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A transcript of Mr. Galpusha's presentation follows:

while in Boston last week I read a story in an editorial about boat safety. It (over)

~~How the man could get back to Boston,~~ *Sunday skipper* the man interrupted him and said, "Hell, don't do that, just point". We are in a position now in this country where most people want someone to point, ~~but~~ *we* there is no hope for us ~~because~~ *because* it is a very complicated world, ~~we are in~~ and ~~you~~ *we* do have to ~~have~~ *technical terms, so* ~~do have to~~ resort to ~~technology,~~ *and* if I lapse into fancy language I hope you will bear with me.

I am not going to speak very long, ~~I would much prefer with this group especially,~~ *trying to answer your* so many old friends in the group, to spend most of the time ~~with~~ *with* questions. But I thought I would give you some idea how we go about making it difficult for you people to borrow money at a rate that you can afford.

The reason ^{all} we are in this position ~~is~~ *they of* fairly simple. ~~There~~ are two kinds ~~of~~ ~~problems,~~ ~~one~~ ~~is~~ external and ~~one~~ ~~is~~ internal. (1) Externally the dollars ~~have~~ been under pressure; it has been necessary to keep rates high in order to prevent outflows of capital to other countries of the World. ~~We~~ *most importantly,* have been running a continued deficit in our balance of payments, ~~which means~~ *stated, this means* simply that we have been spending more dollars abroad than we have been receiving, ~~and~~ *and* we have been spending ~~in~~ *them in* a number of ways: Vietnam; ~~imports,~~ *merchandise* ~~consumer tastes in this country have become elevated and imports have~~ ~~tended to increase much more rapidly than our exports.~~ *capital exports by* U. S. Corporations ~~are~~ engaged in virtually every country in the world, ~~and some corporations in almost every country in the world.~~ *are among the contributing sources.*

Aid has not been as much of a factor as you probably would think, because most foreign aid is ~~not~~ tied to U.S. goods, that is ~~you have to use a fancy word,~~ it is called "fungible". ~~Where that came from I don't know, but that is the technical term.~~ *This* ~~That~~ means that ~~if you have~~ *as part of* an aid program in one of the underdeveloped countries, the capital goods, ~~the generators or whatever are going to be purchased for use in that country,~~ *what is referred to.* have to be purchased in the U.S. so it ~~doesn't have any effect on our balance of payment.~~ *If you encounter the term "fungible aid", this is*

~~For a number of reasons we have been running this deficit.~~ *(2) situation is* The British ~~combine~~ *as you know they* with one of the external reasons. ~~The British have also been living beyond their means,~~ *financial* ~~the~~ the different, *in the UK* crises which have occurred every fall for the last four years for the United Kingdom have ~~translated themselves into~~ *brought* pressures against

concerned a Sunday skipper out of sight of
land who hailed a passing coast guard
patrol boat for directions back to Boston.
The Coastguarder obligingly started to call
back chart readings and coordinates.

of Keynes's Law. As you will recall, this was referred to as bad money driving out the good.

the dollar because ~~When~~ ^{When} people get nervous about their money, they do not tend to discriminate. Certainly they want to get rid of the least secure but as the hysteria grows, ~~and it is hysteria, they tend to lose sight of whether it is francs or pounds or marks or lire~~ ^{distinctions between currencies tend to blur,} they just simply want to get out of paper and they want to get into gold, ~~and with more dollars abroad than another reserve currency, it is of course they want to get out of dollars because they have more dollars than any other currency.~~ ^{credits -} *it is inevitable for the dollar to devalue.*

All of this admits that we have had to conduct monetary policy with a very sharp eye to ~~these~~ external conditions. ^{Internally,} again we start with Vietnam, ^{the economic} the pressures of Vietnam, ^{have} ~~it has been very serious, twenty six/twenty eight billion dollars.~~ ^{some twenty-four billion dollars now.} It has been an incline that tended to level off a little at the end of last year, but there is an ~~additional supplemental appropriation for two and a half billion to go into that particular conflict.~~ This has put pressure on our economy, because ~~you see~~ ^{when} Vietnam competes with you and me for goods and services ~~and when there are fewer goods and services available~~ ^{limited supply of} the law of supply and demand operates and ~~they cost more.~~ ^{prices increase, not only} This is one of the ways you get what is called push-pull inflation. ^{that, but imports are encouraged to meet the unfilled demand for consumer goods, thereby worsening our top position,}

Another is that we have had a tendency in this country, at least on the Congressional level, to ignore the old maxim of "pay for what you get". There are a number of very grievous social maladjustments in this country that have to be remedied if you are going to keep the country going, and these take money.

