Draft transcription of
Mr. Rotberg's Speech and
Questions and Answers

Thank you very much. I must apologize in advance as I always do, I am a lawyer, unfortunately, by profession, temperment, and personality. Therefore, if I say anything which you consider to be much too hostile, too much of an advocate or too much of an adversary, if I do say things like that which I'm not supposed to say in the Bank, I just ask you to accept it as an occupational hazard, and I will try to be as objective as I can. But I must, therefore, confess that most words that I express are my own and I believe to be hopefully and reasonably responsible.

What I am going to talk about very informally for about half an hour and perhaps answer any questions any of you would like to have, I can talk a little bit about inflation, oil, banking, international finance and things of that sort. If you have any questions, please interrupt me even in the middle if what I say is unclear or if you disagree. I obviously don't have that fluently cared touch.

What I would like first to do is just to set forth briefly by reciting to you some of the reasons which most of you are very familiar with, which are counted for the worldwide inflation over the last several years.

The first, obviously, was the enormous growth in all parts of the world economy in the industrialized countries in the early 70s. They were similarly growing at the unsustainable rate of 6% with a great demand for capital, there was enormous pressure on interest rates. And countries borrowed both domestically and internationally. Credit expanded, rates went up, productivity increased and we had credit expansion, and we had an enormous demand for business expansion.

And, second, you had the tremendous demand for all kinds or raw materials. As the raw materials demand grew to put into final products, that demand simply outstripped the potential rate of expansion of world supplies of many of the raw materials. And as a result, like in any law of demand and supply, the demand outstripped the potential supply, prices went up, and as you are familiar we had an incredible, very large price increases in such items as cereal, rubber, sugar, copper, lumber and zinc, aluminum, etc.

You also had an interesting development whereby a lot of raw materials were in the hands of the countries which were considered to be developing countries. These are the countries for many years, I believe, where prices of their goods, prices of commodities that they had were what the western industrialized world wanted or simply to cheat. They had low standard of living, they saw an increase of demand. Supply was reasonably controlled by relatively few countries, and prices went up, sometimes with, sometimes without joint actions among different producing countries.

The third development was essentially some effect of natural resources which, I regret, played a heat part in the early 70s in fanning inflationary trend. Crop failures in many countries spread to worldwide food famine, widespread famine in Africa and Asia for many months of the year. We had increased population growth, surely more demand for foods,we therefore had substantial price increases. We had countries, Russia and China buying substantial amounts of grain surplus. We, therefore, had a pressure on one of the basics of any price index.

Fourth, in the late 60s and in the early 70s governments were simply

guilty of having pursued extensionary monetary and fiscal policies. In part, it was on their fear of unemployment and in part it was an attempt to reduce the unemployment. You had defense budgets escalating, with little taxation to finance those budgets deficits. You had no increased consumption. Rather, you had the production of equipments for war which could not be pressured, for the production generated incomes, for you simply buy wide variety of goods and services which we call our standard of living.

Fifth, we have continued deficits for many years in the United States with respect to the balance of payments. That simply created worldwide liquidity. What would happen? The United States began to import more than they exported, United States citizens paid dollars and those dollars found their ways into the central banks throughout the world. And those central banks, in turn, took those dollars and converted them into local currencies in domestic banks throughout the world. Therefore, we had considerable excess liquidity in banks throughout the world caused in part by the deterioration of the U. S. Balance of Payments position.

Sixth, spiral of the labor costs. Occasioned, in part, because changes in the nature of labor contracts which for the first time in many of the industrialized countries began to include clauses of escalating cost of living provisions. In Japan and England for totally different reasons thouth two totally different cultures, the expansion in the body politics had a greater share in the society.

Finally, seventh, the last, and not the least, I'm sure many of you

have other examples than we've settled. We had an oil embargo and for many not so long but for some for a period of 12 months. We then had a quadruple increase in the price of oil. All these things culminated very quickly in the period of relatively few months and we ended up 12 to 15% inflation throughout the world. Western Europe and Japan are approaching that level with the United States.

