

FEDERAL RESERVE ACT AMENDMENT

HEARING
BEFORE
SUBCOMMITTEE NO. 2
OF THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
EIGHTY-SIXTH CONGRESS
SECOND SESSION
ON
H.R. 12346

MAY 31, 1960

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III

FEDERAL RESERVE ACT AMENDMENT

TUESDAY, MAY 31, 1960

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE No. 2,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 1301, New House Office Building, Washington, Hon. Paul Brown (chairman of the subcommittee) presiding.

Present: Representatives Brown (presiding), Barrett, Barr, Moorhead, and Hiestand.

(H.R. 12346 follows:)

[H.R. 12346, 86th Cong., 2d sess.]

A BILL To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14(b) of the Federal Reserve Act, as amended (12 U.S.C. 355) is amended by striking out "July 1, 1960" and inserting in lieu thereof "July 1, 1962" and by striking out "June 30, 1960" and inserting in lieu thereof "June 30, 1962".

Mr. BROWN. We will take up H.R. 12346. Mr. Baird, you may proceed in your own way.

STATEMENT OF JULIAN B. BAIRD, UNDER SECRETARY FOR MONETARY AFFAIRS, ACCOMPANIED BY ROBERT P. MAYO, ASSISTANT TO THE SECRETARY; CHARLES E. WALKER, ASSISTANT TO THE SECRETARY; AND W. T. HEFFELINGER, FISCAL ASSISTANT SECRETARY, TREASURY DEPARTMENT

Mr. BAIRD. Mr. Chairman, I would like to read a brief statement, if I may.

Mr. BROWN. All right.

Mr. BAIRD. I appreciate the opportunity to appear before you today to present the views of the Treasury Department in support of H.R. 12346. This bill would extend until June 30, 1962, without further amendment, the present authority of the Federal Reserve banks to purchase public debt obligations directly from the Treasury in an amount not to exceed \$5 billion outstanding at any one time. The bill is endorsed by the Board of Governors of the Federal Reserve System.

As you may recall, under the Federal Reserve Act of 1913 the Federal Reserve banks had the authority to purchase government obligations without limitation either in the open market or directly from the Treasury. Under the Banking Act of 1935, however, this authority was limited to open market transactions.

The Second War Powers Act of 1942 restored for a limited period of time the authority of the Federal Reserve banks to make purchases directly from the Treasury, but restricted the amount to \$5 billion outstanding at any one time. Although this authority was initially only for the period through December 31, 1944, it has been extended successively by Congress before each expiration date. The current authority expires June 30, 1960.

At hearings on extension of the direct purchase authority 2 years ago, it was suggested by members of your committee that the authority be revised to provide specific criteria for its exercise. In your committee report on the bill at that time you requested that the Treasury study the desirability of providing such criteria in the law. You further requested the Treasury to submit its recommendations to the Congress before requesting any further extension of the authority beyond June 30, 1960.

The Treasury has studied the desirability of recommending that specific criteria be included in the statute but has concluded that the present authority would not be strengthened by incorporating specific considerations as part of the law. Actual transactions are reported regularly in the weekly Federal Reserve Statement and the Daily Treasury Statement.

In addition, the biennial review currently afforded the Congress by 2-year extensions of the authority, at which time the Treasury always testifies as to the use and purpose of the authority, provides an effective guarantee that the authority will be used properly. Our analysis in this regard was transmitted by the Secretary of the Treasury to the Speaker of the House of Representatives and the President of the Senate on May 16, 1960.

As discussed in our May 16 letter, the Treasury feels that there are basically four considerations which constitute the only proper purposes of the direct purchase authority.

(1) The existence of the direct purchase authority permits the Treasury to operate with significantly lower cash balances than would otherwise be prudent, and still be in a position to meet cash needs in case of large unanticipated outlays or delays in receipts. This attribute of the direct purchase authority does not, as a matter of practice, require its actual use except in rare instances.

(2) Similarly, the existence of the direct purchase authority adds significantly to the Treasury's flexibility in the management of the public debt by permitting more leeway in the timing of new Treasury issues to the public advantage than would otherwise be possible. Again, as in the first use of the authority, its availability is sufficient to give the Treasury this required flexibility even though actual use of the purchase authority is rare.

