THE FEDERAL RESERVE SYSTEM AND U.S. MONETARY POLICY

Honorable C. Canby Balderston

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Reviewed by Col. R. W. Bergamyer, USAF on 7 November 1963.

INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

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GENERAL STOUGHTON: We are honored today to have as our speaker the Vice Chairman of the Board of Governors of the Federal Reserve System, the Honorable C. Canby Balderston. As you've noted from his biography, he has had a long association with the Federal Reserve System and is certainly eminently qualified to speak to us this morning, on the "Federal Reserve System and U. S. Monetary Policy."

Governor Balderston, it's a pleasure to welcome you back to the Industrial College. Gentlemen, Governor Balderston.

GOVERNOR BALDERSTON: General Stoughton; Admiral Rose; Gentlemen:

I'm always impressed when I come out here, that the matters that are under discussion by you deal with things that are not only fundamental to our country's health and future, but things that endure through the decades.

A friend of mine, a British Officer, returned to London during one of the blitzes. He saw a house that had been bombed, and within minutes helped to extricate a little old lady from beneath the fallen timbers. As she brushed off her clothes and rearranged her garments she looked up at him and said, "These 'ere bombs sure take a body's mind off the war, don't they."

In my opening statement I shall be discussing general, flexible monetary policy as implemented by the Federal Reserve System. It's to be distinguished from selective controls on the one hand, and fiscal policy on the other. I'm so happy that Secretary Bob Roosa was out here with you yesterday, even though it's quite a chore to follow him.

During World War II, selective controls over credit were employed along with direct controls over materials, wages and prices. Again, during the Korean War the regulation of consumer installment loans was reimposed to restrict the purchase of consumer durables like radios and autos, Well, the administrative problems growing out of such detailed credit regulation may be visualized from the fact that 200,000 retailers had to be brought under regulation. Unfortunately not all of these were imbued with the patriotic fervor to make enforcement automatic. Moreover, such control runs contrary to our traditional fragmentation of decision-making.

Fragmentation of decision-making is to me one of the strengths of our free enterprise system. I remember an observation about Hitler's Germany. It was made, actually, by Caines; to the effect that decision-making had been so centralized that the only mistakes that Germany could make, were big ones. The freedom to make private economic decisions is therefore to me a vital part of an economic system that is really strong and durable. Freedom can be preserved only so long as it's accompanied by wisdom and fiscal restraint. By that I mean that each time we elect to spend we must consider how the bill will be paid.

Thinking of our foreign problem, a nation cannot indefinitely spend and lend more than it earns through production. Although the selective credit controls did help to dam up consumer demand during World War II, it didn't prevent an adventural outburst of price advances once the war was over. Since then, most industrialized nations, like the Scandinavian ones, have shaken off such controls. In fact, by the end of 1958 the progress achieved toward currency convertibility by Britain and by the Western European nations, meant that for all practical purposes it was an accomplished fact. For importers to be able to pay for goods in currencies of their own countries has obviously been a boon to international trade. But it has created problems for us.

I turn now to the role of general monetary policy. It is to regulate the reserves available to commercial banks so as to promote economic growth, high levels of employment, reasonable stability of prices, and to aid in achieving equilibrium in our balance of payments. It is this responsibility that has been delegated by the Congress to the Federal Reserve. Yet, the latter regulates money and credit only as to their total supply, not as to their allocation among firms and individuals. Such allocation in this country is left to the competitive forces of the market except where Congress intervenes through taxes, appropriations, or government guarantee.

The general flexible monetary policy of the United States, therefore, contrasts with the procedure in some countries, like France, shall we say, where the central bank intervenes in the allocation of credit by favoring agriculture or supporting it. Here at home the allocation is left to the decisions of individual lenders and borrowers. An important characteristic of monetary policy to me, is its flexibility. If you look on it or try to use it as a contra-cyclical device, the timing of monetary actions is more precise and more manageable than is the case with fiscal policy.

Fiscal policy, about which you heard yesterday, is, of course, primarily the job of the Treasury. It embraces debt management, federal spending and taxing. Our present fiscal structure offsets cyclical change with considerable automaticity. Look how our receipts from corporate income taxes go up and down with corporate profits. Non-automatic changes, however, in government spending and taxing, are unwieldy. The impact of a given fiscal action is so delayed that stimulation is likely to be felt after the private sector has already recovered. And then you get a pyramiding of demands that is unfortunate, or at least, unbalancing.