We have gotten unemployment down to the level about as low as it can get, that is you look at the numbers and its 3.4%. I think this is the rate of unemployment, and that looks awfully good and then when you analyze it though you find that the white male, adult male, is down somewhere around 1 1/2 to 1 3/4, it is good that virtually there is no unemployment in that category. You look at the teenager, however, the unskilled white, that rate is higher, let us say it is five or six, you look at the negro and it increases to twelve or fourteen.

These are unskilled people who can't do anything and to try to gear an economy going fast enough so you can pull these people in again is an inflationary fact and you can't afford to do it. That is, so called structural unemployment has got to be hit from some other way through training programs, for example through relocation of industry. We have tried to do it through speeding up the economy and it won't work, so we have to spend money in the city.

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I am not going to quarrel with you about the merits of Job Corp or Headstart or the other programs that have been tried, but programs like these or at least of this type are going to have to be tried and are going to cost an awful lot of money. This, too, produces pressure and so far Congress has been unwilling to face up to the fact that there are expenses, so we have been financing on a debt basis for the deficit that is really quite striking.

There are only two ways you see to make the country economy run, one is to fiscal policy which has to do with the level of government receipts and taxation and the level of government spending. The other is monetary policy which affects the volume of money and credits; not only the quantity but the cost.

The fiscal policy is determined by the administration and by Congress and at first in '65 and early '66 the administration failed to use fiscal tools; there was no move towards restraint. There was no move towards assigning priorities to determine what was the most important things to spend money on and what could be deferred.

This is the decision you have to make when Hefty or whoever else is in control of your money supply says you are going to be cut back. There was certainly no move towards a tax increase so the whole burden fell on monetary policies and it was unfortunate it hit unequally because we don't spray credit in this country by 'copter.

You know there is no way we can get monetary policy so that it leaves the farmer alone, leaves housing alone. It goes up through the banking system and the market place determines who is going to get money. That is determined by individual bankers who look at a whole complex of factors, deposit relationship, interest factors, complexity of loans and so on and the way they looked at it, it was a lot easier to loan money to industrial corporation than it was to housing or to agriculture.

Agriculture fortunately lucked out in that period because agricultural banks generally were quite liquid because of the high level of foreign income in that year. It wasn't until mid-summer of '66 that the Farm Credit System got tough with the allocation of credit as among the Banks.

I think the administration learned how close we came to disaster. We did come close to disaster, there was almost a financial collapse on August 29, 1966, precisely that day. But we squeaked through and the President in his message in '67, as you know, started talking about a tax increase. Congress got into a very difficult

bind early because of the appeal of the fiscal restraint. I don't know what that means and I am not being facetious, because there are so many programs.

Now does fiscal restraint mean a cutback in the volume of agricultural lending? There are those who say it does, and they are talking about very substantial sums of money in terms of a cutback and the authority of the Farm Credit System. There are those who say take it out of the hides of the poor, they are poor because they are stupid and lazy and let them suffer. There are those who say take it out of foreign aid. There isn't a great deal left there to take out and nobody really has been able to bell that, or wanted to bell that particular cat. What happened was this: the poor taxpayer was led down this primrose path and believing in God maybe this is the millennium, maybe somebody is thinking about me and they are not going to increase my taxes and they are going to save my ?? , it is going to be just great.

Unfortunately that isn't the real world. The money has to be spent, you can't run a war on a budget, so the real hangup has been - who will take the responsibility for making the short term cut and answering the screams of anguish from the different constituencies around the United States, and will it be 4 billion or 6 billion and its been up and down like a yoyo.