The immediate reaction of the governments to see in that kind of inflation was a quick immediate fear towards inflation. The fear was, therefore, immediately resulted in the governments throughout the world, particularly in the United States trying to do something about the inflation. They used the coal which was immediately available and technically feasible. At the same time, if that happened, if the average disposable income in the world in turn began to shrink, people bought less goods; less homes, less cars, less consumer goods and you had traditional effects of any severe inflation. A fall in consumer demand, a fall in savings, a fall therefore in productivity and a fall in so many things. And as the things weren't simply bought, inevitable results were layoffs, greater unemployment, what we come to call the recession, we come to call stagnation in the economies at the same time the governments throughout the world which further tightened credits. We had in a matter of months, reemphasis from fear of inflation to a fear of the fact that it was a severe recession.

Now what I want to focus on here is what that meant for international financial markets, what it means for poor countries of the world when that kind of environment demands for institutional needs, for institutions like the World Bank.

First, briefly, what do we mean by OPEC? What this kind of scenerio mean to OPEC? We all know that these are producing countries, producing one of the most essential raw materials, that got together and raised the price by 500%. Now what are the figures? You've seen all those figures. The OPEC revenues in 1973 was 22 billion. You've seen OPEC revenues from 1974 one year later, 100 billion. Surplus for calender year 1974, 60 billion. You probably have seen recent 1975 estimates of surpluses ranking from 35 to 40 billion depending on the differences in opinion. You've seen projections of 1980 surpluses ranging anywhere, current, from 200 billion up to 400 billion, by the year 1980.

What can we say about the oil itself and its effects on financial markets. What are the problems? Let's talk first about how those, how that developed first, How the inflation and how the OPEC revenues affected the poorest countries of the world. First of all, up to this point leaving aside bilateral loans OPEC investors normally invested their surpluse resources only in rich and credible industrialized countries. The poor countries for clear reasons have found it most difficult to borrow the necessary foreign exchange to finance their necessary imports, necessary foods and oil. As a result, the poor countries did as anyone in this room would do. First drastic import restrictions, second attempt to have some currency devaluations to stimulate their imports, the third thing you do is obviously something which is involuntary. A reduction of the standard of living which was already marginal, a reduction of their standard of living in terms of their health, a reduction of the standard of living in terms of increased unemployment, a reduction of the standard of living

simply to demean such as illiteracy.

What else happens? If you're a poor country and you can't finance your imports? It's not that complicated a problem. Imports are necessary, oil and food. You borrow from OPEC. You cannot attract money on commercial terms from OPEC, you simply therefore attempt to borrow directly from countries who have surpluses. And many countries have been able to do that, on direct bilateral loans. What else can you do? You borrow from the IMF. It's a facility which enables you to tap on it. Fifth, you borrow from the World Bank. And sixth, you try to borrow privately from the commercial markets and some of the developing countries were reasonably successful in doing that. The most seriously affected countries, however, cannot borrow from the private, commercial markets. They really cannot borrow from the banks and for the most part they will not be able to borrow from some of the more elegant schemes which are designed for some of the richer countries.

Although there are problems in the western Europe and problems in the United States deriving from the oil price increases and from the deterioration in their terms of trade, their problems were minimal compared to problems faced by the developing countries. They also, not only the the credit problem in terms of borrowing at commercial rates, they had a new problem caused by the drop of commodity prices. While the market prices were increasing in the early 70s, they did have some facility to offset some of the deterioration in their terms of trade. However, in the face of the recession affecting severely the United States, and Western Europe as you probably heard earlier, with the drop of commodity prices,

they can no longer export to rich countries, they have worsened their terms of trade and therefore, more difficulty in financing the necessary imports. So, for those countries the problems are severe, the problems comes down to bilateral aid for grants, they must have other channel, therefore, to direct aid. They cannot and they do not have access to commercial markets. They have little room to tighten up their own standards of living. Those are, therefore, the most seriously affected as they always are, if there's any major change in the world crisis, either in terms of what they have to import food and oil, or in terms of what they have to export. For during periods of recession those kinds of exports are often most seriously affected.

