again exporting American goods, primarily. We also have a sizeable income on our foreign investments, and we have some people come and travel here. But when you put all of these together, the net deficit for the last--it has run on that deficit ever since 1950, I guess, and in the last--this last year it was between 3 and 4 billion dollars, in the previous years it has run not quite as large, but fairly similar amounts. So what this says then, is that we simply don't have the resources to buy these goods that we are spending money on. Well, how do you get the goods? You have to get some foreign country to lend you the money. In other words, it is just again like a bank. If you don't have the money to spend, but want to buy some goods, you can go to the bank and borrow the money from them, then you can go out and spend it, and this is what we have been doing now, ever since 1950.

Well, for a long time, the foreign countries were happy to lend to us, because they wanted dollar instruments. They wanted to be owed dollars in the U.S. because they thought of them as a very good investment. But as the amount of dollars have grown more and more, they have felt less willing to take these, and for the last 3 or 4 years, we have sort of had to twist their arms. In certain cases, we have had to do this to get them to accept them. And, for example, in Germany we have said, "Look, we don't really like American troops in Germany, this is for your protection, if you want us to keep troops here you ought to pay part of the cost of keeping them in Marks," and so on, in various deals of this sort around the world. But each year that you twist it becomes a little harder to do it, and also the Viet Nam War has become more expensive each year, so the problem has become more complicated. And as a result, you have to say, "Okay, what do we do about it?" The decisions have been to put in programs that would cut down the amount of resources you would need abroad, by putting in, making it harder or more expensive for Americans to spend dollars abroad for various purposes. Well, where do we go?

Professor Friedman pointed the thing: One, since the deficit is 3 to 4 billion, and that is also about the amount of our military expenditures --if you had no expenditures you might hope that this would bring you back into balance immediately. Actually, the projections made in 1964 which looked pretty good and looked pretty good on other bases, which excluded Viet Nam, showed that we would have been balance by this point, but in addition to the end of military expenditures abroad, we have the existing programs, but beyond that is also the other major point, is the one Professor Friedman said, that we have to have foreign prices rising relative to American prices. If foreign prices, you say, rise, at one or two per cent a year faster than American prices, then this means we can export more, it makes it more expensive to import, it makes it cheaper for Europeans to-- it takes care of some of the investment problems and so on, so that you get in balance this way. Well, as I say, I'm not here to predict. I am only here to explain. But I hope, because I know that this is one of the most confusing problems around, it has suddenly hit Americans to think, "Why do we have this gold problem?" And I think, incorrectly, the two problems in the papers are normally confused. They are not separated rather clearly, but they are really two very separate problems with: One, the possibility of solving one without being able to solve the other, or vice-versa. They are not really that closely linked in terms of possible solutions. Well, I think I took a little long to answer the one question, but I did think it was an important one. I won't try any more.