Two weeks ago I said there wasn't going to be any tax increase and then along came the French crisis, a number of external factors that put new pressure on the U. S. dollar, some internal problems including the assassination of King, which put new pressure on urban programs and it looked then for awhile as if there would be an increase - that the bill would come out of Mr. Mills' committee last week. Then somebody counted noses and found that it wasn't quite so, that there was a possibility it wouldn't pass, so it went back into committee and now it is to come out, I believe, next week.

So again the burden has fallen on monetary policy and we have been doing two things. We have been trying to shrink the money supply so there is less available, and we have also been trying to make it more expensive. It really isn't enough you know to make money more expensive, this is a point I made once at a dinner party in Minneapolis, and one of the people there told a man who happened to be chairman of our board at the time, "that fellow is crazy, interest rates do matter a great deal". This man to the chairman of our board said, "No, your wrong, you just never had to borrow any money". This man happens to have inherited a great many million dollars which he has guarded very carefully and they have increased.

To a lender, rates become very important. If you are lending money, rate is very important and how you, where you put your money, you consider very carefully and this would seem normal. People take money out of a savings and loan or out of a savings account or they don't put it in and instead they go direct to the market and buy a bond because the yields are higher. That is another fancy term which I will contribute to you this afternoon and you will probably never use or see again. In monetary circles that is called disintermediation.

But rate is making money more expensive. Is not that significant for a borrower? The only thing he wants to be sure of is that he isn't paying any higher rate than his competitor. I know that I should never be making this in front of people who are also borrowers, but it is true and so Hefty you and Ed and the others of you who run PCAs, this may give you some support in increasing your rate. If you need money, it is the quantity that is important, interest cost is not all that significant. If it should, it hurts until the marginal borrower, it might be enough to keep him out, but generally it isn't all that significant. You have to literally shrink the money supply so there is less of it around and it takes time to do that.

It takes 6 months really before monetary policy begins to bite. Going either direction, you know if you are at a time to shrink the money supply or increase it to stimulate the economy, it takes time. In the meantime the money markets begin to feel this pressure and you find rates begin to move up as it becomes harder for the major money banks to raise money through certificates of deposit, for Federal agencies to raise money on their money markets because everybody goes to the same well and again, remember it is the lender who is in control here. He is going to put his money where the two factors of security and rates are the best and you look at what is happening to the pressures on that well and it is kind of frightening.

In 1966 state and local governments were in at this particular well at the rate of 950 billion a month. This is the money they were trying to raise in the national money market. In '67 it was twelve hundred and twenty-one dollars, add a whole bunch of zeroes there, that is a billion two-hundred and twenty-one million. In 1968 in the estimated figures for this quarter are at a rate of thirteen or 1.3 billion a month for industrial corporations, these are utility companies, industrial borrowers.

In 1966 they were trying to get a billion five a month, in 1967 they averaged two billion a month, in 1968 the figures from May indicate about two billion dollars and

then you add to that the demand from the Federal government. In July and August they will probably be looking for 9 billion and no wonder interest rates are going to be high, because without a tax increase there simply is going to be no dampening of this level of demand.

Alright, I tried to give you some idea of what led up to this and some idea of the tax, the situation of the tax increase, what is this going to mean in terms of rate developments in the future, at least in the next 9 or 10 months. I am sorry, I can't simply point the way to borrow because you know it is a fool who prophesied the direction of rates, there are so many things that can happen.

The accidents that have occurred in the world that have changed the course of history in just the last three years. You know the British might have made it if the Israeli war hadn't broken out last year or in the earlier period of '64 if Suez had not been closed. We might have gotten through this spring in much better shape if the French students hadn't started a rukus in France. This has been our most successful export, incidentally, student unrest. It is too bad we can't get credit for it from worry, but it got contagious and 10 million French workers were on strike and this made Frenchmen very nervous about their own money but it also made a lot of people around the world who had been holding francs or international currency very nervous about the pound and it is an accident that nobody could have predicted, but it happened, and it did have dire results. It did introduce a new unhappy note in the international money market.

There is no reason to expect international monetary pressure to let up. The news from the peace talks in Paris have not been particularly encouraging, it looks pretty obvious that it isn't going to be ended very soon. Nor is there any reason to believe that some kind of an understanding with the North Vietnamese is going to be wholly acceptable to the South Vietnamese, much less is it predictable that it is going to reduce our level of commitment in Southeast Asia.