The result is to strain resources to the point where our resources, human and other, are placed under strain, and then prices are pushed upward. For example, the Congressional appropriations of 1958, whose effects were intended to be contra-cyclical, actually accentuated the boom in the year that followed, because, by that time the private sector was strong and moving ahead.

Take another example; the current proposal to reduce taxes was originally intended to take effect in mid-'63. And as you know, Congress is still debating the matter. Moreover, government spending in excess of receipts forced the Treasury to borrow $8.6 billion in the capital markets during '59. That meant that our federal borrowing was pyramided upon that of states, cities and private corporations. The effect was to push interest rates in the fall of that year to peak levels. The magic fives issued by the Treasury at that time marked the high level to which interest rates were pushed. In fact, it was the highest in 30 years.

What I am saying is that the efficient flow of funds from savers to borrowers, directly and through intermediaries, does not come about without a price. This price, namely the rate of interest, represents a penalty to those who borrow and a reward to those who save and make investments. The seven-year record of short-term interest rates portrayed by the chart that you have, shows that the Treasury bill rate tends to respond to the greater or lesser availability of reserves. And the adjustment of those reserves to the needs of the economy is the job of the fed.

In the 1961 period of recovery you will note that the Treasury bill rate kept fairly stable between, oh, say 2¼ and 2½%. Subsequently it edged upward.

In July of this year, when reports began to suggest that the U. S. balance of payments position had seriously deteriorated in the second quarter, the discount rate was raised to 3½%. Recently, the rate on 91-day bills has been running just under 3½% and it seems to have helped to diminish the rate differentiations between New York and London; between this country and Canada; differentials that had been inducing funds to leave here and land elsewhere. The present level was brought about through the cooperative efforts of the Treasury and the fed, along with market forces, especially increased competition for short-term funds from bank certificates of deposit and other money market instruments.

You have heard of the negotiable CDs which now aggregate perhaps $8 billion. These are a substitute in the minds of corporate treasurers, for Treasury bills. If they buy negotiable certificates of deposit, then they do not buy bills as a place in which to put funds in the next tax date, shall we say. Consequently, it takes the pressure off bill prices, thereby pushing up bill yields. Always a confusing point, the yield naturally is the inverse of the principal movement. The lower half of the chart reflects the fed's policy actions. The system, in its initiative, makes reserves more or less available through open market operations, through buying or selling government bonds in the open market. If the system buys government bonds, bank reserves are increased. If the system sells bonds from its big portfolio of $32-odd billion, reserves are decreased.

The member banks, at their own initiative, may substitute reserve availability by borrowing at the Federal Reserve Banks; by going, as bankers would say, to the discount window. If the total reserves available from the actions taken by the system and from the actions taken by the bankers at their own initiative should exceed what the member banks are required to keep, then we call the difference excess reserves, not shown as a separate line on your chart, but represented by the vertical distance between two of those lines.

These excess reserves have tended to be around $4 million, of which the major portion is held by the country banks. The big city banks have sharp-pencilled individuals who put any excess to work within the hour. Not so the smaller country banks who figure maybe it isn't worth a phone call to New York to place excess funds. Commercial banks, as you know, must at the present time hold from 12% to 16½% of their demand deposits and 4% of their time deposits as required reserves.

When the borrowings from the fed are high, as they were in the year '59, and larger than the excess reserves, the member banks as a whole, earn what we call a "net borrowed reserve position." When an individual bank, as distinct from the aggregate, finds itself continually in debt to the fed because of the inability to meet its reserve requirements, then that bank feels under some pressure, not only some general pressure applied by the Federal Reserve Officers to those who borrow too continually, but the pressure of long-held tradition. After all, a member bank doesn't want to be in debt to the country central bank too much or too long. The central bank is the bank of last resort. It is to be relied upon in crises, but not continually. Borrowings from us are not to be used to piece out inadequate capital.

Conversely, when borrowings from the fed are low enough so that banks have net free reserves, as shown by the black areas on your chart, banks seek lending opportunities more avidly, and interest rates tend to decline or to stay low. This explains the near record expansion of bank credit last year when it rose $16 billion or 9%. Recent legislation has been engaged in a dramatic drive to acquire savings and other time deposits. This tendency - nothing new, of course - has been accentuated since the beginning of 1962 when the Federal Reserve Board raised the permissible maximum of interest rates that a commercial bank may pay the other time deposits.