(3) Availability of this authority has on occasion provided a useful device for smoothing out the impact on the money market and the banking system of large, short-run fluctuations in the Treasury's cash balance, especially during periods immediately preceding the peak of tax collections. While this particular use of the purchase authority is less significant than during the war and early postwar periods, it continues to be desirable to have the authority available for use in situations where the technique would be especially appropriate. The following table presents data on the use of the direct purchase authority from 1942 to the present time.

If you will refer to that table which is attached as the last sheet, you will notice that we have not used the authority in the last 2-year period.

(4) Perhaps most importantly, the direct purchase authority provides an immediate source of funds for temporary financing in the event of a national emergency. The immediate financial impact of such an emergency presumably would be most important with reference to the ability of the Treasury to handle the refunding of ability of the Treasury to handle the refunding of maturing debt if the emergency resulted in serious dislocation of financial markets. The need for utilizing the direct purchase authority in this way would appear to be much more urgent than to cover increased Federal Government spending (even though appropriations are increased immediately), although some use of the authority might be necessary in event of a sudden decline in revenue.

The Treasury therefore considers that the direct purchase authority is properly interpreted only as a line of credit which the Treasury can rely upon both in its day-to-day planning of rapidly fluctuating cash flows and as a useful source of temporary financing in event of a national emergency.

The Treasury is strongly of the opinion that the direct purchase authority should not be abused by considering it as a device to permit increased Federal Reserve purchases of U.S. Government securities for purposes of influencing the level of interest rates, or affecting the overall availability of credit. These functions are properly exercised by the Federal Reserve System in its use of open market operations, discount rate policy, and changes in member bank reserve requirements. Direct borrowing by the government of any country from its central bank, except for temporary or emergency financing, has proved to be a dangerous step down the road toward currency debasement.

We sincerely recommend your approval of H.R. 12346 in recognition of the appropriateness of the direct purchase authority as a limited, but very useful, tool of a sound government financial policy. (The table referred to above is as follows:)

Direct borrowing from Federal Reserve banks

Calendar year	Days used	Maximum amount at any time	Number of separate times used	Maximum number of days used at any 1 time	Calendar year	Days used	Maximum amount at any time	Number of separate times used	Maximum number of days used at any 1 time
1942.....	19	<i>Millions</i> \$422	4	6	1953.....	29	<i>Millions</i> \$1,172	2	20
1943.....	48	1,320	4	28	1954.....	15	424	2	13
1944.....	None	-----	-----	-----	1955.....	None	-----	-----	-----
1945.....	9	484	2	7	1956.....	None	-----	-----	-----
1946.....	None	-----	-----	-----	1957.....	None	-----	-----	-----
1947.....	None	-----	-----	-----	1958.....	2	207	1	2
1948.....	None	-----	-----	-----	1959.....	None	-----	-----	-----
1949.....	2	220	1	2	1960 Jan- uary to April.....	None	-----	-----	-----
1950.....	2	108	2	1					
1951.....	4	320	2	3					
1952.....	30	811	4	9					

Mr. BROWN. Mr. Baird, this bill would extend the authority for just 2 years?

Mr. BAIRD. That is correct.

Mr. BROWN. Have you had occasion to use this authority?

Mr. BAIRD. As this schedule which is attached shows, we have not used it in the past 2 years. We used it in the previous 2 years on one occasion for 2 days. There was a time in this past 2-year period where it seemed for a few days we were going to use it. We were very close to the point of using it, and it turned out we didn't have to use it.

Mr. BROWN. Mr. Hiestand, have you any questions?

Mr. HIESTAND. At that time, Mr. Baird, it was because of a low level of our balances, I presume.

Mr. BAIRD. Yes, a low level of balances just before one of the quarterly tax dates, when we were to receive heavy balances, where we did not want to do permanent financing and it was a question whether we could squeeze through until the tax flow came in.

Mr. HIESTAND. Was there a delayed tax flow for some reason, or just normal?