It is going to take an awful lot of money, so the external factors are going to continue in the reckoning and we are still going to have to think about them and they are going to have an effect on how much change can occur in U. S. interest rate and if you think it is a terrible thing that, and there ought to be a better way than to have interest rates climbing a situation ten thousand, twelve thousand, twenty-thousand miles away

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affect interest rates in Dillion or Belgrade or Bozeman or Helena or Minot, North Dakota. Maybe there is, but that is the real world.

These things do affect interest rates. Domestically however, if a tax bill is passed, my guess is that fairly soon, but I would not like to say how soon, there will be some backing off of pressures on monetary markets and the money markets in New York. There will be a backing off for a number of reasons. There would be a change in the level of expectations of business men. They would start adapting themselves to a reduced cash flow.

The combination of the short fall in Federal spending, and there will be some, but it is only going to be a deferral, plus the tax increase, plus the present level of monetary restraint would probably be too darn much. We don't want to kill the economy, we just want to get back to a normal pattern of sustainable growth, so my guess is that given that kind of a circumstance you would find monetary pressures tending to needs. How soon it would be, you can remember roughly six months. It takes six months for changes in national policy to work their way through the economy so that you can start seeing results where you live.

Alright, I don't know how much time I was given, Mr. Chairman (you have plenty of time.) I would like to now answer questions, I think I've given you enough perhaps more than you wanted on the situation of the money market. I visited with some of you the other night about this and am perfectly willing to try to answer questions on the subject.

Q - What is your idea now on the gold standard? Is it necessary anymore?

A - ~~Well, the~~ ^{There} ~~that exist today~~ are several problems associated with gold. The first one is supply. ^(A) Seventy-five percent of the free world gold comes from South Africa, a country ^{toward which} ~~that~~ we have not been particularly friendly, ^{and remember this is} ~~towards~~ a country that depends upon its gold ^{sales} ~~shipment~~ to maintain its foreign reserve position. They are staying off the market right now. ^(B) We ~~do not produce much gold in this country anymore.~~ ^{all not a significant gold producer - at least compared to our needs.} Nobody knows how much the Russians ^(C) produce or the Chinese; ~~but~~ it is probably a substantial amount, but not much of it gets into world markets.

The fact is that there has not been one dollar of gold added to free world monetary stock since 1965. All of the gold ~~that had been~~ produced in the free world has either gone into ^{in this part} the hands of hoarders, speculators or into industrial, professional and artistic uses.

Gold is one of the ways we count a country's liquidity. A country's liquidity is made up of three things: the ~~amount of gold it has~~^{to}; the amount of foreign currency it is holding^{and} and its credit position with the international monetary fund ~~and it's~~ these ~~three things~~. Well the only way you can finance expanded trade is to increase those reserves somewhere ^{low} and if countries around the world are unwilling to hold dollars for whatever reason, (and there is no other currency close to ^{dollars} us in terms of market ability) then they ~~have got to have gold or nothing else~~^{will be sought}. So it became important to reduce ~~or eliminate~~^{not eliminate} the dependence upon gold as the source of additional ~~capacity to expand world trade~~^{world liquidity}.

and this is what was done

market for

~~Just had to get away from it and we did that this spring when the monetary value of gold, which is still thirty five dollars an ounce, was cut loose.~~ ^{from the speculative or free market.} The London gold pool ~~which was~~ the market maintained by the big central banks to buy and sell gold under any circumstances at thirty-five dollars an ounce ~~was closed, gone, you can't buy gold there anymore.~~ ^{leaving} There ^{is} a ^{free} market ^{with a price geared to supply and} for gold ~~now that floats and anyone can buy it and anyone can sell it, assuming their country permits them to hold it.~~ That's the so called free market. ^{and demand without intervention} ~~intervention by any gov't.~~