We raised the rate to 4% for one year running. Banks quickly took advantage of the higher ceiling and soon found themselves the recipients of a vastly enlarged flow of savings. Whereas their savings and time deposits had been growing at an annual rate of 9% for some years, the increase last year amounted to 19%. That placed the banks under pressure immediately to lend, if they could, and if not, to invest. And they chose to invest in long-term governments; also in municipals. The impact is to be shown in the municipal field where the commercial banks took $4.4 billion out of the $5½ billion increase in net debt. The banks took 80% of what the cities and states raised.

Looking back at this decision of the Board of Governors, I view the change in the interest rate ceilings as one of the most important monetary actions that the Board has taken in recent times. When the rate was lower it seemed to me that many of the banks - the less aggressive ones -welcomed it as a kind of cloak that they wrapped around themselves to protect them from the cold winds of competition. And when the permissible ceiling was lifted the aggressive banks went after deposits vigorously by advertising and promotion. Savings and loans have given battle. The result has been not only more funds available for mortgages, more funds available for the buying of municipals, but a very healthy competition that has enabled the commercial banks to do what they should have been doing all along, in my judgment, fighting off the inroads of new and rival financial intermediaries. That has brought this downward pressure on long-term rates.

You have heard of the desire expressed by many that the fed should keep long-term rates low even if the international problem requires that short-term rates should be raised. Financial writers sometimes call that the "twist" and speculate as to whether it is technically possible for us to elevate short-term rates and keep long-term rates from rising if we do not push them down. That did happen last year. Even though it's a kind of miraculous result, I think the answer is in this change in the permissible interest rates payable by the banks. It caused them to have funds to lend and invest that they had not had before. This inrush of deposits brought about changes in their investment thinking and habits, and until now, at least, has brought about the rise in bill rates reflected on your charts, without a commensurate rise, as yet, in long-term rates. They, however, are tending upward by now.

I turn next to the problem of our adverse balance of payments and the resultant outflow of gold. I remember talking to the bankers out west about in the year '56 or '57, and pointed out that for most banks of the world there were two sets of goals - domestic and international - but for the Bank of England, the Bundesbank, etc., there was a constant problem of walking a narrow path between the domestic goals that I outlined earlier, and the problem of balance of payments; that in this country in recent years we had not had to pay continuous attention to the foreign goals.

All that changed with the Year 1958 and the coming of convertibility. Other industrialized nations were up against the gun. We were not because our supply of gold was so large; our trading position was so favorable that orders were flowing in to us almost without our solicitation. We had the industrial, the productive capacity to re-equip the devastated nations, but in that critical year of 1958 a change came. The industrialized nations - all of the leading industrialized nations except Japan - were ready by that time to embark upon convertibility.

You remember that prior to '58 we had much discussion - much concern - many articles written about the so-called "dollar gap" and how it was inhibiting our U. S. exporting. In those days, the war-torn countries, though they needed our exports of material and equipment to rebuild their economies, didn't have the dollars with which to pay for them. That was the so-called dollar gap. The problem, then, was to make our allies and former enemies viable customers again. We sought to bridge the dollar gap through private investments and governmental loans and guarantees to these countries. So well did we succeed with the Marshall Plan that it's recognized as a signal success - as a very great success.

By the late '50s these other industrialized countries had so rebuilt their manufacturing plants and improved their management techniques, that they were not only in a position to supply more of their rapidly growing domestic demands, but to compete vigorously for the export markets of the world. And so I say that the Year of '58 marked a turning point in the economic affairs of our country.

This currency convertibility made it possible for funds to flow from one financial capital to another with great alacrity - from New York to London to Zurich to Paris and all the rest, and back again. About that time the outflow of dollars became enlarged. Our adverse balance of payments - oh, through the early '50s - had been running around $1 billion each year. That soon jumped to $3½ billion. It has stayed distressingly close to that average ever since. And if you add back the pre-payments that our friends in Western Europe have made, you will find that the adverse balance of payments has stayed pretty consistently between $3 and $4 billion.

I remember figuring an average of four years the other day, and it came out precisely $3½ billion. And if this year it turns out to be three again it means that the problem is still with us and we haven't made too much progress on the fundamental problem of restoring equilibrium. This was driven home to me in the fall of '61 when our government was negotiating an increase in the resources of the international monetary fund. Our government discovered at that time that this country's adverse payments position relative to those that had been accumulating reserves cast it in the role of a country that was asking, not telling; the balance of financial power had really shifted across the ocean despite the fact that New York was still the best-organized financial market in which to borrow big money.