Mr. BAIRD. Mr. Heffelfinger tells me it wasn't unduly delayed, but it was one of those delay periods. There have been three times in this fiscal year where our uncalled balances—what we call our free balances—have been below \$1 billion, and in the previous year—

Mr. HIESTAND. You mean below \$1 billion?

Mr. BAIRD. Were below \$1 billion, and in the previous calendar year in almost every month of the year at some point our free balances were below \$1 billion.

Mr. HIESTAND. I am very appreciative for the policy of the present Treasury administration to regard this as only an extreme emergency, and that the Treasury officials would not use it if it could possibly be avoided.

The only argument which would seem against the extension of this would be in the event at some future time we might get less responsible Treasury officials, but no doubt your associates have considered that possibility and you are willing to recommend this, despite that.

Mr. BAIRD. Yes, sir; we are.

Mr. HIESTAND. I think the statement is very clear, and sets it forth effectively, and I appreciate it.

Mr. BROWN. Mr. Moorhead, have you any questions?

Mr. MOORHEAD. Yes. I would like to ask Mr. Baird to describe the type of national emergency which is contemplated in paragraph (4) on page 2, and how this line of credit would operate in such a national emergency.

Mr. BAIRD. Well, that is a difficult question for me, Mr. Moorhead. In a complex world situation there are many types of emergencies that could happen. It is probably very remote.

It is true that in the event of a world emergency Congress probably would be called into immediate session, but there are other types of emergencies of less moment that could cause us embarrassment at certain times of the year when we are near the debt limit. For instance, if we get a series of snowstorms that tie up the mails during a period of heavy tax collections in the winter, where we are down to free balances of under \$1 billion as we have been in many cases, if we happen to get a combination of circumstances of that sort, or strikes that tied up mail or Treasury or Federal Reserve operations, we could be deprived of some of our revenues for 3 or 4 days, and that would be a sufficient emergency where we might have to borrow until the thing resolved.

Mr. MOORHEAD. Thank you. I have no further questions.

Mr. BROWN. Mr. Barr, have you any questions?

Mr. BARR. I would just like to tell Mr. Baird that this makes sense to me. After all, as you point out, you have the alternatives of operating with enormous cash balances down there—or of operating with this provision in reserve. This is a stopgap which can be used. If you can't trust the people who run the Treasury, the Government won't get along very well anyway.

It makes sense to me. This is only a question of being prudent with respect to the balances; is that correct?

Mr. BAIRD. I don't think any Secretary of the Treasury would want to operate without substantially larger balances. He would not want to be caught in a place where he couldn't pay the Government's bills.

After all, it takes us a number of days to do any financing in the open market. When we sell Treasury bills on an auction on Monday, we announce it the previous Wednesday and we don't get payment until the following Thursday, so that about 8 days elapse. That might be shortened up 2 or 3 days, but the fact remains that we cannot get money quickly on the open market.

Mr. BARR. It seems to be a good statement to me. In times like this you had better not tie yourself up. It is my personal opinion that you should have access to the cash. I hope paragraph (4) doesn't come into effect, but we might as well be ready for it. I have no further questions.

Mr. BROWN. We have with us Mr. Patman, a member of the full committee. Mr. Patman, do you care to make a statement or have any questions?

STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PATMAN. Mr. Baird, I notice that you have not used this power during the year 1959 or during the year 1960. You will recall that we had somewhat of a chaotic or disorderly market in short-term securities the week ending April 16 this year, at which time the short-term rate went up 1 percent. You recall that, do you not, Mr. Baird?

Mr. BAIRD. Yes, I do, Mr. Patman.

Mr. PATMAN. Now it occurs to me that of all the times you should have used this authority the time should have been in the week of April 16 when there was extreme disorder in the market.

Secretary Anderson, in reply to a question I asked him in writing and which he answered in writing in February, said this:

In my judgment the use of this authority to sell long-term securities direct to the Federal Reserve within the present legal interest rate of 4¼ percent would be undesirable. The direct purchase authority is properly viewed by both the Federal Reserve and the Treasury as an emergency authority or to facilitate temporary money market adjustments usually around tax payment dates.