The central banks have said "we're not going to buy anymore gold; we don't need any". ~~That's a pretty silly statement.~~ ^{instead they have said they're} So we're not going to have any. We're going to rely ~~instead~~ on a new credit device ~~that's~~ being created through the International Monetary Fund ^{which} and that will come into being sometime in 69 if everything goes well. There are a lot of safeguards attached to ~~that~~^{this use, with}, it's got a lot of built in discipline, because ~~governments have to be disciplined just like any other borrower.~~ ^{They cannot be} You ~~cannot~~ ^{are} permitted government to borrow without having to answer ^{in a responsible way for their conduct} to somebody ~~any more~~ than you can permit one of your own borrowers in the PCA unrestricted use of credit. ^{any more}

Unfortunately, absent this discipline
~~Because they'll always use it badly, it's unfortunate but it's true~~ ^{application to gold is true} and our government is ~~like any other government in that respect,~~ ^{like any other.} so we are apparently in a position where other countries are putting a lot of pressure on us to get our house in order;

Recognizing if something happens to the US dollar they are in the soup too. ~~Now~~ the two-price system (or the two ^{tiered} ~~priced~~ system is a stopgap, ^{as it is often referred to} and ~~yet~~ going to be met, or rather its success will not be met by creating some new kind of international credit. ~~So-called special drawing rights are referred to~~ ^{will be useful} but the real test will be ~~if we can~~ ^{to} get our balance of payments as equalibrium ~~and~~ ^{if we can get} rid of a good part of our deficit, ~~because if we can't it's just like the borrower going into a bank and promising to do better next year.~~ ^{will be}

The debt
~~You know~~ that's a pretty old record and unless you can prove it, unless ultimately ~~you~~ can pay off debt through profit, which in the international scene is net to selling more than you buy. Unless you can do that there is no way ~~you can~~ hold back a collapse of ~~your~~ ^{our} currency, and that applies to a country as big as the United States. We have seen it happen to the British. If we don't ~~do that~~, if we don't ~~get our balance of payments under control~~, if we don't get our deficit under control then the two price system will go by the board and it came awfully close to that a few weeks ago from the price of gold ~~traveling up~~.

financial
 For ~~example~~ ^{the charges} may even have been increased by the temporary expedients ~~because you know~~ when we separated these ~~markets~~ ^{gold} we ~~built~~ ^{created} a thermometer to ~~match~~ ^{of this spring} the temperature of ~~the emotional composition of~~ the world. If people get unhappy and uneasy about the future those people who ~~can own~~ ^{country} gold whether they be Arabian oil sheiks or whether they be the great industrial corporations of the world. ~~Whoever they are~~, they start getting out of money and into gold, and the laws of supply and demand start functioning and you see ~~that price go up~~ ^{the} and we watched it in a period of about six days go from \$39 to \$43.60. It feeds on itself. A little bit of hysteria.

Those of you who remember bank runs know well the kind of attitude that develops when ~~you~~ ^{people} get uneasy about ~~your~~ ^{their} money. So the real test, the only way its going to get settled is ~~if~~ ^{for} the U. S. ~~because of our size and our importance~~ ^{to} runs this country somewhat more efficiently and somewhat more sanely than we have been doing the last three years. That means getting rid of Vietnam and doing something about our balance of payment.

A tax increase along with monetary restraint will do it because its going to siphon off money. It isn't going to hurt ~~ranchers~~ ^{you} generally very much, because your income taxes aren't all that bad. I wish for your sakes they were higher and that you really had a reason to scream about the proposed surtax. If something doesn't happen to ~~real estate prices~~ ^{livestock prices} you're going to be taking ~~only an academic interest~~. ~~I think~~ in increase income taxes ~~will be academic only~~.

Q - This balance of payment between nations -- there is a lot I don't understand about it because it seems that almost all the countries of the world are running a minus balance of payments. Is this due to the fact that American corporations ~~being~~ all over the world are sending roughly \$4 billion in profits back to the United States? Are we ~~not~~ running as true a deficit as we think?

A - No, there are countries that ^{have} ~~are running~~ surplus. West Germany for example, ^{and} Italy.

Q - Would it balance out?