I want to now perhaps, for just a moment, look on what's the effects on financial institutions. And I want to talk, therefore, a little bit about money. I would put forth my focuses at this moment that most financial institutions, banks, have not, I would suggest, really been significantly seriously affected by the increases in OPEC surpluses. Just see what happens to the surpluses? It's not really all, I would suggest, that complicated. Let's say globally, France, Italy has to pay for oil. They have to pay for oil in dollars. Where are the dollars? Where do the OPEC deposit them? They deposit the oil money in one of the large banks in New York; the major banks, Chase Bank, Bank of America, First National City Bank, they are deposits just like we have, or in the treasury bills. They have their foreign exchange deposited in one of those forms. And they get a bill, pay $100 million for oil, and increase in their bill. What these rich countries simply do in sell

off their treasury bills or reduce their time deposit into their checking account. And money leave England, or Italy or Japan and goes to Venezuela or Iran or Saudi Arabia. But what does it mean by "it goes to"? All that happens is they check their drawing to the order of a new country. That new country then takes the money and puts it right back in the same bank that it came from. It might be a different bank but globally it has no significance whatsoever. I would suggest, therefore, that banks simply have a new owner. Instead of Japan, or Italy, or England, in the honor of deposits, or in the honor of the treasury bills. All that happens is the money is still in the bank. It is still available there for credit expansion. It is still available for credit expansion. It's simply a new owner. The money, I would suggest, have and does not disappear. Some may say "Well the money may be put into a London bank." I wouldn't like to challenge their argument, but that's really the same. What would really happen, if the money goes into a bank "in London" a deposit "in London" denominated in dollars and that bank immediately simultaneously redposit that money right back into New York parent or some other bank. The money doesn't just disappear, it does not go out of the dollar circulation. That Central Bank, Federal Reserve Bank, can reduce the money supply by tightening the credit. The owner of the deposits can do nothing. The shift of the owner of the deposit means nothing.

Some may say "But suppose the dollars are sold and the depositor, the new depositor from those OPEC surplus countries who doesn't like dollars, wants to sell those dollars and own some other currencies."

Again the money supply in dollars does not change. All that simply happens is the buyer of the dollars who exchanges it to Swiss Francs or Deutsche Marks, now has dollars and he must begin immediately to deposit that in a United States bank. It may have an effect on the exchange rates between the dollar and whatever that's been sold, but will not affect the U. S. money supply.

I'll give you that figure which is the best figure I have. In 1974, I estimated 90% of all the OPEC surpluses in the short-term money market instruments in the year 1974 are in dollars undisturbed. Minimum amounts were in French Francs, Yen and Deutsche Marks. The short-term surpluses, the deposits in banks, were essentially placed in the same institutions, in the same kind of institutions and the same currencies as in which they were constituted prior to the opening of the surpluses by OPEC oil export.

I would also put forth a hypothesis that no one has put that the maturity structure of those deposits have changed, that there were some substantial shortening of the deposits held by the new holders of the surpluse resources as compared to the old holders of the surplus resources. Most of the old holders of the foreign exchange, central banks, governments held their money short, liquid, U. S. government treasury bills and perhaps on short-term time deposits which they liked to deposit. And I would suggest that that has not changed.