Well, that being true, during the week ended April 16, the week when income tax payments were originally due, and the 91-day bill rate jumped one whole point, it occurs to me that the Treasury was confronted with precisely the kind of situation which Secretary Anderson has said this authority is needed to meet. Yet I believe the authority was not used to meet that extreme situation. What would be your answer to that?

Mr. BAIRD. Well, Mr. Patman, I think it comes to a question of judgment what is a disorderly market. We wouldn't interpret that as a disorderly market. We would consider it a sharply changing market, a rapidly changing market, and more rapidly changing than we are used to. We would not call it disorderly in the sense that there was ever a time when there were not bids available in the market.

It would be my opinion that had the Treasury used this extraordinary power we are asking for and requested the Federal Reserve to loan to us, it would have caused a great deal of consternation in the street.

Now, the thing straightened out in a week or two, but had we shown that we were disturbed sufficiently to use these extraordinary powers, I think the psychological effect on the market would have been quite unpredictable.

Mr. PATMAN. Mr. Aubrey Lanston, whom you know, of course—one of the 17 so-called open market securities dealers—said in his weekly letter of April 18 that the money market “last week was in a kind of temporary mild pandemonium.” In other words, even in the judgment of one of your dealers the bill market—when it jumped a whole percentage point within a week—was in a most unusual situation.

Now, Mr. Chairman, that question I did want to ask Mr. Baird, and I appreciate the opportunity of doing so.

Mr. BROWN. All right, you may proceed as a witness.

Mr. PATMAN. Can I proceed from here?

Mr. BROWN. That is right.

Mr. PATMAN. All right, fine. Thank you. Because Mr. Baird might want to comment on some of the things which I say.

I thoroughly agree with Mr. Barr on this point: Now is no time to be closing ourselves in; there should be plenty of flexibility and authority for managing the debt.

So let me emphasize, Mr. Chairman, I do not oppose granting the authority outlined in this bill, but I favor expanding this authority and taking the limitations and restrictions from it, so the Treasury and Federal Reserve will have adequate power to manage the debt in the least costly way.

As it is, the power is limited to only \$5 billion. Mr. Baird has said that among the reasons for the passage of this bill, the most important would be this—on page 2, subsection (4) or paragraph (4):

Perhaps most importantly the direct purchase authority provides an immediate source of funds for temporary financing in the event of a national emergency.

Well, in the event of a national emergency how far would \$5 billion go? Almost nowhere.

Now, if that is the most important reason for wanting this authority, it occurs to me that it is rather inconsistent to ask that the authority be restricted to only \$5 billion. My belief is there should be no limitation at all. This authority should be wide open. It requires the judgment and decision of the Treasury and the Federal Reserve before any transactions will take place, and both of these agencies are extremely reluctant to use this authority and refuse to use it at times when they have every good reason to use it.

When this committee was considering, in 1938, H.R. 7230, a bill that was pending at the request of 160 Members of the House of Representatives at that time, to provide for Government ownership

of the 12 Federal Reserve Banks, I asked Mr. Eccles a number of questions.

At page 475 of the hearings on that bill there is one that relates directly to what we are considering now. I would like to read the question I asked Mr. Eccles. In order to get the opinion of the whole Board of Governors and not just Mr. Eccles' opinion, I submitted the question in writing, and asked him to submit the answer in writing, after conferring with the Board. I asked him this question:

The first question is that the law prohibits the Federal Reserve System from buying bonds directly from the Treasury. I wonder if you are in favor of changing the law so that you can buy bonds directly from the Treasury?

Mr. HIESTAND. Will the gentleman yield? What year was that?

Mr. PATMAN. 1938.

Mr. HIESTAND. Thank you.

Mr. PATMAN. Now the answer subsequently submitted by Mr. Eccles is as follows, and I am quoting:

The prohibition against direct purchases of securities by the Federal Reserve banks from the Treasury was put in the Banking Act of 1935 not on our recommendation. Apparently those who placed it there believed that it would prevent the Federal Reserve banks from financing Treasury deficits. As a matter of fact, the provision would not prevent this as the Federal Reserve banks may time their purchases of Treasury securities in the open market with sales by the Treasury.