A - Yes, its double entry bookkeeping. If one country has a deficit ~~and~~ someone else has a surplus, ^{which} it works very precisely ~~and this~~ has been a hard lesson for foreign central bankers in Western Europe to learn. One of the interesting things that has happened, ^{positions} one of the things ~~that~~ I find very encouraging is the fact that the central banks of the free world, ~~and to a substantial degree Russia,~~ recognize that if any one of them gets into trouble they are all in trouble. Nobody can afford a fire. They have got to stay together. Historically it has been the opposite. If we practice ^{of monetary} fiscal restraint ~~and monetary~~ restraint so that our money rates started to go up and money started to flow out of Western Europe into the United States then ^{western Europe} they would ~~jack their rates.~~

Q - In a sense ^{then} you have to include money as a commodity? ^{↗ re-equilibrates with rate increases}

A - Yes.

Q - Is this DeGaulle's ^a problem? ^{Well, it certainly is one of them.}

A - ~~Right.~~ But ^{satisfaction} now you see this is one of the things, you can get some satisfaction.

~~You~~ ^{we} can't get too much out of the trouble the General is having, simply because these troubles get shared. Nevertheless, ~~we are all human and the fact that he is really having a time right now, is a certain kind of satisfaction and one of the things that is happening to him is that again these accidents, they come along.~~ ^{The pound has had some new pressures, for example, because of Brexhams Law, referred to earlier. These problems run in bunches for countries.}

¹ The Kennedy round, which some of you may know about did the most to encourage free trade around the world, to lower tariff barriers. ~~This~~ ^{it} becomes effective June 30. At the same time there has been roughly a 10% increase in the cost of labor in France. So on the one hand France is going to be less competitive in export market, at the same time their tariff barriers which traditionally have protected them are being lowered so goods are going to be able to move in and compete. ~~The only place this hasn't been very well is with agricultural products. I don't think we really did too well on that part of the schedule.~~

Q - I think I read somewhere where the present frank was fully protected by gold. If that is true, why did it get into trouble in the recent crisis?

A - ^{ho} ~~Well,~~ it is not fully protected by gold. The number of countries who are on a gold standard are very few. ^(list) South Africa, Switzerland, ~~France was not on.~~ France ^{finally moved to} ~~got out~~ they have suspended the convertability of their francs. That

was ~~the first thing they did~~. One of the lucky things for them was that the banks ^{would} ~~get struck too~~. ^{by the unions during the crisis,} So nobody could go to the banks and get their money out and go to Zurich and buy gold. ^{There were other circumstances which helped that week:} ~~Then another lucky thing there was~~ a religious holiday ^{some of those} for ~~those~~ ^{these} people who weren't ~~struck~~ ^{busy trading} over that particular weekend and then that ~~also coincided~~ ^{there was} with the annual convention of their gold dealers ~~who were all on~~ ^{well away from Paris} the south of France, ~~at that time.~~

~~Any paper money which is nothing but a liability to the government - we think of money still sometimes in terms of the silver dollar, but money is nothing but a commodity. You get into terms of banker talk and deposit to his liability account. Well among government outstanding dollars are thought of as short term liabilities. That's fine, they are promises to pay. As long as you think the promise is going to get delivered. But there are so many countries of the world where people have had these promises repudiated three and four times in their life times.~~

~~An architect we have got doing some work for us at the bank in Minneapolis is a Latvian. Gunar is 46 years old and he has lived through three total financial colapses in his life time. In Latvia when the Russians came in; the Latvian money was no good. Russians went through one total revaluation of their occupational currency so that got wiped out again. He migrated to Germany after the second world war the ruples or whatever he took with him were no good then. This is the real world for the Greeks, Arabs.~~

Q - What extent and in what peculiar way do these so called Euro-dollars play in the common market?

A - What has happened has been that we have come to ^{be} really one world, in terms of ^{even} business; to a substantial degree in terms of agriculture. ^{This is true in terms} Certainly ~~in terms~~ of money. ^{flow} Euro-dollars are simply U. S. Dollars which have short-term liability that are held overseas outside the continental United States. They are held by foreigh Branches of U. S. banks, ~~held~~ ^{held} by U. S. Corporations ~~that are~~ overseas, ~~and held in foreign branches.~~ They are held by investors or business houses ~~in~~ other countries. There are roughly eighteen billion dollars. ^{That importance has only recently emerged.} ~~One of the things that has happened is that~~ ^{banks} as the U. S. banking system has been put under pressure, ^{and like times before,} they have had to become very resourceful. The big banks of the United States are extremely competitive; ^{unparalleled} They are ~~dealing~~ ^{dealing} in world money markets. A lot of these Euro-dollars have come home simply because of the ^{pull} interest rates. You see ~~a U. S. Bank has to maintain reserves with the Federal~~