Now, there was an interesting development in the international financial market in the summer of 1974. A lot of the deposits for various technical reasons went initially into London banks. What do the bankers do when he gets deposits? Well, he has to pay 9% or 10% interests. And

might add concurrently that I would suggest the rates of the banks have to pay, 9 or 10% interest is precisely linked to what the depositor can get at least in that currency elsewhere. And how do the London banks know how much interest to pay? He pays interests depending upon whether that depositor will say "since I have a dollar I can put the dollar in Chase Manhattan, New York, what rate will you give me?" The rate to be paid in London will be extremely close to the rate that you will have to pay and can get in New York City. And the rate you you can get in New York City since the dollar hasn't changed, except the ownership, the number of dollars is exactly linked to the policy of the Federal Reserve Board and the policy of the Federal Reserve Bank in New York and to the current, at that time, inclinations whether the money should or should not tightened. As a result, in the summer of 1974, when the United States was tightening credit and interest rates were very high in New York, for domestic economic reasons those rates were simply better in London. And OPEC depositors placed their funds in the London banks. Well, the London banks now have to pay the lender 11 or 12% to the money which, was estimated in New York. What can they do? They're going to have to lend it to somebody.

Now what began to happen to many among the banks, now I used the word London banks simply to shorthand also for banks whose owners aren't in London, their parents' were U. S., Belgium, Dutch, Japanese banks as well as U. K. banks. They simply did not lack borrowers. They had plenty of borrowers. Who were the borrowers? The borrowers were those countries that had oil deficits. They just paid the money and went to borrow right

back. And you found this enormous growth in New York currency credit market which is essentially on the surface appeared to be long-term market that is the market with long maturity. It is essentially simply the 6 month maturity, because the interest rate is reset every six months at the cost of money changes between the banks. So you have massive credit expansion among the banks as they found for the first time the expansion of liabilities. Some of the parent banks throughout the world and capitals of the world, I would suggest, began to get a little bit uneasy, because they saw very large loans made to countries to whom they have not lent before and certainly not in those terms. Second, the spreads for the profitability were questionable, because some countries, some borrowers, whether they borrow in London, just one percent over the cost of money.

Meanwhile back in New York, the major banks themselves were finding that they could lend at conceivably higher rates than that. They were lending at a prime plus compensating value to very few customers. They were lending at much higher spread and much higher potential profit than others. And so slowly they began to develop some subtle credit-worthiness versus risk pressures versus profitability pressure on bank's domicile, outside of the location of the parent. At the same time that happened, it developed that the deposits, which were the underpinning for the loans were being made for perhaps two weeks or a month, and they were made at, let us say 10%. So the banks were borrowing at 10 and lending at 11 for six months. At the end of one month the Federal Reserve Bank was still trying to tighten the credit squeeze. So the bank found the borrowing to get back to deposit or to refinance at 11, it had lent at 11. Two weeks

later when they found maturity again the range was 12 but the bank had lent money for six months at 11. Two weeks later the rates were 13 but the banks had lent the money at 11. So quickly in the summer, because of the inbalance between the deposits, which was about a month deposits, and the loan, which interest rates were not reset for six months, found themselves in negative rate of interest. Its profitability began to decline. The profit became negative.

During that same time some banks found that deposits which they had from their own governments were being withdrawn, because of their own governments balance of payments deterioration. And those banks had to bid for more money, thereby pushing up interest rates even higher. As a result, again, the parent bank in New York or in London or in Germany or in Tokyo said "What are we doing here? Lending money at 1% spread to country you don't know how much they're borrowing, you don't really know how credible they are, you're losing money on the transactions now", and while this conversation is going on you had a collapse of Franklyn National and a series of four other scandals. That calls an interesting time and in fact they are very nervous. And we began to see slowly but surely the central banks and parent banks beginning to excercise a certain kind of managerial control as to how much was going to be lent, and to whom it was going to be lent, the spreads and the matching assets and liabilities. The normal effect of competition and government supervision over the activities of branches outside of their own country truly excercise the control of the parent itself.