The only effect the provision has in practice in this regard is to make it necessary for the Reserve banks to pay commissions to brokers. It also makes it impossible for the Reserve banks to accept short-term certificates of indebtedness from the Treasury in anticipation of tax receipts during quarterly financing and income tax payment periods. Such advances were previously used to avoid large temporary fluctuations in the volume of bank reserves. In view of these considerations I would be glad to see the provision taken out of the law.

Mr. Eccles reiterated that opinion a number of times before he went out of office. I believe he served as Chairman of the Federal Reserve Board longer than any other person.

Now that is exactly what I would like to see done now. I think the limitation should not have been there at all. As Mr. Eccles says, the principal effect of it is to require the Treasury to go through a tollgate to pay the dealers' a toll, or a profit margin, on all securities acquired by the Federal Reserve.

The law says, in effect: "You must cross a bridge where there is a tollgate and you must pay money for the privilege of doing business with the Federal Reserve."

It occurs to me that this is particularly inconsistent with present-day thinking of the Treasury and the Federal Reserve on the question of the Federal Reserve's independence. It is claimed that the Federal Reserve is independent of the Treasury, and the Treasury is independent of the Federal Reserve.

Well, that being true, why should there be further restrictions and limitations upon the Federal Reserve's dealing directly with the Treasury?

Certainly in the case of a national emergency they would need more than any \$5 billion; that would just be peanuts. It would not be very helpful.

Now, there is another reason why the Federal Reserve should have more authority than this. The Federal Reserve, in carrying out its monetary policies, can use this power to good advantage. Take, for instance, when we had a market that Mr. Baird was not willing to call a disorderly market, but which I call a disorderly market—and

evidently Mr. Lanston, 1 of the 17 dealers in New York, thought was a rather chaotic market—there the short-term rate went up a whole point. If the Federal Reserve had had unlimited power to deal with the Treasury, it could have prevented that without having to pay the dealers a huge profit.

Now, Mr. Baird, makes one statement with which I thoroughly disagree. On page 3, I quote:

The Treasury is strongly of the opinion that the direct purchase authority should not be abused by considering it as a device to permit increased Federal Reserve purchases of U.S. Government securities for purposes of influencing the level of interest rates or affecting the overall availability of credit.

Well, my question is: Why not? If the Federal Reserve wishes to influence interest rates, and it always influences interest rates—that is its function—why should it not use this good method of doing it? If the Treasury runs up against a blockage in the market, a boycott or strike on the part of the dealers, then it should be able to go to the Federal Reserve directly. After all, as Mr. Eccles has pointed out, the only reason for not doing so is to pay the dealers a profit margin on each and every transaction. That being true, we should not deny the Government the use of that wonderful weapon of influencing interest rates.

Now, the level of short-term interest rates for several months past has been causing considerable consternation. The rate on such things as 91-day Treasury bills has been fantastically high and at times above the rate on long-term Government bonds. After all, these bills are in effect interest-bearing money.

Now, the banks, of course, cannot without the approval of the Federal Reserve Board pay a depositor more than 3 percent annual interest on time deposits. Savings and loans associations can pay more, but whenever you let the short-term rates run wild, you induce people to take their money out of time deposits or investments, we will call them, in the savings and loan, and place them in short-term Government securities because they can get a higher return. So these high rates are really causing a lot of trouble. That trouble could be minimized by the Treasury having more power and the Federal Reserves having more power in this particular area.

So I am advocating that the limit be taken off entirely; that the Federal Reserve may go to the Treasury and buy directly, and not have to go through a tollgate. Imagine the ridiculous situation of the Federal Reserve buying bonds—

Mr. BROWN. Mr. Patman, I always thought that you took the position that you didn't want to give the Federal Reserve any more power than they have.

Mr. PATMAN. Well, in this case I want to give it to them, because it is in the public interest. What I propose would not give them any additional power or ability to raise interest rates, but it would give them an increased facility for reducing interest rates—if they want to use it—and it would give them a way of acquiring securities without paying the Wall Street dealers a toll. I hope you are with me on it. It is a ridiculous situation—the Federal Reserve not buying bonds from the Treasury, when the Treasury needs the money. As Mr. Baird says, it takes the Treasury 8 days to go to the market to get the money. That is a long time—8 days.