In short, the terms under which the monetary fund can be strengthened enough to help us in a possible emergency depends now on the good will and the confidence of countries like Germany, France and other Western European nations. One effect of the emergence of new productive capacity here and abroad has been downward pressure on the prices of such fiscal goods as moved in world trade. Our firms now appreciate, I think, that excess productive capacity is a powerful brake upon business advances. And you have seen the impact of that realization in some of the wage negotiations of the last year or so - the conservative and concerned approach, say, in the steel industry.

But what will happen next year, say in the automobile industry, in the light of current volumes, profits, etc., is something that worries me a good deal. Because, it's just not good advice to our country, as we've had in the recent report, to say, "Carry on as usual," on the assumption that European nations will inflate faster than we do. Just don't count on that. It is true they are battling a wage explosion in Holland, rising wages and prices in France, etc. But those people have a personal, a very strong realization of the impact of inflation. There are still enough people in the population who remember the hyper-inflations of Italy, of Austria, of Germany, and of France.

Now, in our own country the idea that an upward price drift is inevitable, the suggestions that my good friend Sonder Slichter and others were making years ago, have been dissipated in the minds of many businessmen by the constancy of wholesale prices for these past five years. And so the disappearance for the time, at least, of the expectation of price inflation, has permitted the Federal Reserve to continue to foster the expansion of bank credit in a way that would not have been prudent if price advances had stimulated inventory building and other forms of speculative ebullience.

On the other hand, it has been necessary that our fiscal and monetary policy-making should reflect the need to maintain world confidence in the integrity of the dollar. Serving as a reserve currency along with sterling and therefore as an alternative or a piecer-out of gold, the dollar plays such a vital role in lubricating international trade, that loss of confidence in it would be damaging both to the Western World as a whole, and certainly to the United States.

An adverse balance of payments means to a foreign observor that our exporting is not large enough to pay for the investing, lending and spending that our government and its citizens do abroad. It means too to world investors that our investment pasture is not as green as some others, and that consequently our industry is failing to attract the dollars that are available in the world. Our country has had an adverse balance of payments in each year since 1950, save only 1957. You remember what happened then - Suez. During each of the last four years the figure has been between $3 billion and $4 billion as I mentioned before. The accumulation of these foreign claims upon our liquid dollar assets has increased especially fast when interest differentials induced American and foreign holders of funds to invest them elsewhere. Or when speculators prefer to hold gold or some foreign currency instead of dollars. Or when some foreigner delayed repayment to an American firm in the expectation that the dollar would become cheaper.

At times, the outflow of gold was strong, as in 1958, when the figure reached $2.3 billion. At other times, as in '59, our outflow was small, even though the foreign claims continued to mount. And the reason for that is that it depends on which nation has been accumulating those dollar claims. There are central banks, as you know, like that of Sweden and that of Germany, that are willing to hold dollars. There are other central banks which, when they accumulate a certain volume of dollars, will then use all additional ones with which to buy gold either in the London market or directly from the United States.

Fortunately, our exports have been exceeding our imports by a healthy margin, thanks, I expect, to boom conditions in Europe and in Japan. But this sizable balance in our current accounts has not been sufficient to offset the outflow of private capital associated with

American investment abroad and from the borrowing by many foreigners from American banks, plus our vast governmental expenditures and lending, Inducing other nations to assume a significant portion of the military expenses of the Western World, and of the capital needs of developing countries, is a task for our State and Defense Departments, beyond the compass of my discussion, and so I shall turn to the other side of the question for a moment, the increasing of our trade balance so that we can improve our ability to pay for our foreign investing, lending, and spending.

The essential point is that our exports must exceed our imports sufficiently, to pay for our new investments abroad plus the military expenditures and economic aid across the seas that world leadership seems to entail. This means producing goods of the right design and quality offered at the right terms and prices. But the prices that count are export prices of the world and not the prices at home. And I note that as costs rise in certain Western European countries like Italy and France, as costs rise because of wage-rate advances, their export prices do not immediately reflect those cost increases. There is enough profit there to squeeze. It is time, therefore, to take stock of our wage-setting and pricing policies, to the end that the prices quoted may promote the export trade needed to finance our country's obligations.

The problem is similar with respect to imports entering our important markets. It can't be solved by raising tariffs and other obstacles to free competition. Such devices do not cure the cost differentials that are the seat of our difficulties. They don't cure the fact that the average wage-rate in France is 71¢ an hour in manufacturing, and here it is $2.45. Moreover, we cannot export freely if we do not import freely, because nations would erect retaliatory barriers and prevent us from achieving the trade surplus needed to finance our overseas activities. These things I have been talking about are to me the real fundamental underpinning economic health and strength of our country.