As a result, we had some retrenchment. It was a serious test of

world's banking systems. But it survived with relatively minor effect, adverse effect. The real problem apparently is in foreign exchange traders who just totally overstepped their balance. The banking system, however, within a period of 8 weeks waivered the process, looked to where the profits were, looked at credit worthiness, as they saw, and began to allocate their resources to the place where they thought they should simply maximize their profit and minimize the risk. The parents began to cut back the lending. That aggravated problems of some of the poor countries. As a result we began to see increasing problems for those countries whose balance of payments were continuing to deteriorate. And right about that time, in the fall, most of you probably began to read and write about the fact that some OPEC countries were having deferred payments arrangements with potential oil deficit countries. At the same time, the borrowers, seeing commercial banks limiting their role, did what any other commercial banks or any other deficit countries would do. It began to borrow and looked to borrow from the United States. For example, in the last several months we are beginning to see the French, the Mexican enter the U. S. market. Why? It's simply because the money have not disappeared, and the interest rates for the long-term and medium-term bonds were deemed to be, as a matter of financial decision, better than floating the six months euro-dollar market and we began to see deficit countries starting to borrow from the U. S. capital markets.

Again, therefore, I would suggest that the financial institutions having a problem, a normal commercial problem, it was not caused by OPEC

but simply caused by the initial reaction to get an awful lot of deposits very fast. And they reacted in eight weeks, perhaps twelve at the most, some of the excessive as they saw fit was corrected. And as you know, many banks, they now complain less that there are in difficulties because of OPEC. Because they know as well as anyone else that their depositors and their maturity structure have relatively unchanged from what it was two years ago before the oil price increase. That's simply the question of reasonably careful commercial banking of national assets and liabilities.

Now what happens to, if you accept this hypothesis that the money is still "here"? Here being where ever it was in the first place. What's the problem? You sit back and look at a country like the United States, does the United States have a problem with all those surplus resources? Accepting the theory I suggested, that there are no more surplus resources in the United States today as there were two years ago, except under a different owner. What's happened? Does the United States have a problem? Sure. The United States has a problem, problem of recession. Leaving aside, for a moment which of the reasons, seven reasons I have outlined caused the inflation, caused the recession and how much it went to attribute to which of those symptoms, what does a country do when it's in a recession? The classic thing that a country does is make people want to buy more consumer goods. Industrialized countries when they want people to buy more consumer goods, they have a tax cut. That's exactly what the United States, in particular, has decided to do. They want to stimulate consumer buying as you can stimulate consumer demand which increases

production, and therefore lower unemployment. They have a tax cut. You also try to convince the central bank to ease the credit a bit. And so as to drop interest rates to encourage corporations to borrow more to expand their capital base and to produce some goods and services at a lower costs.

The only problem is that when you have a tax cut you end up with debt, particularly if you are, at the same time, passing legislation which is increasing and stimulating credits, which is trying to put one in the hands of the people who are either unemployed or who are saving and who are nervous and don't want to spend it. And the credit expansion is designed to stimulate the economy and provide that kind of comfort. But most countries who have a tax cut and credit expansion as I have just described it end up with deficits. They have deficits. Where do they get the money to finance the deficits? The United States does not want to finance the deficits in the same place that it usually got money to finance deficits. It borrows money. From whom? From the banks. Where do the banks get money from? From OPEC. They still have the same deposits. And it's simply a question for a while of adjusting the money supply so that the commercial banks can finance the deficits by simply lending the money to the government rather than to the private industries who doesn't need it for a while. So you get an interesting circle whereby the deficits which are generated to stimulate the economy are financed by the depositors of the banks, not just OPEC, the diplomats, all deposits, all of us in this room, not all of us but in your country, certainly and the other people who are saving money and the deficits will

be financed.

And, of course, the great debate is way business loans demand will increase to the point or at the point which there will no longer can be an accomodation of a private demand from corporations. The individual demand to borrow, to buy washing machines, homes, and cars, and the government demand to finance the deficits. And essentially what you get is a continuous running debate as to the timing of when the government deficits and when the programs causing the deficits should be toned down so as not to cause a fantastic escalation in the interest rates. And there is no people who differ when it comes to that effects.