^{reverted through these banks,}

of US

Reserve if they are a member of the system and all the big banks are. They also have to maintain hefty F.D.I.C. insurance. ~~These are costs.~~

do not carry certain reserve and FDIC insurance costs imposed on U.S. deposits;
Euro-dollars ~~must bear these costs~~ so when you look at the interest rates on Euro-dollars and it looks like ~~80 basis points or 90 basis points higher~~ than U. S. interest costs and you wonder why the people in U. S. corporation ~~are borrowing Euro dollars~~, *The additional interest cost over U.S. funds tends to disappear* it is simply because the U. S. bank can afford to do it. They don't have the additional costs and it has been a great relief of financial pressure and a lot of these dollars have come home.

It has not been without strains in these other countries -

You have got to put yourself in the position though of a Frenchman or German or Italian who sees General Motors come to his country. A corporation the annual sales let's say are half the gross national product of the county with enormous credit demands and we won't let general motors take U. S. dollars from the U. S. to wherever they are establishing their new plant, so they borrow the money over there in the Euro-dollar market or they raise money from the nationals of that country and this produces substantial interest. One of the real reasons that DeGaulle was so unhappy and yet that is simply the way it is, U. S. Corporations are dealing in world markets. U. S. Banks are in world markets.

Q - All this carries a rather heavy and ominous inference that we are on some sort of brink -- general trouble. In view of what you have told us, if I am correct, 29, August, 1966, precisely what did happen or did not happen that nearly precipitated into a chaotic condition?

A - What happened was simply that the money market dried up. Its just like what happens when the well runs out of water and if it's a water lubricated pump, the pump freezes up and zing, you have no more pump. This is what happened on that particular date. You couldn't sell a money security because nobody would buy it.

Q - What did the Federal Reserve do?

A - We pumped reserves into the market very quickly.

Q - Are you in a position to do this again?

A - Yes.

Q - Is it about to happen again?

A - No. We refer to this as the apostolic syndrome, world is coming to end.

I think of a conversation I had with Bill Martin last week. We had just gotten back from Stockholm. He had taken a break over a weekend, he had never been in the Arctic Circle. He had heard about the midnight sun. So he went up and he came back with a feeling that the world wasn't going to come to an end after all. We are in for a tough time. We have been through a tough time. It has been a very difficult period. It is going to continue this way.

On the plus side though is the extraordinary level of cooperation that has developed among central banks of the world, the recognition that they are in the boat together. Monetary authorities are working very closely together. The real joker though is how quickly Congress acts. I think a tax increase will pass. It will come about. Its going to be late and its not too late.

Q - Are you saying sir that possibly with basic switches and basic complexities occuring that you think Congress will pass a tax increase? Are you saying in effect that the built-in image, what we like to identify with the change in monetary system Vietnam that they would work if the politicians would let them work.

A - Yes I think I am saying that to you. This is a world now where there are some awfully frightened people. The real short fall has come in translating this into effective national action in a democracy. We haven't found the patterns yet but we are working on it. In this country we have really made strides.

Q - Do you have any cooperation from the communist nations in the world stability as far as finances are concerned?

A - This is just an entirely personal observation, but the Russians recognize that they have as much to lose as anyone by a collapse in the international monetary system; for example, they laid off the pound. If France had behaved anywhere near as appropriately as Russia, it would have been an awful lot easier. They stayed out of the gold market. They could really put pressures against the dollar if they wanted to and it isn't because they love us, it is simply there are areas which we are not recognizing very well in this country yet although there is a ground for it, they are very narrow but they are there.

There are areas of self interest that you can rely upon among nations. Its

Mr. Galusha:

We were unable to reconstruct this question. Unless you happen to recall it, we will eliminate both the question and answer.