You recall that President Eisenhower had as Chairman of his Council of Economic Advisors, Dr. Arthur Burns. In talking to the Iron and Steel Institute he gave this prescription:

"Unless the government moves prudently in increasing the money supply and its own rate of spending; unless trade union officials keep their demands for wage increases from exceeding improvement in general productivity; unless the government refrains from passing laws that raise wages or prices; unless business firms and trade unions join in efforts to remove restrictive labor practices and feather-bedding, in which both executives and workers sometimes indulge; unless the government reforms our tax system in the interest of stimulating greater effort, more productive investment and higher efficiency; unless businessmen innovate vigorously and lower prices whenever possible; unless these things are done and a liberal policy toward imports is continued, we will not avoid new and successive rounds of inflation."

Well, to me a more immediate threat is the risk, if these steps are not taken, that funds will flow abroad that otherwise would seek investment at home and thereby help to create jobs. This outcome would not be remedied, but worsened, by an overly liberal fiscal policy and by too easy money. On the contrary, the task that faces our country seems to me to involve hard thinking and hard decisions both for government and for business and labor. I am heartened by the fact that the average wage advance this year so far seems to be of the order of 2½% of our productivity increase.

All of what I am trying to say has been summed up, I think, by Kenneth Bolding, the economist. He observed that without the heroic, man has no meaning. Without the economic he has no sense.

Thank you very much. I am pleased to be here.

QUESTION: What is your opinion of the possible success of the investment tax abroad that has been proposed?

GOV BALDERSTON: Colonel Spiker, you heard yesterday the inventor of that tax proposal, and he is a man who is fundamentally sound, in my sense of the word, because he believes in free market processes. But as a problem solver that our country is fortunate to have as one of its public servants, he is trying to meet the problem of a radically increased outflow of investment funds without interfering more than necessary with what I shall call market processes, without shutting down the capital market of New York or putting it under a Capital Issues Committee.

I don't know what the success will be. It has been so because borrowers have been scared away from New York by the fact that they don't know whether or not the equalization tax will pass. So that, until it passes I would suppose that Japanese borrowers - that is, borrowers in countries like Japan, Taiwan and elsewhere, where rates are high, would figure that despite the 1% fence it still pays to go to New York. In Taiwan, as some of you know far better than I, because I haven't been there, the rates have been running 18%. They are reducing them right now, they tell, me, to 16%.

Well, you see, even a small, low-sized tariff won't close that gap. On the other hand, what is the alternative? It's either to find ways of stemming the outflow of dollars - of spending dollars - and of grants in aid so that we can continue to leave the New York capital market open. That would be my preference if it could be done and quickly enough. But if that cannot be done, then like nations engaged in war or semi-war, you slap on the controls.

The controls that Britain and other countries used in wartime took the form of the Capital Issues Committee, or whatever they would choose to call it. And the remains of those controls are still with us and prevent the capital markets of Europe from being adequate for world borrowers. A team of Japanese will visit Switzerland and find they can't get funds there, and they'll eventually land in New York.

I don't know whether a Capital Issues Committee in peacetime would be effective enough for the game to be worth a candle. I am not a defeatist by instinct, but I know that American corporations with branches abroad would have ways, that would occur to all of you, of putting dollars across the ocean that no Capital Issues Committee sitting here could stop completely. Now, you say, as Business Week and others have suggested, use moral suasion.

I will merely ask you if you happened to be on this side of the water and got some beefsteak during the days when rationing was enforced. Even with the patriotic support present in our wartime days these detailed selective controls do not work too well too long. And I fear the evasions that smart people would soon discover, they would tell others and you would have then a shambles of your selective control.

You see, the fed had to administer that selective credit control, as I mentioned, three times, and the fed, at least, wants no more of it.

QUESTION: You mentioned coordtation between the Federal Reserve and the Treasury in monetary and fiscal policy, several times. Do you think that the original procedures for insuring as this coordination goes on, are adequate, and if not, what improvements would you suggest?

GOV BALDERSTON: I can testify at the outset, Colonel Chapman, that the cooperation between Secretary Dillon, Secretary Roosa and others of the Treasury Staff and the Staff of the Federal Reserve, is as effective as I could possibly imagine. And I can say the same thing about the preceding Administration; Secretary Bob Anderson, Under Secretary Baird, etc.

