Mr. MITCHELL. Well, the coordination as it has been practiced I think has been quite good.

Senator MILLER. I can recall a 6- or 9-month period when the savings and loans were in very bad shape out in my area as a result of the timelag.

Mr. MITCHELL. Was it before the legislation on the coordination?

September 1966 is when we got the coordination legislation. We did not have it before that.

Senator MILLER. That is correct.

Mr. MITCHELL. And part of the problem I think in your State might have been due to a State law.

Senator MILLER. That was a part of the problem. I think the coordination came about in December, I believe.

Mr. MITCHELL. We had trouble in Missouri, Iowa, Tennessee, and Indiana.

There are several States that had ceiling rates that caused difficulties.

Senator MILLER. Yes.

Mr. MITCHELL. For the financial intermediaries.

Senator MILLER. Well, you think the coordination is working out all right?

Mr. MITCHELL. Yes, sir; I do.

Senator MILLER. In 1967, as you pointed out, the Board accompanied the great corporate demand for liquidity, or accommodated it, I should say.

Mr. MITCHELL. Yes.

Senator MILLER. And in doing so, added to the stock of money that was to be held rather than spent quickly?

Mr. MITCHELL. Yes.

Senator MILLER. But in doing this, was not the Federal Reserve Board preventing interest rate trouble then at the risk of inflationary trouble now?

Mr. MITCHELL. That is a hard question, but I am inclined to think that the effort to achieve this additional liquidity on the part of corporations, after their liquidity had been driven down by the tax acceleration program, was an entirely legitimate one and should not have been thwarted.

A lot of it was also achieved by paying the highest interest rates U.S. corporations have ever paid for long-term money. And so I think they felt very strongly about achieving that liquidity position.

Moreover, many commercial banks were increasing their compensating balance requirements, which, in effect, required their borrowers to have more money in demand deposits. So I do not believe that it was an unwise thing to do, I did not think it was unwise then and I do not think so in retrospect.

But I have to admit that the question you are asking is a proper one, and unquestionably some risks in this direction were taken, but as far as the corporations are concerned, their liquidity position still remains quite good. They have not, up to this point, run it down.

Senator MILLER. I can appreciate the fact that you have to weigh values.

Mr. MITCHELL. Yes.

Senator MILLER. In making your judgments, and you might say well, the need for this corporate demand to be met is so urgent that we