The Federal Reserve has to go through a tollgate—go through one of these 17 Wall Street dealers.

Mr. BROWN. Why should it take 8 days, then?

Mr. PATMAN. Well, it does not take the Federal Reserve 8 days to buy bonds; it can do that in a minute. But it takes the Treasury 8 days to sell bonds.

These 17 dealers around this Federal Reserve Bank Building, within a stone's throw, they are the ones that handle the Government's securities and they are all on a party line telephone.

Did you know, Mr. Baird, that they can all pick up the phone, like those we used to have in the country, when everybody was on a party line, so when somebody was using the telephone, everybody else could take his receiver down and listen in.

Mr. HIESTAND. Does the gentleman think that is a bad idea?

Mr. PATMAN. Yes; I do think it is a bad idea. These dealers are quoting prices to the customers—including the New York Federal Reserve Bank—over this party line telephone system. This is not an auction system, however. In the first place, there are not enough dealers to have a true auction market. They don't have any trouble fixing rates; it is going on all the time. I think that it is going too far, and I think one way the Federal Reserve could change that would be by buying the securities it wishes to buy directly from the Treasury, having unlimited authority to do so—not just an authority up to the \$5 billion.

So I urge you, Mr. Chairman, to consider taking this limit off entirely.

Now I know the Federal Reserve likes the restrictions just as it likes high interest rates. Even when it feels that it has to increase the supply of money and credit, and does so to the extent that interest rates tend to come down, it still tries to keep the rates high. The Federal Reserve has been very quick to respond to raises in rates, saying the market demands it, but as the rate goes down, they have been very slow. Today they are certainly getting around on leaden wings.

During the last few months, they have had a 4-percent discount rate—which tends to fix the bank's lending rates—although there have been clear signs that this rate was out of line with actual market rates. They are keeping that rate way up—4 percent.

Only last Friday the Wall Street Journal and the New York Times reported that Federal funds were available in the market at a rate of 3 percent. That has been true for several weeks. In other words, on Federal Reserve credit—bank reserves—the Federal Reserve banks charge the banks a rate of 4 percent, when the banks can go to other banks having a surplus of reserves and get Federal Reserve credit at 3 percent. But the Federal Reserve evidently doesn't know this. They are not on the alert. They are not willing to follow the market when it goes down.

But I think if you give them this authority I propose they will have less excuse to allow interest rates to hang on at levels above what is justified by the current supply and demand for money.

So, Mr. Chairman, I will want to offer an amendment to the bill at the right time. I can't do it here, because I am not a member of this subcommittee. But I expect to propose an amendment at the right time, to take the \$5 billion limitation off.

Mr. BARR. Could I ask you a question on this, Mr. Patman?

Mr. PATMAN. Certainly.

Mr. BARR. You get me a little mixed up here. As I understand the purpose of this bill, it is to protect the cash balance of the Treasury. It is not concerned with monetary policy.

What is the issue before us?

Mr. PATMAN. It all depends on the viewpoint. Mr. Baird has pointed out that from the time the Federal Reserve Act was passed in 1913 until 1935, the Federal Reserve banks could make unlimited purchases directly from the Treasury. It was in 1935, when the act was changed to create the Federal Open Market Committee, that the restrictions were placed on this authority. No clear reason was ever given, but I believe we can safely assume the reason was the same as the effect. And the effect, as Mr. Eccles has made clear, is to protect the dealer's profit margin—not bypass the dealers.

Now, Mr. Baird says the most important reason for continuing this limited authority is on account of a possible national emergency. It occurs to me that on his argument we should take the limit off entirely because a national emergency wouldn't be helped by a mere \$5 billion.

Mr. BROWN. Are there any other questions of Mr. Patman?

Mr. BARR. I am going to stay right on the cash balance aspect of this thing, protect the cash balance aspect of this.