What happens to the institutions like the World Bank in this kind of environment? The World Bank essentially is a financial intermediary It's job is to look at the world's economic environment at any given points

of time and look at two things. First, which countries are accumulating savings, which are in the hands of financial institutions, and secondly which countries are accumulating surpluses in the technical sense. It then seeks the problem in those places where the surpluses and where the savings increase. It often has access to markets simply in order to withdraw or draw away excess liquidity. In order occasions, it has access to markets simply because a country's foreign exchange position is so substantial, its surpluses are so great that we're merely another alternative investment vehicle for those governments or institutions which has surpluses.

As a result in the early years of the World Bank when there were no savings in what we now call the industrialized world or minimum savings other than the United States, the World Bank finances its operations out of the US public capital market. And it was virtually the United States public savings which capitaled all the financings of the Bank. Later, after wealth began to develop in Germany and Germany began to export much more than they imported, Germany held foreign exchange reserves called dollars. The World Bank then went to the German Government to Bundesbank and borrowed from the German Government. What was it borrowing? It was borrowing the foreign exchange reserves. Where were the reserves? They were normally invested in the U. S. Government obligations and simply a shifting of the investments from one sector to another sector, from the United States Government from the Chase Manhattan Bank to the World Bank. That happened in the early 60s, late 50s. Later when the German foreign exchange reserves increased even more the World Bank started in

67 in 68 began to massively borrow in German capital markets, in the private sector, the cooperative banks, from savings banks. .

Still later, the Bank became a substantial borrower in early 70s from Japan, for precisely the same reasons. It began to become very large borrower directly from The Bank of Japan, the central bank and also in the Japanese public markets. Its borrowing in the sense of response to the increase savings. And from time to time, we entered those markets which at various points and time either had excess liquidity within the financial institutions and/or substantial foreign exchange reserves. As a result the Bank has borrowed four times in Belgium, nine times in Canada, it borrowed but once in France, three times in Italy, it has borrowed nine times in Holland, four times in England, it borrowed twice in Sweden, thirty times in Switzerland.

And then, of course, starting in the late 60s it began to borrow heavily from Kuwait. It borrowed six times in Kuwait. After the oil price increase the Bank borrowed from OPEC substantially increased and the Bank became consistently with the world practice of borrowing where the resources are. It became a large borrower from OPEC. The Bank, therefore, borrowed in the calender year 1974, $76 million from Abu Dabi, $350 million from Iran, $240 million from Nigeria, $30 million from Oman, $900 million from Saudi Arabia, $500 million from Venezuela. Now these figures by the way refer basically to the contracts which the World Bank entered into. You will see a slightly different figures because sometimes we borrow in December and not paid until January. You would also see somewhat slightly different figures because some of the borrowings

I talked about is in the fiscal year and I just gave it to you by calender year. The purpose of the figures is to give you an order of magnitude of the World Bank borrowings from OPEC. Therefore, what was the World Bank doing? What we essentially did that was very straightforward? When do the proper content is noted? You say, "Where's the money?" I say, "Wherever in the Bank." "What's the motivity?" I say, "A month two months." "Where else is it?" In the treasury bills, govn't bonds. And we've simply made these same point we made over and over to dozn other countries. You have these resources. You know the World Bank is an financial intermediary, you know what the need is. We're borrowing, lend it after 10 years, after 12 years.

And for the most part the World Bank is able to negotiate borrowings and from OPEC with a 10 to 12 year maturity with a fixed interest rate. Most OPEC resources have not been lent and not been invested in this kind of medium-term investments, although there has been some four to five years in several different currencies. At the present time, the World Bank has outstanding about $12.5 billion of debt. Of that $12.5 billion of outstanding debt something in the order of 5.5 billion is denominated in dollars. The rest is denominated in other currencies, the currencies I referred to before, Belgium, Canada, Germany, France, Italy and Japan, I should have mentioned Japanese market too, Kuwait, Libyan Dinar, Dutch Guilders, Sterlings, Swedish Kronors, Swiss Franes etc. Of the $5.5 billion denominated in dollars a substantial portion is held outside of the United States. That is it did not come from the savings within United States. It represents the dollar holdings of the central banks of