The coordination, to me, is not a matter of lines on the chart, though basic design helps, but of people of good will and dedicated to what they feel is to the best interests of their country, who wish to get along and supplement the actions of each other to coordinate their actions as to timing, etc. You get a beneficent result. We never tell the Treasury how to price an issue. That is the responsibility of one man only, and he is the Secretary of the Treasury, who, in turn, relies upon Bob Roosa and upon Dewey Dane, who has just been named to our Board.

The Treasury, in turn, never tells us whether to raise the discount rate or not; whether to change the discount rate or not; or whether to buy or sell from our portfolio. But we tell the Treasury in advance what we anticipate doing. The Treasury, in turn, tells us in advance what it anticipates doing with respect to financing. Then, when the Treasury is in the market trying to borrow money we try to hold the boat steady. While the guns are working we try to hold things steady; not to allow the market to become unruly or distrubed in such a way that the Treasury would not be able to get its funds at the right price. So, the coordination is as good as I can imagine.

Now, if you got discordant elements because of personality differences and they couldn't get along, I'm sure that that coordination would diminish and perhaps disappear. But, the thing I would not want, since I believe in an independent Federal Reserve System, is to have it come under the dominance of any executive department of the government. Because, the enemy of the monetary unit has always been the king or the sovereign. Henry the VIII is an example of what I mean.

Unless the central bank of a country is sufficiently independent to say no to those who wish to dip their hands into the till, the integrity of the monetary unit is not likely to be preserved. Witness Brazil.

QUESTION: As you pointed out, Governor, the timing of legislative action in the market effects our economy. Would you be able to say what the results may be on our economy if the tax cut doesn't take place until 1964? And also, if it doesn't take place at all?

GOV BALDERSTON: I would suppose that the discussion of tax reduction has been going on so long now it may have entered into the calculations and expectations of businessmen to the point where failure to reduce taxes would be damaging.

It's not only the tax burden, but the psychological impact of feeling that in any project being considered by a Board of Directors Uncle Sam is likely to be paying half the freight. In the Institutional Advertising Program of $10 billion, we are wondering whether to approve it or not. Somebody is likely to say, "Well, suppose we do go ahead; Uncle Sam will pay 52% of it." That, to me, is not good for the country in the long pull.

I must observe, however, that local taxes, the state and municipal tax burden went up last year $5½ billion. And the local tax burden has been going up in a line so straight that if you were to lay a ruler along it you couldn't see daylight. What I am suggesting is that local taxes have already this year absorbed a half of the reduction in the federal taxes that we are talking about.

QUESTION: We have heard a lot from economists recently, about the fact that the size of the national debt is practically a good thing, and that if it goes up it will not hurt us. I would like to hear a banker's viewpoint on this same subject.

GOV BALDERSTON: Of course, the national debt burden is a less and less percentage of GNP. But what I come back to is this matter of costs. If you take the hundred largest manufacturing corporations in the country and compare costs, say in 1961, with those in '49, what do you find? Well, not much increase in the costs of wages and materials; not much decrease either; just constant. But local taxes, to which I have just been referring, doubled as percentage of sales went from 2.2% to 4.4%. Depreciation, a non-cash cost, of course, went up too.

What with the higher initial costs of putting equipment into place; what with the accelerated depreciation that was permitted even before the change in the statute; and now with the change permissible in the handling of depreciation for tax purposes, depreciation has gone up at least half. What concerns me is that in a period when we have so much unemployment, especially among the inexperienced and the unskilled, a pool of unemployment that is almost bound to increase, I think with the increased application of mechanization, automation and all other labor-saving devices, in that part of our economy that is open at lease - I mean open to worldwide trade - in the face of all that we raised our minimum wage level by legislation to $1.25. And then we wonder why our unemployment percentage is so impractical.

Coming back to your question about the debt, I'm not concerned so much about its absolute size, especially when people try to console me with the decreasing relationship to GNP. I'm concerned whenever we don't get our money's worth. And so, feather-bedding and waste in any form,of our resources, human and other, is to me is a national weakness that we ought to cure. We're going to be struggling through this winter with the problem on the railroads. I don't know what the answer will be. I would rather have faced the strike, I think, when it was first threatened. I don't know how we'll solve that, especially in the dead of winter, with the problem of getting coal to the right places at the right time.

We have got some hard problems in this country, and the one you mention is one of them, but not the worst, I think.

CAPTAIN TEEL: Governor Balderston, on behalf of all our people I thank you very much for being here with us this morning.

GOV BALDERSTON: Thank you.