FICB of Spokane

Its the old story some of my best friends are but I wouldn't wany my daughter to marry one. Well I feel that way about Russia. You don't have to trust them all the way. But there are certain narrow areas, like selling wheat. I almost got lynched in North Dakota which is a curious state. Here is a state with a socialist device in a central bank. The only state in the union with its own central bank, the Bank of North Dakota with its own highly profitable billing system. Yet in other ways it is intensely conservative.

In the cold war, in the balance of power among nations gold reserves are more inportant than people because when you fight a war you need goals to finance it if you have to go outside your boarders to buy material. And if you have lots of people, you can afford to spend them before you spend gold. That may sound cold blooded, but thats the way it is. The only way the Russians and the Chinese finance wheat purchases have been, of course, with gold because no one wants their money. By reducing their capacity, their financial reserves, where it counts we strike a real blow for stability because it will make it a little less easy to rock the boat. This did not sell in North Dakota.

Q - Going back to the balance of power, if I understood your statements, from a general standpoint in any country, when a country has a surplus some other country must have a deficit.

A - Right. The size of the deficit isn't as important as the continuation of it. You know what pressure you fellows are under to show improvement. The bank will stay with you as long as you show a motion in the right direction. You cannot have equilibrium in a balance of payment because there are too many accidents in the world that cause a country to get of whack. But if they continue, if they are persistent, and the impression gets abroad that the country is not minding its affairs very well, just like any other creditors the people that hold the dollar, you know the American flag doesn't mean a thing to them, they start wondering.

Well if I sell some of my product to the U. S. and accept dollars and there is a forward contract, that is I am not going to collect on the dollar for 30 days or 40 days or 50 days, I am going to do one of three things; I am either not going to sell at all if I have no confidence unless I am paid in currency of some other country, I am going to do it with great misgivings and maybe take it over there myself, or I am going to get a forward contract. In

other words I am going to sell against dollars to deliver in the future just like most of you are familiar with wheat. Most of you are familiar with wheat where you can buy wheat futures, well you can buy currency futures except pound sterling, because there is no forward market in the pound.

Q - Do you foresee any lack of credit for financing American agriculture in the future?

A - Yes I do, but I can't prove it. I am trying to get a research program going in our bank. I talked to Bob Tootell about this. He shares my concern. A number of bankers do, the large ones at least. I have this uneasy comfortable feeling that the demands of U. S. agriculture over the next 10 years are going to be very large. They are going to continue to grow because we are shifting, even in this part of the country, to intensive agriculture. This takes more and more capital input, more equipment, more fencing, more fertilizing, the changing breeds. The commercial banking sector is undergoing change at the same time.

The corresponding banking system is not the outlet it used to be for agricultural banks simply because they in turn have a new kind of customer. These international corporations, large industrial combinations could need enormous sums of money and they are a lot easier to lend to.

My guess is that there is going to be pressure. On the other hand, quite candidly I haven't seen it develop yet for I am sure any one of you would say we need more money. But in the sense of slowing up the progress of American agriculture I don't think credit yet has been that tight. But now is the time to start worrying about it and I don't think we are worrying about it enough. The Farm Credit System is caught up in national monetary policy as one of the unwilling beneficiaries of the tightening process, you know that up to 1966 the Farm Credit System could get all the money it needed to satisfy its customers. When I visit with foreign central bankers who really don't know much about the Farm Credit System, (it has had its light under a bushel basket), but the marvelously responsive way it works between the money market and farmer or rancher up to this time. Because you could always get the money at a price.

You know this quantity restriction never operated against the PCA customer

assuming he wasn't a nut, and there have been those. They didn't find out sometimes until after they had lent them the money. You are finding restraint now because the treasury members got to go in for 9 billion dollars. If we have a deficit with no tax increase that is \$18-\$19 billions of dollars that has got to get raised along with \$12 to \$14 billions of state and local money along with maybe \$20 or \$25 billions corporate private money and there isn't that much around.

Now I don't know how you feel in this district, I know that Andy Lampen at St. Paul bank gets almost incoherent when he thinks about having to knuckle down to this kind of situation, but my guess is that that pattern will be established and this is one more reason why I would like to get on with this study, but the kinds of people to make it are so rare. There is a shortage of economists right now along with computer technicians and they are hard to find. I can't prove it, I just have this uneasy feeling at the pit of my stomach.