Saudi Arabia of Venezuela, of Nigeria, of other OPEC countries, It also represents our dollar denominated bonds which were placed with individuals outside the United States. I guess the point that I'm making here is that Bank denominates, when it was borrowing in lots of different currencies. And it seeks to obtain resources from those people who are seeking investments alternatives wherever they might be, anywhere in the world. Recently it was OPEC, before that it was Germany and Japan, before that the United States. I suspect in the coming years, it will be reasonably divided between OPEC and the United States accounting for perhaps 75% of our borrowings with balance from western Europe and Japan.

I talked a little bit this afternoon about three or four things. One, inflation and how that contributed to the world recession in many parts of the world. Second effect on the developing countries which has been severe incidentally, particularly in response to the recession of the developed countries of the world, and as they were unable to export in the face of the recession. Third the effect on the financial insittutions of the world, which I would suggest has been rather minimal. Fourth, the effect on country like the United States where up to this point they have still the resources available to finance their deficits.

There are obviously more severe problems for countries which are industrialized, which are not getting the investments of OPEC. Those countries, of course, want borrowing. They borrow from the United States, they borrow from OPEC, they seek deferred credits, they seek to borrow from the commercial markets, the Euro-dollar markets. And they'll do something else. They seek the solidarity funds. They seek to borrow

from the IMF. They seek to use milti-national facilities with milti-national type guarantees to finance their deficits. They cannot do it internally, often because their capital markets are not structured in the way, because the deposits are not coming into their countries as the investments are not coming into their countries. And they, therefore, must seek external resources. And being reasonably creditworthy, they're reasonably successful.

I want to conclude one not even a flow of idea, one point which perhaps has been somewhat overlooked. And that is that if you set the hypothesis that surpluses which reflect merely a change in ownership has no effect, countries will be, interms of its banking system, what is the problem? The problem, I don't mean to suggest is a nonexistent one. The problem I suggest is a social, sociological one. The future. I really don't know the answer but I will leave it with the press.

What happens when those who have surpluse investments who, for one reason or another, decide that they wish to increase their imports. Or they can increase their imports. I'm not talking about Saudi Arabia or Kuwait? The country with large populations, Indonesia, Venezuela, Iran and the countries of that sort. How do you increase your imports? You increase your imports by drawing down your investment and treasury bills buying goods and services. But how do you buy goods and services. You buy goods and services by telling the country who you now have on accounting entry from the books of the bank to take down these dollars and pay them out to buy cars or steel. The bank, therefore, gets the money right back again from the domestic steel company. But what happens to the

worker, who makes the steel for the automobile? He possibly, now, for the first time finds himself working at a plant his own, he own it, he works there, but he is manufacturing goods and services for another country. Now in some countries of the world, the developing world, and in some industrialized countries, in Japan for example, their citizens are used to and familiar with the process of working, producing goods and services for their own society concerned where the social, political and psychological allocation of the so called Western industrialized countries were having their citizenry work for things which we tend to call our standard of living which are being exported out of the country, which are going to other countries. That, I suggest what the economists call a real transfer of goods and services, or perhaps a reduction in one standard of living where you once what produced, leaves your own country, you cannot buy it because your inflation and your costs are necessary, if your services are too high, and what you begin to produce in terms of material standard of living leaves and it goes elsewhere. I would suggest that coming 1980s that would be a very interesting problem for some industrialized countries politically and socially to cope with. Up to this point, most of us, I guess, have focused on when all the problems will disappear and that there will now be a perfect balance in terms of trade. I guess there will be a balance in terms of trade, by deflating that some country will find their labor force unable to purchase what they are producing as they exported to countries to whom they never exported before. I think that will be an interesting adjustment.

Question: (Export & OPEC)