Perhaps you are right, Mr. Patman, that we should look at it in a broader context, but I am going to restrict myself to keeping enough money down there to pay the bills. Maybe we should ask Mr. Baird how did they arrive at this \$5 billion figure? I know it isn't possible to have a completely analytical statement as to the \$5 billion, but how did they arrive at that figure?

Mr. BAIRD. Mr. Barr, it was arrived at before I was in the Treasury and I don't know how it was arrived at. It is a nice, round figure. I think the reason that the Treasury would dislike seeing the limit taken off entirely, even though there was no limit up to 1935—that had been a period when there had been reasonably current stability around the world, and it was after that that the world got into so much trouble—I think it would make people uneasy around the world to see unlimited borrowing power from the Treasury because it has been so much abused in so many countries.

Now, in answer to the question of whether in an emergency \$5 billion would be enough, as I say, if we have any real emergency that would go beyond the need of \$5 billion, Congress would be back here in session, I would think, and we would be up here and ask for it.

I think it would tide us over a period of a couple of weeks and that is all we are trying to do.

Mr. PATMAN. May I comment on this statement about keeping enough money to pay the Government's bills? Now, the Government only keeps about \$500 million where checks can be drawn to pay the Government's bills. That is in the Federal Reserve banks. The Treasury can write checks only on the Federal Reserve banks. The commercial banks hold enormous deposits of Treasury funds, but the Treasury has to order these funds transferred to the Federal Reserve banks before they become available to the Treasury to pay its bills.

I think you will find this morning that the commercial banks of the country have about \$6 or \$7 billion of Treasury funds, and they in-

variably keep no less than \$3 billion. Of course, the banks have the use of these Government funds without interest, although the taxpayers are paying interest on these funds at all times.

I suspect that, if the truth were known, the Government is operating on hot checks sometimes because, in other words, I suspect that the Treasury gives checks on the Federal Reserve banks before they have called on the commercial banks to turn the money in.

I do know that the Treasury leans over backward to keep the money in the commercial banks as long as they can, so that the private banks have the free use of it.

Mr. BROWN. Mr. Barr, do you have any other questions of the witness?

Mr. BARR. No, sir.

Mr. BROWN. Mr. Hiestand?

Mr. HIESTAND. I would like to ask the witness, it seems to me as I read this bill that it is a limitation on the Treasury rather than on the Federal Reserve. It isn't that the Federal Reserve is desirous of purchasing, but the Treasury may be desirous of selling, and it would extend this power to sell to the Federal Reserve for quick money in an emergency.

Wouldn't you say this is a limitation on the Treasury rather than the Federal Reserve?

Mr. PATMAN. You may be right about that, Mr. Hiestand, although the authority goes to both, buying and selling. But I haven't considered that too important, as I am sure they would work together on a matter like that.

Mr. HIESTAND. I don't quite see how the removal of this limitation would, as you have expressed it, lower or tend to lower interest rates.

Mr. PATMAN. Well, now instead of the short-term rates, for instance, being always fixed by what is called the free market—which is not a free market at all, and no one in authority will ever say it is a free market, at least they never have, and I have questioned them for 25 years—the Treasury could deal directly with the Federal Reserve. The Federal Reserve would be giving some competition to the 17 dealers, and rates would be lower.

Mr. HIESTAND. Well, I can't agree with a lot of your thinking, but I respect your restraint in the statement that you make.

Mr. BROWN. Any other questions?

Mr. BARRETT?

Mr. BARRETT. No questions.

Mr. BROWN. Mr. Baird, would you like to expand on your statement? Do you have anything further you would like to say?

Mr. BAIRD. No, I think not, Mr. Chairman. I will be glad to respond to any questions, if there are any.

Mr. BROWN. There are no further questions. We are glad to have your testimony.

Mr. PATMAN. Mr. Chairman, may I have permission to extend my remarks on anything that is material to what I said here?

Mr. BROWN. Yes, Mr. Patman.

Mr. PATMAN. And I want to thank you very much.

Mr. BROWN. The committee will stand adjourned.

(Whereupon, at 10:55 a.m. the subcommittee was adjourned.)

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